



CENTRAL BANK OF NIGERIA

Dear all,

Please review the exposure draft Guidelines for Cheque Truncation in Nigeria and forward your responses to the Director Banking and Payments System Department, Central Bank of Nigeria Garki, Abuja while soft copies of such RESPONSES should be emailed to the project Manager PSV2020 vide: scokojere@cbn.gov.ng or to the Cheque & ACH WG: sbello@cbn.gov.ng

Thank you.

Guidelines for Cheque Truncation in Nigeria

Version 0.4

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EXPOSURE DRAFT



1 Preamble

WHEREAS the Central Bank of Nigeria by CBN Act No. 7 of 2007 is to promote monetary stability and sound financial system in Nigeria.

WHEREAS the Central Bank of Nigeria by virtue of S. 47 of the CBN Act No. 7 of 2007 is charged with the duty of facilitating the clearing of cheques, credit instruments for banks and for this purpose to organize in conjunction with other Banks, clearing houses in such places as the Bank may consider necessary.

NOW THEREFORE the Central Bank of Nigeria, pursuant to S. 47 of the CBN Act of 2007 and having had consultations with banks duly established in Nigeria hereby issues the following Guidelines for Cheque Truncation in Nigeria.

a) Objectives

The objectives of the Cheque Truncation Guidelines are:

- (i) To provide for the regulation and management of cheque truncation in Nigeria with the view to reducing cost and days of clearing instruments;
- (ii) To articulate the rights and responsibilities of presenting and paying banks in the Cheque Truncation System;
- (iii) To provide for minimum technical and operational standards for cheque truncation; and
- (iv) To facilitate the implementation of an effective and efficient payment system in the Nigerian Banking Industry.

b) Scope

These Guidelines shall apply to clearing and settlement activities in the Nigeria Bankers Clearing Houses which practice cheque truncation system.

Notwithstanding the provisions of this Guidelines, the provisions of the Revised Nigeria Bankers' Clearing House Rules shall apply to cheque truncation system in Nigeria subject to necessary modifications.

Provided that where there is a conflict between the provisions of the Cheque Truncation Guidelines and Revised Nigeria Bankers' Clearing House Rules, the former shall prevail.



2 Terminology

CH	Clearing House
CHG	Clearing House Gateway
IQA	Image Quality Assurance
CAR	Courtesy Amount Read box
UDK	Unique Document Key
PKI	Public Key Infrastructure
RRF	Return Request File
CTS	Cheque Truncation System
ECPIX	Electronic Cheque Presentment with Image Exchange
NACS	Nigeria Automated Clearing System

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3 Definitions

Cheque— an instrument, payable on demand and drawn on or payable through or at an office of a bank, whether or not negotiable, that is handled for forward collection or return.

Cheque Truncation— a process that involves stopping the physical movement of the cheque and replacing the physical instrument with the image of the instrument and the corresponding data contained in MICR line. The cheque details are captured, typically by the bank presenting the cheque or its clearing agent and electronically presented in an agreed format to the Clearing House for onward delivery to the paying bank for payment. Unlike the more common form of presentment where a cheque is physically presented to the paying bank, a truncated cheque is typically stored by the presenting bank.

MICR Line— “magnetic ink character recognition line” mean the numbers, which may include the bank routing number, account number, cheque number, cheque amount, and other information, that are printed near the bottom of a cheque in magnetic ink in accordance with the Nigeria Cheque Standards.

Paying Bank—(i) the bank by which a cheque is payable, unless the cheque is payable at or through another bank and is sent to the other bank for payment or collection; or (ii) the bank at or through which a cheque is payable and to which the cheque is sent for payment or collection.

Person— means a natural person, corporation, unincorporated company, partnership, government unit or instrumentality, trust, or any other entity or organization.

Presenting Bank— the bank that receives the cheque from the customer, either directly or via a third party, and presents the cheque to the clearing house for clearing and settlement.



4 The Nigerian Cheque Truncation Model

4.1 Model for truncation

The overall model for Nigeria shall be:

Generic model – ‘Image and Data’ model:

Cheque Images and MICR data flow from the Presenting Bank through to the Paying Bank.

Data Capture – ‘Presenting Bank’ model:

The cheque is dematerialised by the bank where the cheque is initially presented. Cheques shall be truncated at the Presenting Bank and within prescribed times defined by the Guidelines.

Data and Image Exchange - Clearing House Model:

The Clearing House acts as an intermediary for data and image flow between the presenting and the paying bank.

Data and Image Archive:

NIBSS shall be the Central Image Warehousing Agency (CIWA) for storage and certification of cheque images. The paying bank may request for any image from CIWA for the purpose of proof of payment. Such data retrieval shall be provided on online real time basis.

4.2 Data Standards

The prescribed data standards shall be ANSI X9.37.

4.3 Value Limits on cheque truncation

All cheques are eligible for cheque truncation subject to value limits that may be imposed by the CBN from time to time.

4.4 Retention of original cheque

The minimum retention period of physical cheques is five(5) years. The electronic image shall be retained for a minimum period of ten (10) years.

4.5 Data Storage

From the point of view of total deployment cost, efficiency and control, it is recommended that that Presenting Bank, Paying Bank, and the Automated Clearing House (NIBSS) shall keep copies of the cheque images.

4.6 Minimum Storage Standards

The Cheque front shall be stored in Grey Scale format, while Black and White format shall be used for the cheque rear.



4.7 Implementation and Deployment

Truncation shall be mandatory for all banks at a particular centre from a cut-off date as may be determined by the CBN. The cut-over date shall be announced well in advance and the participating banks are required to undertake a formal certification test to demonstrate operational readiness for the conversion to cheque truncation.

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5 Procedures

5.1 General Procedures

Clearing Period – Under the Cheque Truncation regime, cheques shall clear on a T+1 basis such that customers receive value in the morning of T+2.

TRANSACTION DAY	CHEQUE CLEARING CYCLE
MONDAY (T)	Fresh cheques are deposited at bank branch
TUESDAY (T+1)	<ul style="list-style-type: none">• Cheques are presented at the clearing house• Paying Bank to return unpaid instruments same day• Beneficiary Bank gets value
WEDNESDAY(T+2)	At the beginning of day, bank customer receives value for cheques not returned

5.1.1 Clearing Timings

The CH shall operate 3 sessions as follows:

Session 1 (1am-8am): Permits all clearing instruments
(cheque, NEFT–fresh and returned items)

Session 2 (11am - 2pm): Permits only Returned cheques, fresh NEFT and Returned NEFT.
Fresh cheques are not allowed.

Session 3 (4pm - 6pm): Permits only Returned cheques and Returned NEFT Instruments.

Settlements for 1st and 2nd clearing sessions shall be same day, while Return Instruments (3rd session) shall be settled next day.

All unpaid clearing instruments shall be returned same day.

5.1.2 Point of Truncation

The point of truncation is left to the discretion of the Presenting Bank.



Provided that banks shall put in place a process of proper authorization and controls to ensure that all cheques are processed accurately and in accordance with the service levels concerning timings.

5.1.3 Settlement

Settlement shall be generated on the basis of the existing MICR code line. The AMOUNT field shall be captured and keyed in separately by the Presenting Bank. The specifications of the cheques detailed for MICR clearing shall be followed. Presenting Banks are encouraged to auto-read CAR field and specify cheque value. This shall eliminate cheque post-encoding which is time consuming in the first place. With the commencement of cheque truncation, post-encoding of the amount field shall no longer be mandatory.

Presenting Banks shall employ appropriate Optical Character Recognition technologies to auto-read the AMOUNT field such that cheque post-encoding would be eliminated in the in-clearing process as advised in the Nigeria Cheque Standards.

5.2 Clearing – Procedure at the Presenting Branch

5.2.1 Preliminary Verification

As the payment processing is done on the basis of images, the onus of due diligence shifts to the Presenting Bank for validation of the physical instrument. The Presenting Bank shall observe reasonable precautions such as verifying the tenor of the instrument, physical feel of the instrument and identifying evidence of tampering that is visible to the naked eye including compliance with the mandatory security features specified in the Nigeria Cheque Standards.

For enhanced attention, based on exceptions, the banks shall employ suitable risk management techniques such as enhanced scrutiny of high value transactions. The Presenting Bank takes full responsibility for collecting on behalf of the intended paying bank and exercises due diligence as per the standard banking conditions and the minimum security standard specified in the Nigeria Cheque Standard. The presenting bank shall ensure that the cheque they are presenting confirms to the Nigeria Cheque Standard.

5.2.2 Crossing

All cheques received for collection over the bank's counters are required to be branded with the bank's special crossing and presentation stamp prior to scanning.

5.2.3 Return Processing

The Central Clearing Center of the Presenting bank shall receive the return exchange file/s for each return session containing the returns on the presentation lodged by them. An item may be returned as long as its clearing period has not expired, and a session is available for the particular clearing type. The return file shall contain the item detail and return reason code. It shall be the responsibility of the presenting bank to generate the return memo to the customer from the information in the return file.



5.2.4 Capture of Images and Data

The images of all the instruments in a batch / file shall be duly captured along with MICR data using scanners set up for the purpose. The amount needs to be captured/ keyed in to complete the data record.

5.2.5 Reject Repair and Balancing

The banks shall have proper systems and procedures in place to ensure that the rejects of the MICR line are appropriately repaired and the batch file is balanced before the same is uploaded from the capture system to the Clearing House. Banks are required to pass on the value in the MICR repair tag for any correction / changes / rejects on the MICR band of the cheques in the capture files.

5.3 Processing at Clearing House Gateway (CHG) – Outward Clearing

5.3.1 Receiving Outward Presentment

The CHG shall receive correctly formatted outward MICR Clearing Data files and Image files from the capture system of the Presenting Bank. The Presenting Bank shall ensure that the total amount and individual line items in the MICR Data File are reconciled against the Data Image File.

5.3.2 Image Quality Analysis and Failure Handling

The incoming images are subjected to IQA validations. The images which fail IQA validations are rejected with an appropriate response file. The bank may rescan the instrument and present in line with bank's internal processes/ control procedures. The member banks have to maintain control over such re-presentments.

5.3.3 Item Processing

The MICR Data Files and Cheque Image files presented by the capture system are validated by the CHG against the file and item level validations indicated in the CHG Specifications, as released by the Clearing House from time to time. The CHG after validations generates response files which contain information related to acceptance or rejection of each file and the items present in each file with appropriate reason codes.

Sometimes there may be multiple response files for a MICR Data File and Cheque Image file. It is the responsibility of the capture system to take these response files and take appropriate actions. The CHG then sorts the MICR data and their related images into bundles per paying bank and bundle collection type and creates exchange files internally and validates these bundles against the session window to which they shall be attached at the Clearing House. The CHG, before attaching the items to the session, signs MICR data as well as image views. It also signs and encrypts the exchange files before transmission to CH.



5.3.4 Session Attachment

The items are assigned to an appropriate clearing session that is open based on parameters fixed for a session by the Clearing House. These parameters are passed on to the capture system through the CHG. The item inherits 'session date' that is the business date of the session. If there is no appropriate session that is open, the items/ bundles wait at the CHG until such a session opens.

A validation of the item's Presentment Date versus the item's Session Date is performed and items that exceed as prescribed shall be rejected by the Clearing House. The Clearing House shall from time to time prescribe this parameter.

5.3.5 Transmission of Files to Clearing House

CHG shall build exchange files for the MICR data and the cheque images for onward transmission to Clearing House. Each exchange file is digitally signed and encrypted before it is transmitted to the CH.

Banks shall plan transmission of their outward presentation by taking into account presentation volume, the bandwidth of network with the Clearing House, and the session window. In the event of an exchange file being received at the CHG within a session time but not passed to the Clearing House (due to unforeseen circumstances such as network congestion) before close of the session, the CHG shall unbundle the exchange file, and reattach to a new session. The Clearing House shall notify the Presenting Bank of any delayed exchange files.

5.3.6 Reconciliation of Outward Presentation

It shall be the responsibility of the Presenting Bank to verify and ensure that all the items presented / transmitted by it have been included in the settlement and reconcile the total credits with the presentation made by it.

After End of Session at the CH, CHG generates an OACK file containing the details of Items that have been taken up for settlement at the CH. It shall be the responsibility of presenting bank to reconcile their entire presentation by collating the information from OACK file and various response files.

5.4 Processing at Clearing House Gateway - Inward Clearing

5.4.1 Receipt of Inward Data / Images

The Inward processing deals with accepting inward presentment data and images from the CH and providing data in the form of files for use within the bank's in-clearing (paying bank) system. The CHG receives digitally signed inward financial data exchange files and image exchange files from the CH.

5.4.2 Validation

The CHG shall authenticate and load the exchange file data into the system and send an error exchange file to the CH if the inward financial data exchange file or image exchange file failed decryption or authentication. The CHG shall send an acknowledgement exchange file to the CH if the inward financial data exchange file



or image exchange file gets successfully loaded. The CHG shall also validate the digital signatures on the MICR and Image Data.

5.4.3 Control Mechanism

The Paying Bank shall verify that all the inward bundles/ items have been received by it to ensure that there has been no data loss in the transmission from Clearing House to the CHG. The CHG supervisor may compare the relevant information available at the 'Clearing House Processing Monitor' and 'Inward Exchange File Screen' for the purpose. The paying bank would not be able to generate posting files unless all the inward bundles/ items have been actually received at the CHG.

If any files are lost in transmission the bank may request the Clearing House for retransmission of images and data.

5.4.4 Generation of Posting File

CHG, for each session, shall generate files for interfacing with the bank's in-clearing or exception processing system.

CHG is capable of creating posting files (both image and data files) for payment processing bank wide in one of the following three ways:

- i. Bank wise for the entire bank
- ii. Branch wise within each bank
- iii. Branch and transaction code wise for each branch.

The type of posting file paying bank requires is configurable at CHG.

5.5 Processing at Branches / Bank's In-clearing System

5.5.1 Transmission of Posting Files

It shall be the responsibility of the paying bank module to fetch the posting files from CHG and undertake the payment processing.

5.5.2 Duplication Checking

The CHG detects duplicate items based on MICR code line on the data for the configured number of days. The duplicate items are indicated in the posting files generated by the presenting bank's CHG, and it is the responsibility of presenting bank module to have processes in place to take necessary caution/control while processing such items. Additionally, CH also generates a report of duplicate items for each CHG after each session, and is available for CHGs to access the same and download, if required.

5.5.3 Digital Signature Validation

CHG shall verify the digital signature of presenting CHG. Although, it is mandatory for presenting banks to apply digital signatures at the capture point, it is left to the presenting banks to decide whether they want to validate the digital signature coming from capture system of the presenting bank.



In case validation of digital signature of presenting bank fails, paying bank may return such items with appropriate return reason codes.

5.5.4 Payment Processing

The banks shall do the payment processing based on images of the instruments following all the prudent practices. Both the presenting bank and the paying bank shall be liable for payment of a stale or post dated instrument.

5.5.5 Return Request File

It shall be the responsibility of the paying bank to collate all the return items and create Return Request File/s (RRF) as per specifications provided in CHG Specification document. The paying bank in-clearing system shall forward such Return Request File/s to CHG for onward transmission to the CH.

5.5.6 Return Processing at the CHG

The CHG shall receive RRF/s from paying bank system containing all the outgoing returns along with return reason codes. The CHG shall validate the file for file integrity and data integrity, process the data and generates exchange file for the CH. During return clearing images would not travel. Each exchange file is digitally signed and encrypted before it is transmitted to CH.

5.5.7 Control of Returned Cheques Incidents

The Clearing House (CH) shall update and analyse the list of all returned cheques monthly. Customers with cases of high frequencies shall be reported to the CBN and accredited Consumer Credit Bureaus. Appropriate return reason code shall be specified in the RRF/s by the Paying Bank.

5.5.8 Commission on Turnover (COT)

The Presenting and Paying Banks shall not charge COT on Debit entries arising from Returned Instruments.

5.5.9 Transmission Discipline

CHG shall transmit the Outward Return Exchange Files within the given return window. As there may be a time lag during transmission of a file from CHG to CH, the paying bank shall ensure that the return exchange files reach the Clearing House within the timeframe before the closure of the return session.

5.5.10 Internal Control

While handling the inward clearing, the banks shall search for duplicate MICR cheques and maintain a duplicate MICR cheques list.

In addition to the inward instruments drawn on branches of a bank, the reports generated by the Clearing House shall contain the summary position of the total number of instruments and the total value thereof. After the processing of inward clearing, branches shall verify the inward clearing figures for each branch.



5.5.11 Reconciliation of Clearing Differences

In CTS Clearing the images and data shall be received together in the same envelope and hence the possibility of a bank being debited without receiving an image shall not arise. In the case of a bank being debited with the cheque image of another bank (caused, for example, of data entry error) the same shall be returned to the presenting bank with appropriate return reason code.

5.6 Special Processing at Clearing House

5.6.1 Different Status of CHG / Bank

Suspended: CH shall change the status of a bank from 'in clearing' to 'suspended' under exceptional circumstances such as moratorium or unwinding. In such a scenario, the suspended bank shall not be able to participate in any clearing. But banks may return items presented by the suspended bank in the suspended period.

Not in Clearing: CH shall put a bank in 'not clearing' mode when a bank does not participate in clearing. Once set as 'not clearing' the bank cannot make or receive any presentations during the 'not clearing' period. Other banks also cannot return items presented on/by the bank.

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6 Interbank Data Exchange rules

6.1 Use of Dedicated Secure Network

Images accompanied by the MICR line data, duly encrypted & digitally signed, shall travel over a dedicated network connecting all the CHGs with the Clearing House.

6.2 Transmission of Image / Data

The capture system shall transmit the MICR data and images of the cheques to its Clearing House Interface electronically and/or on the media. Banks may have procedures in place to optimise bandwidth and ensure that the branches upload their presentation in over a period of time rather than sending all the images and data relating to the day's clearing of the branch at the end of the day or at a given point of time.

6.3 Media Based Transmission of Exchange Files

In the event of a network failure or in case of an offline CHG, the application allows for data and image files to be exchanged with the CH using different types of Electronic medium. The same Public Key Infrastructure (PKI) infrastructure that is used during network transmission is used to create the files for transfer using physical media options.



7 Technical Specifications

7.1 Scanning Standard

The scanning shall conform to the prescribed standards which are, for front side, grey scale 100 DPI 8 bit (256 level) in JFIF format with JPEG compression, and front and back bi-tonal (black and white), 200 DPI TIFF image. Compression techniques used are JPEG for grey scale image and CCITT G4 standards for the bi-tonal. The image quality assurance (IQA) is required at the scanning stage so that the images meet the processing quality standards. The image specifications are as follows:

Sl. No.	Image Type	Minimum DPI	Format	Compressio
1	Front Grey Scale	100 DPI	JFIF	JPEG
2	Front Black & White	200 DPI	TIFF	CCITT G4
3	Reverse Black & White	200 DPI	TIFF	CCITT G4

The background of the cheques shall be image-friendly. There shall be no dark background.

7.2 Image Quality Checking

The banks need to perform IQA validations at the capture system. Each image shall have an IQA indicator tag indicating the outcome of the IQA test carried out by the capture system.

The threshold values for different IQA parameters shall be intimated to the banks by the Clearing House from time to time. The banks shall take care to synchronize the IQA parameters at the capture system, to avoid excessive rejection at the CHG.

7.3 Handing IQA Failure

The Clearing House retains the right to define threshold limits on items failing IQA, and invoke penal provisions for its violations.

7.4 Digital Signatures

The use of the Public Key Infrastructure (PKI) ensures data authenticity, integrity and non-repudiation, adding strength to the entire system. The Presenting Bank is required to affix digital signature on the image and data from the point of truncation itself. The digital signatures used for the processing activity shall have an unexpired life of at least one month. The image and data are secured using the PKI throughout the entire cycle covering capture system, the Presenting Bank, the Clearing House and the paying bank.



8 Data Storage

8.1 Storage and Archiving System

A sound storage and archiving system of images is an integral part of CTS which takes care of disputes, complaints, reconciliation, etc. The physical instruments and electronic image shall be stored by the presenting bank for a minimum of five (5) and ten (10) years respectively.

8.2 Clearing House Table

The master table information, such as sort codes, transaction codes, branch codes, bank codes, clearing zone codes, calendar, and designated branches, etc., of the capture system shall be synchronised with that of Clearing House Table. Any changes in the clearing house table shall get automatically updated on the online CHGs, and it shall be the bank's responsibility to update its capture system immediately. CHG supervisors shall monitor whether the CH Table has been updated successfully or not. Any error related to CH Table updates is reflected in the system monitor screen of the CHGs.

It shall be the responsibility of the offline CHGs (CHGs which are not connected to CH over network) to ascertain any updates to the Master Tables, before the commencement of any session. Offline CHGs may have to approach the Clearing House for any updates.

8.3 Storage of Physical Instruments

The presenting banks need to put in place arrangements to physically archive the cleared instruments for ready retrieval, whenever required at a later date. The physical instruments shall be stored for the required statutory period, as mentioned.



9 Risk and Mitigation

9.1 Internal Control

The banks shall document the process flow and ensure that the adequate control mechanisms are in place. Special care and adequate physical check shall be taken during re-scanning of instruments and re-presentation of instruments.

The banks shall have a mechanism to generate internal control reports at the end of the session / day to effectively reconcile the presentation made by it and the credit received by it from the CH. Any discrepancy shall be identified on the same business day and resolved on the following business day at latest.

Banks shall put in place a framework for mitigation of operational, legal and reputational risks in compliance with the Electronic Banking Guidelines.

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10 Roles and Responsibilities

The introduction of the truncation process changes the roles and the responsibilities of the various participants in the clearing system and may lead to introduction of certain risks which have to be mitigated. These are documented below.

- a. At the presenting bank level, the responsibility to verify the genuineness of the cheque based on the apparent tenor or the features of the cheque presented for collection may lead to banks refusing to accept a genuine cheque or accept a forged cheque based on a manual scrutiny. Images and MICR data to be sent to the clearing house have to be matched before they are released to the Clearing House.
- b. The Clearing House shall assume that the data given by the banks is the data meant for that day's clearing and shall arrive at the settlement based on this assumption. If the MICR data given by the bank is not that matching with the day's image the bank has sent for collection, it may lead to erroneous settlement and large returns.
- c. Truncating cheques entails additional operational risks. Banks shall take adequate measures to ensure that all necessary safeguards are provided for in consonance with legal requirements and banking practice while making payments, especially for high value instruments.
- d. The paying bank shall verify the signature on the image of a cheque. If a paying bank chooses to verify signatures on the images of cheques above a cut-off amount only, then it runs the risk of paying some forged instruments.



11 Sanctions

	Responsibilities	Sanction
1	Persistent transmission of data that are not in agreement with the image	Bank shall be reported to the CBN. After 3 warnings the bank shall be suspended from clearing until such error is corrected.
2	Presentation of cheques with alteration/erasures which are visible under the UV light/watermark light thus leading to fraud	Presenting bank shall be fully liable
3	Presenting cheques which are not in accordance with the Nigeria Cheque Standard	The Presenting Bank shall not accept such cheques for presentment in the CH
4	Presentation of cheques with irregularity such as stale, post-dated, amount in words and figures differ	The presenting and paying bank shall be jointly liable(50:50) if there is a loss
5	Presenting bank to ensure that their clearing application can detect duplicated cheques. Paying bank to equally ensure that their host application can prevent the payment of duplicated cheques	The presenting and paying bank shall be jointly liable(50:50) if there is loss
6	Failure to return an unpaid instrument within the clearing period/window without notice to the presenting bank	Paying bank shall be fully liable
7	Presenting bank's failure to honour the notice of return from the paying bank duly served within the presentment day	Presenting bank shall be fully liable
8	Delay in transmission of cheques which made a customer to suffer a loss as a result of delay in getting value	Presenting bank to pay a penalty equal to the value of the cheque