

# FIRST TENNESSEE BANK TREASURY MANAGEMENT SERVICES

Understanding ACH



*powering your dreams®*

# UNDERSTANDING ACH



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# I. OVERVIEW

The National Automated Clearing House Association (NACHA) regulates the use of the ACH system. The “*Rules*” related to originating (sending) ACH transactions can be pretty complex and intimidating. It’s recommended that each client review this list annually as a reminder of key issues related to ACH processing. This document is not intended to act as a substitute for *NACHA Rules* nor eliminate the need for continuing education. Refer to the section “Additional Information on ACH” for information on how you can obtain a copy of the rules or register for educational classes.

- (1) The Company Name used by the originator (sender) of the transaction should be known and readily recognized by the receiver of the transaction. For example, the commonly known name found in advertisements or on signage should be used.
- (2) To originate (or send) transactions to a receiver, the originator must obtain the receiver’s authorization. When requested to provide proof, copies of the authorization must be provided within ten (10) business days of the request. The original authorization or equivalent copy must be maintained for two (2) years from termination or revocation of authorization.
- (3) It is acceptable in certain situations to originate a variable amount recurring debit entry. For example, utility bills frequently change in amount on a monthly basis, and an ACH debit entry can be used to collect these bills. However, when the amount varies, the originator must send a notice of the new payment amount at least ten (10) calendar days prior to the date the debit is sent.
- (4) On recurring transactions (consistent or variable amount), if the scheduled date for the debit to be received changes, the originator must notify the receiver of the new schedule in writing at least seven (7) calendar days before the entry is received.
- (5) Prenotes are frequently used to validate the financial information provided to the originator. Prenotes are zero-dollar entries that are sent at least six (6) banking days prior to initiating the first live (dollar) transaction. The receiving financial institution (bank, credit union, or savings and loan) is responsible to provide a return notification if the financial information (routing number or account number) is incorrect. ACH will not provide a positive confirmation that transactions were processed successfully (no news = good news).
  - a) ACH entries are posted to the receiver’s account based on routing and account number information only. The receiving bank is not required to verify the name, individual identification or other information provided in the entry.
  - b) It is the responsibility of the originator to verify that the individual authorizing the entry is in fact the owner of the account. The method to authenticate the identity of the receiver varies according to Standard Entry Code and is explained under each code, starting on page 5.

When a prenote is returned, the originator is responsible to correct the reason for the return. Upon receipt of returns relating to prenotification indicating that the Receiving Depository Financial Institution (RDFI) cannot accept such entries, such entries cannot be initiated.

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- (6) In some instances, the receiving bank will process an entry that contains inaccurate information. When this happens, the receiving bank will send a Notification of Change (NOC) to the originating bank (First Tennessee). When this occurs, First Tennessee will provide a report to the originator that contains both NOC information with any return item entries that are received. The originator is required to make the correction within six (6) banking days or prior to the initiation of the next entry.
  - (7) When transactions are returned as “R01 Insufficient Funds” or “R09 Uncollected Funds,” First Tennessee can re-present the item a second or third time to attempt collection. These items can be re-presented unless it’s after 180 days from the original settlement date. This option would need to be set up in advance of the return entry.
  - (8) If a transaction is returned “R05 Unauthorized Debit to Consumer Account Using Corporate SEC Code,” “R07 Authorization Revoked by Customer,” “R08 Payment Stopped” or “R10 Customer Advises Not Authorized” a new authorization must be obtained and a new ACH file provided. The Standard Entry Class Code must be corrected on an R05.
  - (9) If the originator recognizes that an error has been made on a file that has been sent to the bank, two options exist. If the file has not yet been processed by First Tennessee, the file can be deleted and a new file submitted. If the file has been processed, a reversing file, batch or entry can be made to correct the error. Requests for deletion or reversals must be made in writing by an authorized signer on the settlement account at First Tennessee. Contact the Business Service Center (888 382 4968) to obtain the correct form. Requests to reverse files, batches or entries must be made within four (4) banking days following the settlement date of the erroneous entry or file and within twenty-four (24) hours of the discovery of the error. The originator is responsible to notify the receiver before the reversing entry is passed to the receiver’s account.

When a reversal is requested, the originator takes on additional risk. For example, if the original entry was a credit, it’s possible that the receiver may have withdrawn funds from the account prior to the time the reversal (debit) entry is passed to the receiver’s account. If the funds are not available to pay the debit entry, the reversal will be charged back to the originator’s account. If the original entry was a debit transaction, it’s possible that the debit transaction may be returned as insufficient, prior to reversal (credit) reaching the receiver’s account. Frequently, it takes time and effort outside the ACH Network to clean up problems created by files containing errors.

- (10) Originators are responsible to ensure that they have sufficient security in place when sending ACH transactions. When originators send transaction information via an unsecured delivery channel (e.g. the Internet), the information must be transmitted or received via a secure session utilizing commercially reasonable security that provides a level of security that at a minimum is equivalent to 128-bit RC4 encryption technology. Security requirements may change periodically due to technological changes.
- (11) In general, NACHA uses Standard Entry Class (SEC) codes to designate the method by which an ACH entry is authorized. The rules regarding each SEC varies, and NACHA monitors various statistics by originator and SEC. If your company is interested in originating multiple SEC codes, discuss this with your relationship manager or treasury management sales officer. Below is a recap of information related to each SEC.

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## II. STANDARD ENTRY CLASS CODES

### A. CONSUMER APPLICATIONS

Each type of ACH transaction carries specific risk issues that are related to the purpose of the transaction, as well as how and who originates the transaction. However, in general, all consumer transactions carry the following risk concerns:

Timing of returns:

- Most entries need to be returned by the Receiving Depository Financial Institution (RDFI) so that the return entry is available to the Originating Depository Financial Institution (ODFI) no later than the opening of business on the second business day following the original settlement date of the transaction.
- An exclusion exists that can extend the above time frame until the 60th day following the settlement date of the transaction for transactions such as ARC, POP, TEL or WEB relating to stop payments that have been placed on the source document. The consumer is required to place a stop in such a time and manner that allows the RDFI a reasonable opportunity to act on the stop prior to acting on the debit entry. This provision is provided to allow a safety net for RDFIs that have not built a bridge between check and ACH systems.
- Unauthorized returns may be returned up until the 60th day following the original settlement date of the transaction. The consumer is required to provide a Written Statement of Unauthorized Debit that identifies the item as being unauthorized.
- As an ODFI, First Tennessee can be held liable under *NACHA Rules* for any breach of warranty. The majority of warranty issues tend to be regarding proper authorization. Breach of warranty is not limited to the return time frames discussed above but is limited only by the statute of limitations for breach of contract claims under the applicable state law.

The next section highlights the primary differences between SEC codes used for consumer entries.

### B. ARC

#### 1. ARC – DEFINITION

*NACHA Rules* enable an originator to convert a check into an ACH debit. This process enables a single-entry debit that is provided to the originator via US Mail or at a drop-box location to be converted into an ACH debit for payment of goods or services. Notification must be provided for each conversion event prior to the receipt of each check that explains the check will be used as a basis for the origination of an ARC entry. A check can only be converted to ARC when the reading device electronically captures the MICR line. Authorization is provided by receipt of the signed check.

#### 2. SAMPLE ARC NOTIFICATION LANGUAGE

“When you provide a check as payment, you authorize us to use information from your check to make a one-time electronic fund transfer from your account. In certain circumstances, such as for technical or processing reasons, we may process your payment as a check transaction.”

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The following checks are not eligible for ARC:

- Checks that do not contain a preprinted check number;
- Checks that do contain an auxiliary on-us field (auxiliary on-us field is only found on larger, 9-inch check stock and is not present on smaller, consumer-sized 6-inch checks);
- Checks greater than \$25,000;
- Third-party checks;
- Demand drafts or other checks that do not contain the signature of the receiver;
- Credit card checks;
- Obligations of financial institutions (cashier's checks, money orders, etc.);
- Checks drawn on the US Treasury, a Federal Reserve bank or a Federal Home Loan bank;
- Checks drawn on a state or local government;
- Checks drawn on an investment company as defined by the Investment Company Act of 1940; or
- Checks payable in a medium other than US currency.

### **3. RISKS UNIQUE TO ARC**

ARC entries can be returned up until 60 days from the settlement date for the following reasons:

- Improper source document (a Written Statement of Unauthorized Debit is required);
- No notice of conversion provided to the receiver;
- If the original check was presented and cleared; or
- The ARC transaction was initiated in an amount other than the amount indicated on the source document.

First Tennessee has enabled ARC through Retail Lockbox processing platform and through Remote Deposit Capture. Vendor-supplied software converts the MICR line information into ARC transactions and houses the logic to recognize ineligible items.

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## C. BOC

### 1. BOC – DEFINITION

BOC is used for single-entry debits to a customer account and would typically be used in a retail application such as a grocery store. Checks would be provided to the originator by the receiver at the point of purchase or at a manned bill payment location. The store is required to provide notice that the check could be subject to processing as an electronic debit. Checks in this process are collected from the customer and converted through a back-office conversion process. The merchant will keep the check and is required to use a reading device to capture the MICR line. Authorization is provided by the combination of the notification sign and the signed check.

### 2. SAMPLE BOC NOTIFICATION LANGUAGE

“When you provide a check as payment, you authorize us to either use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction. For inquiries, please call <retailer phone number>.”

The same checks that are not eligible for ARC are not eligible for BOC.

### 3. RISKS UNIQUE TO BOC

BOC entries can be returned up until 60 days from the settlement date for the following reasons:

- Improper source document (a Written Statement of Unauthorized Debit is required);
- No notice of conversion provided to the receiver (BOC requires a copy of the notice to be provided at the time of the transaction);
- If the original check was presented and cleared; or
- The BOC transaction was initiated in an amount other than the amount indicated on the source document.

BOC capability is available to First Tennessee clients through the Remote Deposit Capture software package.

The business is required to:

- Maintain source document images for a period of two (2) years – the front image is required and back image is optional (this should be controlled easily by our Remote Deposit Capture software when that is the tool used to create the BOC transaction);
- Store the converted check securely and to destroy it when necessary; and
- Adequately verify the check presenter’s identity through commercially reasonable means.

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## D. IAT

### 1. IAT – DEFINITION

An IAT Payment Transaction is defined as an ACH entry that is part of a payment transaction involving a financial agency that is not located within the territorial jurisdiction of the United States (US). HOWEVER, a payment transaction is defined to include any and all settlements, accounting entries or disbursements that are necessary or appropriate to carry out the instruction. IAT transactions would be authorized under the requirements of the underlying SEC.

- *NACHA Rules* applies to all ACH payments that are either:
  - Funded (directly or indirectly) by funds from financial institutions outside the US, or
  - Sent to / received from financial institutions or agencies outside the jurisdictional territory of the US.
- In addition, the rule requires that Bank Secrecy Act Travel Rule data be included in the ACH transaction. This includes:
  - Originator name and address, account number and financial institution, and payment amount
  - Beneficiary name and address, account number and financial institution
- This information is contained within additional addenda records specific to international transactions. Return information will also contain this data.

IAT entries can be either a debit or credit entry, and can be sent by your client or received by your client. The receiver of the IAT transaction can be either a consumer or a corporation. **If the funds move across an international border or if the instructions and the funding combined are from outside the US, even if the payments are sent from a US bank to a US bank, it would be considered an IAT.**

The corporate originator rather than its ODFI, is in the better position to know the parties with which it does business, where those funds are destined, where its employees reside, etc. As a result, originators generally hold the responsibility for asking appropriate questions of their vendors and employees sufficient to determine whether those funds will remain domestic or whether the funds will move internationally. NACHA suggests that each company should determine whether they have transactions being sent out of the country, develop a specific company policy to address these items and implement that policy.

- Clients whose business activities include any of these four dimensions rank high on the list of companies impacted and in turn are required to meet the requirements of IAT. Businesses:
  - With subsidiaries or offices outside the US
  - With pensioners or employees outside the US
  - With vendors or suppliers outside the US
  - That receive ACH entries from outside the US

Penalties for noncompliance with OFAC can range from \$10,000 to \$10 million per occurrence with potential prison terms.

Additional information can be found at <http://www.nacha.org/c/IATIndustryInformation.cfm> under the Corporate Tool Kit.

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## 2. HOW IT WORKS

First Tennessee directs International ACH Transactions (IAT) to the Federal Reserve, which routes the transactions to gateway operators who deliver the transactions to the receiving country and receiving financial institution. The originator is responsible for ensuring that all items are in compliance with US law, including programs administered by the Office of Foreign Asset Control (OFAC). IAT transactions contain additional data on both the originator and the receiver to comply with these programs and to properly route transactions to the foreign country, the financial institution and the receiver.

IAT transactions can be routed to a specific account or directly to the receiver (who may not have a bank account). When the transaction is being sent from an account to an account, the transaction is referred to as A2A. When the transaction is being sent from an account to a receiver, the transaction is referred to as A2R. Some countries will only support A2A, others only support A2R and some support both.

IAT transactions can be sent in US dollars to be received in US dollars. They can also be sent in US dollars and converted by the receiving financial institution to the local currency. IAT transactions may be limited in dollar value and may not be a good substitute for an international wire. See the chart on page 16 for additional information.

The IAT process is complex, but First Tennessee has the expertise to help you with this process.

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## E. PPD

### 1. PPD – DEFINITION

PPD can be used for credit or debit transactions. Most PPD transactions are authorized in writing in advance of the transactions. PPD is normally used for recurring transactions (consistent or variable amounts) such as payroll or direct debit. However, *NACHA Rules* do not exclude the use of PPD for single-entry authorizations. PPD transactions can also be authorized under the standard of similarly authentication, which allows the use of electronic signatures, digital signatures and security codes.

### 2. RISKS UNIQUE TO PPD

Because *NACHA Rules* allow digital authentication, ACH transactions can be accepted by interactive voice response (IVR) and touch-tone systems and be processed under the PPD Standard Entry Class (SEC). This is frequently misunderstood by originators who may try to use the TEL SEC in error.

## F. POP

### 1. POP – DEFINITION

The POP SEC is used by originators as a method of payment for in-person purchase of goods and services. Checks can be accepted at the point of sale, then scanned to capture the MICR line, voided and handed back to the customer. The scanned MICR line is used to initiate an ACH entry to debit the customer's account. These entries are also single-entry debits, requiring that the consumer sign an authorization at the time of purchase.

### 2. SAMPLE POP NOTIFICATION LANGUAGE

“When you provide a check as payment, you authorize us to either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction.”

### 3. RISKS UNIQUE TO POP

- POP entries have the same exclusion of items that are addressed earlier under ARC.
- The originator must ensure ineligible items are not submitted.
- Because the check is not retained, the originator must take additional steps to capture information in case the check is returned.
- POP entries can be used for corporate checks only if the check does not contain an auxiliary on-us field in the MICR line. The auxiliary on-us field is the area on a business check left of the routing number within the MICR line.

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## G TEL

### 1. TEL – DEFINITION

*NACHA Rules* enable an ACH entry to be initiated in response to a consumer's oral authorization that includes the consumer's banking information captured by telephone to transmit an ACH debit for goods or services. This authorization can be valid for recurring or for a single-entry TEL transaction. TEL entries can only be created:

- When there is an existing relationship between the originator and the receiver, or
- When there is not an existing relationship, but the receiver has initiated the call.

An existing relationship is defined:

- As a written agreement being in place between the originator and the receiver, or
- By the consumer purchasing goods or services from the originator in the past two years.

### 2. SAMPLE TEL NOTIFICATION LANGUAGE

During the conversation, the receiver must be provided and acknowledge the following terms of the transaction:

- The oral authorization must be readily identifiable as an authorization of a single or recurring transfer from the receiver's account
- When recurring, the timing, number and frequency of the debits
- Date on or after which the consumer's account will be debited
- The amount of the debit entry, or if recurring, the method of determining the amount
- The name or identity of the receiver
- A telephone number that is available during normal business hours for customer inquiries
- The date of the oral authorization
- A statement that the authorization obtained will be used to create an ACH debit to the consumer's account

The above terms must be clearly stated, and receiver must specifically acknowledge consent.

Silence is not express consent.

**Single Entry**– Originators of TEL are required to either record the consumer's oral authorization or provide, in advance of the settlement date, written confirmation to the receiver.

**Recurring Entries** – Originators of TEL are required to record the consumer's oral authorization AND provide, in advance of the settlement date, written confirmation to the receiver.

### 3. RISKS UNIQUE TO TEL

*NACHA Rules* were specifically written to exclude marketing to consumers through cold-calling efforts. Violations of TEL rules normally result in high rates of unauthorized returns.

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## H. RCK

### 1. RCK – DEFINITION

*NACHA Rules* permit the ACH network to be used to transmit a single-entry debit transaction to re-present electronically after a paper check has been returned for insufficient or uncollected funds. These entries are subject to UCC, Regulation CC and *NACHA Rules* but are not covered under Regulation E or the Electronic Funds Transfer Act. Items are only eligible if they are:

- Under \$2,500
- Items with a preprinted check number
- Negotiable items drawn on an ACH participating bank other than the Federal Reserve Bank or the Federal Home Loan Bank
- Payable in US dollars
- Items that include the signature of the receiver;
- Returned for insufficient or uncollectible funds and this is clearly indicated on the face of the item
- Dated less than 180 days from the date of entry transmitted to the RDFI
- Drawn on a consumer account
- Items not presented more than a total of three (3) times: one (1) paper and two (2) electronic or two (2) paper and one (1) electronic
- Not a US Postal Money Order
- Not a third party check

### 2. SAMPLE RCK NOTIFICATION LANGUAGE

The manner for providing notification for RCK is not specific; however, notice at a point of sale must be clearly displayed. Notice provided by a billing company of intent to collect returned check electronically must be clearly displayed on or with the billing statement. Fees related to return-check collection must be authorized separately under WEB, PPD or TEL rules and cannot be included with the face amount of the returned item.

“When you provide a check as payment, if the check is returned for insufficient or uncollected funds, your check may be collected electronically.”

### 3. RISKS UNIQUE TO RCK

- By the nature of these items, return rates will be high. This is reflected in both normal returns and in unauthorized returns.
- Notice of possible conversion can be displayed at the point of check acceptance. The notice would state that if the check is returned for NSF or uncollected funds that it may be collected electronically. The consumer doesn't always recall that notice was provided, and this results in higher unauthorized returns since actual conversion to ACH is delayed.

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## I. WEB

### 1. WEB – DEFINITION

*NACHA Rules* permit the internet or a mobile device to be used to authorize single or recurring debits to a consumer's account.

### 2. SAMPLE WEB NOTIFICATION LANGUAGE

Authorizations that are internet initiated must be displayed on a computer screen or other visual format in a clear manner. The consumer should be able to print and retain a copy of the authorization. Only the consumer can authorize a transaction, not a third party on behalf of the consumer. Use of a digital signature or code to similarly authenticate the written authorization is acceptable but does not preclude the other methods of authentication, such as shared secret, passwords, biometrics, etc. The authentication method must demonstrate the consumer's assent to the authorization.

"I <consumer name> acknowledge that I am authorizing an electronic debit to my account for <amount>, which will be debited on or after <date>. For inquiries, I can reach <retailer or biller> during normal business hours of <state hours> at <retailer or bill phone number>."

### 3. RISKS UNIQUE TO WEB

There are three (3) unique Internet transaction characteristics that elevate risk levels.

- Because of the anonymity of the Internet, parties don't always know who they are doing business with, which increases the opportunity for fraud.
- Since the Internet is an open network, special security procedures need to be in place to prevent unauthorized access to consumer financial information.
- The sheer volume and speed of transactions increases risk levels.

*NACHA Rules* refrain from developing rigid standards that may become easily outdated due to technological changes in a rapidly changing environment. Terms such as commercially reasonable are used, which makes it more difficult to determine compliance.

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#### 4. AUDIT REQUIREMENTS

Annual audit requirements exist for all originators of WEB transactions. These audits, which are independent, can be conducted by external or internal auditors. These requirements include:

- Authentication techniques – these may vary according to the type of transaction, the dollar amount, new or existing customer base, etc. The more robust the authentication, the less likely fraudulent transactions will occur.
- Fraudulent detection systems – different technologies are available at varying costs. Examples include tracking payment history, the average dollar size of the transactions, the typical relationship with the consumer and the types of goods or services sold.
- Verification of routing numbers – to minimize errors related to key-entry mistakes, each originator is required to verify that routing numbers are valid. This can be considered a component of a fraudulent detection system.
- Security of Internet sessions – secure sites with an equivalent to 128-bit RC4 encryption technology or that transmit the receiver's banking information utilizing commercially reasonable security technology via a secure session that is equivalent to 128-bit RC4 encryption. If technology advancements occur to drive the commercially reasonable standard to change, the originator should comply with the new standard.
- Network security:
  - Physical security to prevent theft, tampering or damage with disaster recovery plans developed and reviewed periodically
  - Personnel access controls to deter unauthorized access and use
  - Security policies to govern access to sensitive data
  - Employment verification for employees with access
  - Access controls to systems, networks and files that contain sensitive information
  - Ensure no one person acting alone can bypass safeguards
  - Audit trails to scrutinize activities of users
- Secure capture storage and distribution:
  - Network and data stored behind firewalls and inaccessible from the Internet
  - Data retention schedule developed with policies from time of capture to destruction
  - Systems and processes regularly tested

*NACHA Rules* also require the ODFI to establish, monitor and review periodically specific exposure limits for originators of WEB entries.

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## J. CORPORATE APPLICATIONS

Corporate entries are limited to two standard entry classes, CCD and CTX.

### 1. CCD – DEFINITION

This is the most commonly used corporate entry. CCD can be used for either debit or credit transactions to distribute or collect funds between corporate entities. Tax payments also use this standard entry class for federal and state payments.

### 2. CTX – DEFINITION

This is most commonly used to move funds and information related to the payments. A CTX transaction supports up to 9,999 addenda records to communicate ANSI ASC X 2 message sets or UN/EDIFACT information.

### 3. RISKS UNIQUE TO CASH CONCENTRATION

In general, corporate transactions carry additional risk issues when used for cash concentration. Cash concentration is the consolidation of funds from multiple financial institutions, where the accounts at each financial institution are all owned by the corporate entity. Since deposited funds are available to the corporate entity on the effective date of the transaction, it is possible for the corporate entity to withdraw funds and then declare bankruptcy. If this sequence of events should occur, the ACH debit entries presented to the receiving financial institution are likely to be returned, and First Tennessee would have unsecured credit exposure.

### 4. TIMING OF RETURNS:

- Most entries will need to be returned by the RDFI so that the return entry is available to the ODFI no later than the opening of business on the second business day following the original settlement date of the transaction.
- For the receiver of CCD or CTX truncations, this shorter return time frame requires daily reconciliation to recognize and return unauthorized or other ACH debits in a timely manner.
- Originators are held liable under the First Tennessee ACH Agreement for any breach of warranty (which includes, but is not limited to, any breach of warranty regarding proper authorization). Such breach of warranty is not limited to the return time frames discussed above but is limited only by the statute of limitations for breach of contract claims under the applicable state law.

### III. INTERNATIONAL ACH TRANSACTIONS

INTERNATIONAL ACH TRANSACTIONS							
					Foreign Exchange Options		Origination Methods
The ability to originate is available for the following countries:					Fixed to Fixed	Fixed to Variable	
Region / Country	(A2A) Account-to-Account Transfers	(A2R) Account-to-Receiver Transfers	Credit Transactions Only	Credit and Debit Transactions	US Dollar to US Dollar	US Dollar to Local Currency	Data Transmission
Canada	■			■	■	■	■
Mexico	■	■	■			■	■
Panama	■		■		■		■
European Countries:	■		■		■	■	■
Austria, Belgium, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom							
Other Latin American Countries:		■	■				■
Argentina, Brazil, Costa Rica, Colombia, El Salvador, Guatemala, Honduras, Nicaragua, Peru, Uruguay							
Foreign exchange conversion rates are published daily at <a href="http://www.frbervices.org/app/fedachfx/">http://www.frbervices.org/app/fedachfx/</a> .							

### IV. ADDITIONAL INFORMATION ON ACH

First Tennessee customers can obtain a recent copy of *NACHA Rules* or register for educational classes through Southern Financial Exchange (SFE). SFE is a Regional Payments Association member of NACHA - The Electronic Payments Association. Visit [SFE.org](http://SFE.org) for details or contact SFE at 800 626 4733 Ext. 21.

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## V. GLOSSARY OF COMMONLY USED ACH TERMS

**ACCOUNTS RECEIVABLE ENTRY OR ARC** – A single-entry debit to a receiver based on an eligible source document (most commonly a check) that was mailed to originator or placed in a drop-box location.

**ADDENDA RECORD** – A record that contains supplemental data related to an entry.

**AUTOMATED CLEARING HOUSE OR ACH** – An electronic payment system governed by *NACHA Rules*.

**AUTOMATED CLEARING HOUSE OPERATOR** – An organization that acts as a central facility for clearing, delivery and settlement of entries between participating financial institutions. Two operators exist within the United States – the Federal Reserve and the clearing house known as EPN.

**AUXILIARY ON-US FIELD** – An optional field positioned to the left of the routing number on the MICR line of checks. Typically only found on larger corporate checks and not on consumer checks.

**BACK OFFICE CONVERSION ENTRY, OR BOC** – A single-entry debit to a receiver based on an eligible source document (most commonly a check) provided to the originator by the receiver at the point of purchase or at a manned bill payment location.

**CORPORATE CREDIT OR DEBIT ENTRY, OR CCD** – An entry created by a business entity that credits or debits accounts owned by that entity or other business entity. Only one addenda record can be attached to each payment entry.

**CORPORATE TRADE EXCHANGE, OR CTX** – An entry created by a business entity that credits or debits accounts owned by that entity or other business entity. A maximum of 9,999 addenda records can be attached to each payment entry.

**DFI** – Depository Financial Institution. Normally a bank, credit union or savings association.

**DIRECT ACCESS** – A situation where an originator, third-party service provider or third-party sender transmits entries directly to an operator using an ODFI's settlement account.

**EFFECTIVE DATE** – The date specified by the originator when they would like settlement to occur (See Settlement Date).

**ELECTRONIC SIGNATURE** – An electronic sound, symbol, or process associated with an agreement, authorization or other record with the intent to sign the record.

**ELIGIBLE SOURCE DOCUMENT** – A check that is used as a source of information for ARC, BOC, or POP entries. Eligible items are further defined under ARC in this document.

**ENTRY** – An order or a request for the transfer of funds affecting a receiver's account.

**EXISTING RELATIONSHIP** – When a written agreement exists between the originator and the receiver and is in effect, or if the receiver has purchased goods or services within the past two (2) years.

**FILE** – A group of entries formatted according to NACHA specifications that contain at least a file header, batch header, entry detail, batch control and file control records.

**FINANCIAL AGENCY** – An entity that is authorized by legal requirements to accept deposits or conduct the business of issuing money orders or transferring funds.

**GATEWAY** – An ACH operator or participating DFI that acts as an entry or exit point for ACH payment transactions. Also known as a gateway operator.

**INTERNATIONAL ACH TRANSACTION, OR IAT** – An entry that is part of a payment transaction involving a financial agency that is not located in the territory of the United States.

**INTERNET-INITIATED ENTRY, OR WEB** – A debit entry to a consumer receiver based on authorization that is communicated through a wireless or Internet connection. These can be single entry or recurring.

**MICR** – Magnetic Ink Character Recognition technology adopted to process checks.

**NACHA** – The National Automated Clearing House Association is the governing body for the ACH payments system.

**NOTIFICATION OF CHANGE, OR NOC OR COR ENTRY** – A non-monetary entry for the purpose of identifying incorrect information and providing correct information to be used on future transactions.

**ORIGINATING DEPOSITORY FINANCIAL INSTITUTION OR ODFI** – A participating DFI that submits entries to an operator and provides warranties as required by NACHA.

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**ORIGINATION AGREEMENT** – A written agreement between the ODFI and the originator or third-party sender that authorizes the ODFI to submit entries to a receiver's account.

**ORIGINATOR** – A corporation that has a relationship with the Receiver and has authorized an ODFI to submit entries to the receiver's account.

**POINT OF PURCHASE OR POP** – A single-debit entry initiated by an originator based on a eligible source document provided by the receiver at a point-of-purchase or manned bill payment location.

**PREARRANGED PAYMENT AND DEPOSIT, OR PPD** – A credit or debit entry to a receiver's account based on written or electronically signed authorization. These can be single entry or recurring.

**PRENOTE ENTRY** – A non-monetary entry initiated prior to first credit or debit entry to the receiver's account. Typically used to verify information provided by the receiver.

**RE-PRESENTED CHECK, OR RCK** – A single-debit entry, defined under UCC 4A to collected on returned checks.

**RECEIVER** – The person or organization that has authorized an originator to initiate credit or debit entries to their account.

**RECEIVING DEPOSITORY FINANCIAL INSTITUTION OR RDFI** - A participating DFI that receives entries from an operator.

**REVERSING ENTRY, BATCH OR FILE** – Entries that reverse erroneously submitted ACH entries.

**RULES, OR NACHA RULES OR ACH RULES** – The operating rules of the National Automated Clearing House Association as amended from time to time.

**SETTLEMENT DATE** – The date when the exchange of funds will occur. The ACH format allows for the date created, the effective date and the settlement date. In many cases the effective and settlement dates are the same. However, the settlement date is determined by the processing systems and may vary if the effective date falls on a weekend or holiday or if it did not allow sufficient time for standard processing to occur.

**SINGLE ENTRY** – A one-time transfer of funds in accordance with the receiver's authorization.

**STANDARD ENTRY CLASS, OR SEC CODE** – A three (3) digit field that identifies the type of transaction. SEC codes typically vary according to the method of data capture and authorization provided.

**TELEPHONE INITIATED, OR TEL** – A single-entry debit (revised effective September 16, 2011, to allow recurring debits) initiated based on oral authorization obtained over the telephone.

**THIRD-PARTY SENDER** – A processor that provides service on behalf of the originator but does not have a relationship with the receiver. While the third-party sender may have a contractual agreement with an ODFI, the ODFI does not have an origination agreement with the originator. Frequently funds flow through an account owned by the third-party sender as an intermediary between the originator and the receiver.

**THIRD PARTY SERVICE PROVIDER** – A processor that provides service on behalf of the originator or an ODFI but does not have a relationship with the receiver. An organization acting as a third-party sender is also a third party service provider. However, if the ODFI has a contract directly with the originator and the third party service provider does not serve as a financial intermediary, then this organization is not a third-party sender.

**WRITTEN STATEMENT OF UNAUTHORIZED DEBIT** – A written notice from the receiver to the RDFI requesting recredit for a prior debit that was not properly authorized or was improper.