



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

JANET COWELL
TREASURER

T. VANCE HOLLOMAN
DEPUTY TREASURER

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TO: Local Government Officials and Certified Public Accountants

FROM: Sharon Edmundson, Director, Fiscal Management Section

SUBJECT: International ACH Transactions (IAT) Rules Advisory

DATE: September 16, 2009

A revision of the National Automated Clearing House Association (NACHA) Operating Rules becomes effective on September 18, 2009. The revision contains a section known as the International ACH Transaction (IAT) rules, which are designed to align the NACHA Operating Rules with the requirements of the Office of Foreign Assets Control (OFAC). Local units were advised of this impending change in an advisory released by the North Carolina Office of State Controller on July 28, 2009. A link to this advisory appears further on in this memorandum.

Local government entities, school systems, and public authorities that originate electronic payments through the ACH network may have received correspondence from their originating bank regarding the IAT rules, but may not have realized that the rules apply to them. Any entity that originates electronic payments through the ACH network is potentially affected and all are advised to review the rules to understand how they may apply. Origination of electronic payments includes submitting ACH credits to payees (for disbursements), as well as originating ACH debits to draft payers' accounts (for collecting funds).

The North Carolina Office of The State Controller issued an advisory on July 28, 2009 (Revised August 18, 2009), intended to provide information to assist governmental agencies within the state of North Carolina in adhering to the International ACH Transactions (IAT). The advisory can be viewed at: <http://www.osc.nc.gov/SECP/IATRulesAdvisory-July28-RevAug18.pdf>

The following are some of the issues addressed by the advisory regarding the ACH Transaction rules:

- Domestic ACH Payments - electronic payments including ACH credits to payees or ACH debits for payroll, pensions, or vendor payments
- Examples of potential IAT Payments- electronic payments (payroll or otherwise) to foreign individuals and electronic ACH debits against the payor's bank.
- Reasons for the new IAT Rules
- Office of the Foreign Assets Control (OFAC) and National Automated Clearing House (NACHA) requirements
- Obligations of Originating Depository Financial Institutions (DFIs) and Receiving Depository Financial Institutions (RDIs)
- Parties to a Typical ACH Transaction- Potentially Remitted to an Off-shore Bank

- NACHA's Definition of an International ACH Transaction (IAT)
- Customer Knowledge
- Good Faith Efforts and Due Diligence
- Applicability of the OFAC Regulations and fines
- Flagging of an ACH Payment as an IAT- See the link
- Impact on Procedural Payment Processing
- Impact on Payee Designated as an IAT-Payee
- State Agency Payee Databases
- Incoming ACH Payments (Collections) including tax payments through third-party service providers and online payments.

Again, we urge all local governments that originate ACH transactions to review this advisory and determine how these new rules apply. Should you have any questions on this memorandum please contact Ken Wease at (919) 807-2391 or via email at ken.wease@nctreasurer.com