



CENTRAL BANK OF NIGERIA

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BANKING AND PAYMENTS SYSTEM DEPARTMENT

BPS/PSV/GEN/CIR/01/002

January 30th, 2017

To: All Deposit Money Banks, Mobile Money Operators, and Payments Service Providers.

EXPOSURE DRAFT OF "THE GUIDELINES FOR NIGERIAN CLEARING SYSTEM RULES, 2016 (REVISED)."

The Central Bank of Nigeria (CBN), in furtherance of its mandate for the development of the electronic payments system in Nigeria, hereby releases the Exposure Draft Guidelines For Nigerian Clearing System Rules, 2016 (Revised) for your review and comments.

Kindly forward your comments, in hard copy to the Director, Banking & Payments System Department and in soft copy to scojojere@cbn.gov.ng and psv2020@cbn.gov.ng, on or before February 24, 2017.

Thank you for your usual cooperation.

A handwritten signature in black ink, appearing to read 'Dipo Fatokun', written over a horizontal line.

'Dipo Fatokun

Director, Banking & Payments System Department



NIGERIA BANKERS' CLEARING SYSTEM RULES (REVISED)

DECEMBER 2016

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/debit instruments for banks and for this purpose to organize in conjunction with other Banks, clearing activities 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 rules for the guidance of Nigeria Bankers Clearing System (NBCS).

1.1 Objectives

The objectives of the NBCS rules are:

1.1.1 To provide a forum for the speedy and efficient collection of cheques, **ACH**, bills and other payment instruments payable or deliverable at or through offices of member banks of the NBCS by a system or systems of clearing.

1.1.2 To draw up and prescribe from time to time standards for the use of the member banks of the NBCH in connection with clearing.

1.1.3 To provide a mechanism for the settlement of clearing activities among member banks.

1.1.4 To facilitate the implementation of an effective and efficient payment system in the Nigerian Banking Industry.

1.1.5 To provide for the regulation and management of cheque truncation in Nigeria with the view to reducing cost and days of clearing instruments.

1.1.6 To articulate the rights and responsibilities of presenting and paying banks in the Cheque Truncation System (CTS).

1.1.7 To provide for minimum technical and operational standards for cheque truncation.

1.1.8 To do all such other lawful things as are incidental or conducive to the attainment of all or any of the aforementioned objectives.

1.2 Scope

The Nigerian Banker's Clearing System Rules shall be binding on all member banks of the NBCS with effect from the day the approved rules are released.

** These rules supersede any previous NBCH rules

2. CONDITIONS FOR MEMBERSHIP

Membership of the NBCS shall be restricted to CBN, Deposit Money Banks, and NIBSS where applicable. The membership of participating Banks shall be based on merit.

- 2.1 Any bank wishing to become a member of the NBCS shall apply in writing to the Director, Banking and Payments System Department, CBN on the prescribed form annexed herewith and marked Appendix I provided by the CBN. The Application which should be in triplicate should be accompanied with
- A copy of the banking licence
 - Certificate of incorporation
 - Approval from Banking Supervision Department

Membership shall imply membership of the appropriate Bankers Clearing System Committee

- 2.2 Any licensed bank that is not a member of the NBCS may enter into an agency agreement(s) with any member(s) bank of the NBCS for the purpose of accepting cheques and other instruments drawn on it and for collecting cheques drawn on other banks
- 2.3 A list of newly approved members shall be communicated to all clearing banks by the CBN / NIBSS.

3. MANAGEMENT OF CLEARING SYSTEM

3.1 Stakeholders

- Central Bank of Nigeria
- Automated Clearing House(ACH), Cheque & Instant Payments (IP) Scheme Board
- NIBSS
- Deposit Money Banks
- Other Financial Institutions
- Payment Service Providers

3.2 The ACH, Cheque & IP Scheme Board shall provide the business, operational and risk management of the payment scheme, covering all aspects of providing a world-class payment infrastructure that is benchmarked against the internationally accepted best-practice as defined by the Principles of Financial Market Infrastructure (PFMI) published by the Bank for International Settlements (BIS) through the Committee for Payment and Market Infrastructure (CPMI).

Specifically, the board shall be responsible for the:

- Development of guiding principles, guidelines, rules for the Scheme Governance within the regulatory framework defined by CBN
- Credit and Liquidity Risk Management
- Settlement procedures and monitoring
- Definition and application of rules for Default Management
- Operations of the scheme in line with market trends
- General Business and Operational Risk Management
- General Organization of the Scheme
- Rules for Access and scheme membership
- Efficiency and Transparency of the Scheme
- Development of new functionality in payment scheme based on assessment of market needs
- Production of metrics that measure and demonstrate the overall scheme performance, including all metrics requested by CBN for the overall monitoring of the payment systems infrastructure.

The Board will be responsible for producing an annual self-assessment of each scheme against the CPSS/IOSCO Principles for Financial Market Infrastructure, and for commissioning an independent external review once every four years

3.3 NBCS shall be administered by a committee comprising of the representatives of clearing banks, the CBN and NIBSS.

3.4 The CBN shall appoint the chairman of the committee.

3.5 Each member bank shall appoint representatives to the committee who shall be the Head of Clearing or his designate. The name and status of such a representative shall be communicated, in writing, to the Chairman of the Committee. Any representative of lower status shall not be admitted to committee meetings.

3.6 The decision(s) of the Chairman shall be binding on all clearing banks. Any party dissatisfied with the decision(s) of the Chairman may appeal to the Director, Banking and Payments System Department of CBN.

3.7 A member bank shall be suspended from participating in any clearing session on the following reasons:

3.7.1 Where the Settlement Account is not adequately funded, an appropriate amount of the clearing collateral shall be immediately rediscounted. The amount of clearing collateral that has been utilized to fund the account shall be replaced within two (2) business days, failing which the bank shall be suspended from further participation in clearing activities.

3.7.2 Where the collateral so discounted is insufficient the bank shall be suspended forthwith and further measures shall be taken in accordance with the settlement guideline;

3.7.3 When a bank overdraws its settlement account maintained with CBN for three consecutive working days, notwithstanding the provisions of section 3.4.1

3.7.4 When a non-settlement bank, persistently overdraws its account with its settlement bank and the settlement bank has communicated its intention to stop settling for such a non-settlement bank to the CBN and NIBSS.

3.7.5 Failure to provide the requisite infrastructure to enable electronic exchange.

3.7.6 Failure to maintain adequate collateral with either the CBN in case of a settlement bank or its settlement bank in case of a non-settlement bank in accordance to the Guidelines on the Nigeria Banks Clearing and Settlement System.

3.7.7 When the bank is suspended by the Management of the CBN in the interest of the system for any other reason not hereto afore mentioned

Every suspension shall last until such a time reinstatement is approved by the CBN

4. ELIGIBLE FINANCIAL INSTRUMENTS

4.1 Eligible financial instruments for clearing purposes shall include:

4.1.1 Paper instruments such as cheques, managers' cheques, drafts, dividend/interest warrants, debit/credit notes, bankers' payments. These instruments will be converted to images for clearing purposes

4.1.2 Electronic payment instruments i.e. ACH that are approved for clearing/settlement in the Clearing System;

4.1.3 Any other instrument that may be approved by the CBN.

*** Paper direct debit will no longer be eligible for clearing purposes.

- 4.2 Each eligible financial instrument to be presented for clearing purposes shall not exceed the maximum limit of N10million naira per face value or as may be reviewed by CBN.

5. DURATION OF HOLDING INSTRUMENTS

- 5.1 Paper Instruments: Cheques deposited by the customer at any member bank shall be deemed paid at the end of the next working day (T+1).
- 5.2 Electronic Instruments shall clear as follows:
 - 5.2.1 Electronic Instruments shall be presented to the clearing system same day if instruction is received from customer at least 2 hours before closure of session available for the financial instrument unless the relevant service agreement dictates otherwise;
 - 5.2.2 Direct Credits shall be applied to the beneficiary's account within 2 hours after the close of the clearing session;
 - 5.2.3 Direct Debits shall be deemed paid by the same session next clearing day

6 SETTLEMENT RULES AND PROCEDURES

6.1 General

- 6.1.1 The CBN shall approve settlement banks, upon application and fulfillment of the criteria set by CBN for any clearing member banks, from time to time for the purpose of settlement finality.
- 6.1.2 Any clearing member bank not approved by CBN as a settlement bank shall be a non-settlement bank. The non-settlement bank must apply to a Settlement Banks to enable them settle for all their clearing instruments and electronic transfer net position.
- 6.1.3 Settlement banks must be financially accountable for the settlement of their financial instruments and those of their non-settlement banks that they settle for.
- 6.1.4. Settlement banks must maintain a minimum of the prescribed clearing collateral, at the CBN and to the satisfaction of the Bank so that amounts for settlement can be applied by the Bank without delay, and to achieve settlement finality.

6.1.5. (a) The relationship between the settlement banks and their respective non- settlement banks shall be governed by an agency agreement entered into between the two parties. A proforma of which is provided in Appendix C.

(b) Pursuant to 6.1.5(a) where the non-settlement bank account with a settlement bank is not adequately funded, an appropriate amount of the clearing collateral shall be immediately rediscounted. The amount of clearing collateral that has been utilized to fund the account shall be replaced within 24 hours, failing which the settlement bank may decline to present or receive clearing instruments on behalf of the non-settlement bank.

(c) A settlement bank must give the CBN and the non-settlement banks it represents four (4) weeks' notice before terminating its agency agreement for any other reason apart from 6.1.5(b) above. Similarly, a non-settlement bank must give the CBN and the settlement bank representing it four (4) weeks' notice before terminating the agency agreement.

6.1.6. Pursuant to section 6.1.5(b) above, the agency agreement shall specify clearing collateral to be pledged by the non-settlement bank to the settlement bank. The minimum clearing collateral to be pledged by a non-settlement bank shall not be less than N250 million, which shall be reviewed from time to time.

6.1.7 The Settlement Banks shall provide clearing collateral to the CBN in Nigerian Treasury Bills.

6.1.8 Every settlement bank shall have the mandatory responsibility to maintain credit position in its current account with the Central Bank of Nigeria and shall be required to deposit with the CBN the required clearing collateral and or any other securities such as NTB, FGN Bonds etc. The value of such collateral shall be determined from time to time by the CBN.

6.1.9 Every non-settlement bank shall have the mandatory responsibility to maintain credit position in its current account with the settlement bank and shall be required to deposit with the settlement bank the agreed clearing collateral.

6.1.10 The clearing net settlement positions of such non-settlement bank shall be applied to the CBN settlement account of the settlement bank after every clearing session.

6.1.11 In the event of a Settlement Bank being stripped of its settlement status for reasons other than those stated in section 6.1.8 above by the CBN, the

Bank shall grant a maximum of one month notice to that Settlement Bank and its non-settlement banks.

6.2 Obligations of Settlement Banks

6.2.1 Settlement Banks shall clear and settle for all non-Settlement Banks that have accepted to clear through them. Settlement Bank shall for the duration of this agreement be the sole representative of Non-Settlement Bank on an exclusive basis for Clearing Settlement.

6.2.2 Settlement Banks shall ensure they post into the account of each of the non-Settlement banks with them the net settlement position of the non-Settlement banks.

6.2.3 Subject to the Agency Agreement, settlement banks shall ensure that the net credit settlement position of each of the non-settlement banks is transferred to their respective Operations Account with the CBN, within 24 hours.

6.2.4 Settlement Bank undertakes to accept settlement of non-settlement Banks clearing instruments both physical (e.g electronic images of cheques, drafts, warrants etc) and electronic (e.g NIP, NEFT and NAPS credit and debit transfers etc) after which the net settlement position shall be credited and/or debited (as the case may be) to the settlement account of Settlement bank.

6.2.5 In the effect of non-funding of accounts opened for settlement purpose by non-Settlement Bank, Settlement Bank is hereby authorized without recourse to Non-Settlement Bank to re-discount Non-Settlement Bank's Treasury Bill pledged for purposes of recovering and netting off the debit balance in the Settlement Account.

6.3 Obligations of Non-Settlement Banks

6.3.1 Non Settlement Banks shall comply with the Central Bank of Nigeria guidelines for settlement. Such guidelines will be provided to Non Settlement Banks and Settlement Banks for the purposes of efficient and hitch free operations.

6.3.2 Non Settlement Banks shall open a non cheque account(s) with Settlement Bank to wherein the net clearing position of Non Settlement Banks would be credited and/or debited as may be appropriate after each clearing session (hereinafter called "the Settlement Account").

6.3.3 Non Settlement Banks shall pledge the cash sum of an amount not less than N250,000,000.00 (Two hundred and fifty million naira only) with Settlement Bank which shall serve as collateral for any debit balance in the Settlement Account. This amount shall be subject to review based on transaction volumes.

6.3.4 Non-Settlement Bank agrees to indemnify and hold Settlement Bank harmless in respect of any liability and/or loss whether direct or indirect that may arise as a result of this agreement. Accordingly, Non-Settlement Banks hereby undertakes to be primarily responsible and liable for all instruments presented for clearing on clearing system.

6.3.5 The Non-Settlement Bank shall also pay an annual settlement fee to the Settlement Bank as agreed and it can be subject to review by the settlement Bank.

6.3.6 In the event of any shortfall in the clearing collateral arising from a rediscounting, a Non-Settlement Bank shall make up the shortfall in the clearing collateral (Treasury Bill) before the commencement of the next clearing session from the date of re-discount in order to bring the aggregate value of the investment up to the minimum value as specified in agency agreement or subsequent review of collateral amount.

6.3.7 In respect of 6.3.6 above, Non-Settlement Bank shall undertake to bear the cost of re-discounting the Treasury Bills necessitated by a need to recover the debit balance in the Settlement Account.

6.4 Confidentiality of Information

6.4.1. Settlement Bank accepts that all the information received by it from the Non-Settlement Bank in the processing of the Non-Settlement Bank's transactions is confidential and proprietary and must be held in the strictest confidence. Any proven cases should be reported to CBN and could be a case for termination of Agency agreement.

6.4.2. Settlement Bank agrees not to use any information provided by Non-Settlement Bank for any purpose other than as permitted or required of under this Agreement.

6.4.3. Settlement Bank therefore agrees not to disclose or provide any information so received to a third party except with the express permission of Non-Settlement Bank or as may be lawfully required.

7. THE NBCS CHEQUE TRUNCATION MODEL

7.1 Model for truncation

The overall model for NBCS shall be:

7.1.1 Generic model – 'Image and Data' model:
Cheque Images and MICR data flow from the Presenting Bank through to the Paying Bank.

7.1.2 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.

7.1.3 Data and Image Exchange - Clearing System Model:

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

7.3 **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 up to a period of 10 years. Such data retrieval shall be provided on online real time basis.

7.4 **Data Standards**

The prescribed data standards shall be advised by NIBSS based on the suitable technology version.

7.5 **Value Limits on cheque truncation**

All cheques that meet the Nigeria Cheque Standard are eligible for cheque truncation subject to value limits of N10 million each and subject to review by CBN.

7.6 **Retention of original cheque**

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

7.7 **Data Storage**

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

7.8 **Minimum Storage Standards**

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

7.9 **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 CSGs with the Clearing System.

7.10 **Transmission of Image / Data**

The capture system shall transmit the MICR data and images of the cheques to its Clearing system Interface electronically and/or on the media. Banks may have procedures in place to optimize bandwidth and ensure that the branches upload their presentation 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.

7.11 **Media Based Transmission of Exchange Files**

In the event of a network failure or in case of an offline clearing system Gateway CSG, the application allows for data and image files to be exchanged with the Clearing system 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.

8. **CLEARING DURATION AND RETURN PERIOD**

8.0 **Time limit**

S/N	INSTRUMENT TYPE	CLEARING PERIOD	RETURN PERIOD
1	CHEQUES	T+1	SAME DAY
2	ACH CREDIT	24 HOURS	24 HOURS
3.	ACH DEBIT	24 HOURS	24 HOURS

The clearing cycle for each category of instruments may be subject to review by the CBN from time to time in consultation with clearing banks.

8.1 **Reasons for returning instruments**

8.1.1 All clearing instruments returned unpaid shall bear the appropriate returned reason code.

8.1.2 Reasons for return shall be as listed in **Appendix B** annexed hereto.

8.1.3 Where the unpaid instrument is a fraudulent / spurious instrument, the Paying bank shall return the instrument as unpaid. The paying bank shall notify the presenting bank in writing and copy the Chief Inspectors of both banks, the Director, Banking and Payments System Department and NIBSS.

8.1.4 The presenting bank shall write the return reason on the physical instrument in generally acceptable format and must not be at variance with the actual returned reason before delivering the physical returned cheque to the beneficiary.

8.2 Delayed Application/Return of Direct Credits

Clearing banks are required to apply inward direct credits to beneficiaries' accounts. A receiving bank that delays the application of direct credits or returns such outside the allowed window shall face appropriate sanction as approved by the CBN.

The aggrieved bank shall advise the erring bank in writing with acknowledgement copy advised to NIBSS; the erring bank has three working days to dispute the issue in writing, failing which NIBSS shall execute the sanction through her interchange fee service. All disputes shall be resolved by Director, BPSD or his designate in conjunction NIBSS and its decision shall be binding.

9. PROCEDURES

9.1 General Procedures

Clearing Period – Under the NBCS, cheques shall clear on a T+1 basis such that Customers received value in the evening of T+1 by 10pm or as otherwise advised by CBN.

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 System✓ Paying Bank to return unpaid instruments same day✓ Beneficiary Bank gets value✓ Before processing of end of day (EOD), bank customer receives value for cheques not returned.

9.1.1 Clearing Session Timings

The Clearing System shall operate 4 sessions as follows:

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

Session 11 (9 am-10am): Permits all clearing instruments (cheque, NEFT–fresh and returned items,)

Note: NIBSS Plc may apply a charge for any Fresh cheque transmitted during the 11th session) irrespective of number of cheques as determined by CBN.

Session 2 (11am - 2pm): Permits only Returned Cheques, fresh NEFT and Returned NEFT.

Note: Fresh cheques are not allowed.

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

NOTES:

- 1. Settlements for 1st, 11th and 2nd clearing sessions shall be same day, while Return Instruments (3rd session) shall be settled next working day.**
- 2. All unpaid clearing cheques shall be returned same day.**
- 3. NIBSS shall ensure that all inward files and reports are available to banks for download within 1 hour of session closure.**
- 4. NIBSS with the co-operation of two- third of clearing system members including CBN shall have privileges to change Clearing timeline in line with prevailing circumstances.**
- 5. NIBSS with the approval of CBN shall have privilege to create new session or delete session as the case may be with proper notice to clearing system members.**

9.1.2 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.

9.2 Clearing – Procedure at the Presenting Bank

9.1.1 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 and UV light.

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 responsibility for collecting a cheque 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 conforms to the Nigeria Cheque Standard.

9.2.1 Crossing

All cheques received over the bank's counters for the purpose of clearing are required to be stamped compulsorily with the bank's special crossing stamp prior to scanning, while presentation stamp shall be optional.

9.2.2 Return Processing

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.

9.2.3 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.

9.2.4 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 System. 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.

9.3 Processing at Clearing System Gateway (CSG) – Outward Clearing

9.3.1 Receiving Outward Presentment

The CSG 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.

9.3.2 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.

9.3.3 Item Processing

The MICR Data Files and Cheque Image files presented by the capture system are validated by the CSG against the file and item level validations indicated in the CSG Specifications, as released by the Clearing System from time to time. The CSG 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 CSG 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 System. The CSG, 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 clearing system.

9.3.4 Session Attachment

The items are assigned to an appropriate clearing session that is open based on parameters fixed for a session by the Clearing System. These parameters are passed on to the capture system through the CSG. 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 CSG 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 System. The Clearing System shall from time to time prescribe this parameter.

9.3.5 Transmission of Files to Clearing System

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

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

9.3.6 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 on the Clearing System, CSG generates an OACK file containing the details of Items that have been taken up for settlement on the Clearing System. It shall be the responsibility of presenting bank to reconcile

their entire presentation by collating the information from OACK file and various response files.

9.4 Processing at Clearing System Gateway - Inward Clearing

9.4.1 Receipt of Inward Data / Images

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

9.4.2 Validation

The CSG shall authenticate and load the exchange file data into the system and send an error exchange file to the Clearing System if the inward financial data exchange file or image exchange file failed decryption or authentication. The CSG shall send an acknowledgement exchange file to the Clearing System if the inward financial data exchange file or image exchange file gets successfully loaded. The CSG shall also validate the digital signatures on the Exchange MICR and Image Files.

9.4.3 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 System to the CSG. The CSG supervisor may compare the relevant information available at the 'Clearing System 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 CSG.

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

9.4.4 Generation of Posting File

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

CSG 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 the paying bank requires is configurable at CSG.

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

9.5.1 Transmission of Posting Files

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

9.5.2 Duplication Checking

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

9.5.3 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.

9.5.4 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 CSG Specification document. The paying bank in-clearing system shall forward such Return Request File/s to CSG for onward transmission to the Clearing System.

9.5.5 Return Processing at the CSG

The CSG shall receive Return Files from paying bank system containing all the outgoing returns along with return reason codes. The CSG shall validate the file for file integrity and data integrity, process the data and generates exchange file for the Clearing System. During return clearing images would not travel. Each exchange file is digitally signed and encrypted before it is transmitted to CS.

9.5.6 Control of Returned Cheques Incidents

The Clearing System (CS) 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 Return File(s) by the Paying Bank.

9.5.7 Commission on Turnover (COT)

The Presenting and Paying Banks shall not charge Commission on Turnover (COT) or Current Account Maintenance (CAM) fee on Debit entries arising from Returned Instruments. However the paying bank shall be free to apply returned cheque charges as provided in the Bankers Tariff.

9.5.8 Transmission Discipline

CSG 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 CSG to CS, the paying bank shall ensure that the return exchange files reach the Clearing System within the timeframe before the closure of the return session.

9.5.9 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 System shall contain the summary position of the total number of instruments and the total value thereof. After the processing of inward clearing, banks shall verify the inward clearing figures.

9.5.10 Reconciliation of Clearing Differences

In CTS Clearing the images and data shall be received in separate files 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.

9.6 Special Processing at Clearing System

9.6.1 Caution Notice

Ordinary Caution Notice shall not be applicable in Cheque Truncation System (CTS) regime.

9.6.2 Different Status of CSG / Bank

9.6.2(i) Suspended: CS 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/NIBSS may return items presented by the suspended bank in the suspended period.

9.6.2(ii) Not in Clearing: CS shall put a bank in 'not clearing' mode when a bank does not participate in clearing based on member notification to CBN and NIBSS with copies to clearing members of inability to participate in clearing activities. 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.

10. CLEARING SESSION QUORUM

Change in Clearing Operations/activities shall be by a simple majority of member banks with the CBN approval.

11. MANAGEMENT OF CLEARING SYSTEM

The corporate body responsible for the management of clearing system shall be approved by CBN.

12. OPERATIONAL COST OF THE CLEARING SYSTEM

All Clearing members shall pay reasonable fee for transactions processed on the clearing system to NIBSS based on the approved rate by CBN and shall be free to recover such cost from their customers.

Each member bank shall pay an annual fee to the NBCS Committee for her annual activities such as seminars; conferences etc. the fee shall be determined by a collective decision of the committee from time to time and shall be a moderate amount.

13. MEETINGS OF CLEARING SYSTEM COMMITTEE

13.1 The committee shall meet at a place to be provided by the CBN quarterly to discuss matters relating to the NBCS.

13.2 Attendance at meetings of the committee shall be mandatory and shall be a prerequisite for continued membership of NBCS.

13.3 A member bank may be penalized by suspension from participating in clearing activities for such periods as shall be determined by the CBN for non-attendance at committee meetings without a satisfactory reason communicated in writing within five (5) working days before or after any scheduled meeting.

13.4 Deliberations of the committee shall be presided over by the CBN and recorded by a CBN designate. The recorded minutes shall be circulated to all members latest by one month after the meeting for necessary adoption at the next meeting. A certified copy of the minutes of a meeting at which an amendment to these rules is proposed shall be forwarded to the Director, Banking & Payments System of CBN for necessary action.

13.5 Meetings of the committee shall require a simple majority of the registered member banks.

13.6 A member bank of the committee shall have one vote. The decisions of the committee shall be upheld by a simple majority vote count and where there is a tie, the chairman shall cast a verdict vote to break the tie and uphold a decision.

Note: simple majority of the committee shall constitute two-third of all clearing banks

14 RESPONSIBILITIES OF MEMBERS

14.1 Responsibilities of Members (General Responsibilities)

14.1.1 Clearing banks shall ensure that liability clauses are incorporated in all their account opening documentations and brought to their customers' notice while the said documents must be properly signed by the customer.

14.1.2 At the end of every clearing session, a settlement bank must reconcile her net settlement position with the figure advised by NIBSS.

14.1.3 Should there be any discrepancy; the settlement bank must alert CBN & NIBSS immediately for corrective action.

14.1.4 Every member bank shall, subject to the agency agreement between settlement and non-settlement banks, participate at each clearing session irrespective of whether they have instruments to present or not.

14.1.5 The member banks shall document the process flow and ensure that 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.

14.1.6(i) Where a paying bank is unable to return a cheque within the clearing deadline, a special caution notice could be served electronically or physically delivered at the central clearing office of the paying bank. The Deadline for submission of special caution shall be two (2) hours after the closure of return cheque session.

14.1.6(ii) Special Caution must be acknowledged before it becomes binding on presenting bank, however where debit note on special caution was received by

presenting bank and was not returned same working day, it shall be deemed as honoured and it is final.

The paying bank must send debit note to the presenting bank within 2 working days failing which the presenting bank may give value without further recourse to the paying bank.

14.1.7 On the request of the paying Bank, the presenting bank shall release the physical forged or fraudulent cheque to the paying bank for a maximum period of 3 months counting from the date the instrument was acknowledged by the paying bank.

Additional extension of 1 month can be requested by the paying Bank and the physical cheque must be returned to the presenting Bank for safe keeping on or before the end of the 4th Month.

14.1.8 The presenting Bank has right of return over other Banks cheques at the point of deposit or scanning or transmission provided the cheque did not meet the Nigeria Cheque Standard or where the information on the MICR line is wrong particularly the sort code/routing number/non-NUBAN number compliance or any irregularities on the instruments such as postdated or stale cheque or amount in word or figure differ etc.

14.1.9 The request for extension of value date must be sent by the paying bank at least 30 minutes before official closure of last session (returned session) by NIBSS.

14.2 Responsibilities of Presenting Bank/Collecting Bank

14.2.1 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.

14.2.2 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.

14.2.3 The presenting Banks are to verify the genuineness of the cheques based on the apparent tenor or the features of the cheques presented. Images and MICR data to be sent to the clearing System has to be matched and ensure accurate before they are transmitted to the Clearing System.

14.2.4 A presenting bank may be fully liable to the extent of any act of omission or commission including contributory negligence, that cause(s) any loss of funds through presentation of defective / fraudulent clearing instruments;

14.2.5 A presenting bank that pays the proceeds of a defective/fraudulent instrument before maturity shall be fully liable for the loss of fund thereof.

14.2.6 A presenting bank shall be deemed negligent if:

- (i) A customer's account is not properly opened and all necessary KYC (Know Your Customer) requirements are not met.
- (ii) It fails to up-date its customer-information to ensure that its customers and their referees are genuine, with location addresses.
- (iii) On the face of the presented instrument, irregularities such as erasures, post-dated/stale date, mutilations, are evident.
- (iv) It allows the withdrawal of cleared funds from instruments lodged into Dormant accounts without reactivation of the accounts.
- (v) It pays the proceeds of Instruments of unusually large amount(s), relative to the account's transaction history without further inquiry or exercising due diligence.
- (vi) If it presents cheques with alteration/erasures which are visible under UV light/naked eye.

14.2.7 The presenting bank shall take appropriate care to match the name of the beneficiary with the account name before processing ACH credit. They should take advantage of the account verification engine as provided by NIBSS. The beneficiary bank shall not be liable if they applied the fund into the account number that was sent to them. The liability for wrong account shall be that of the presenting bank and not the receiving bank.

14.2.8 Presenting bank to include the payee name, payee account number and payee Bank Verification Number (where applicable) in the data being presented for cheques.

14.3 Responsibilities of Paying Bank/Receiving Bank

14.3.1 A paying bank shall be absolved from liability if in the ordinary course of business it pays presented instruments in good faith, and in accordance with established banking procedures with proper and valid confirmation of its customers clearing cheques, where applicable. (The minimum threshold for confirmation is N500,000.00).

Note: The Member banks shall have the right to set any amount under the minimum confirmation threshold for their internal cheque processing.

14.3.2 A bank that negligently pays a defective/fraudulent instrument shall be liable.

14.3.3 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.

14.4 Responsibilities of members to Other Financial Institutions

14.4.1 Clearing banks shall maintain properly signed and sealed Agency Agreement with any of their non-clearing financial institution customers that collect instruments (e.g. Primary Mortgage Institution, Microfinance Bank, Stock Brokers and Finance Systems etc)

14.4.2 Settlement banks shall maintain properly executed Agency Agreement with their other financial institutions)

14.4.3 The agreement shall contain adequate provisions that shall convey full liability to the institutions for any instrument they collect for clearing.

14.4.4 The parties shall execute an indemnity agreement

14.5 Responsibilities of Clearing Banks to their Customers

Bank customers shall be entitled to receive value for their un-cleared effects/instruments lodged for collection at the end of the due date (where due date is lodgment date + 1) without hindrance except where their instruments are dishonored and returned unpaid to them within the stipulated clearing duration or are the subject of an inquiry/fraud.

Every Clearing bank shall indicate the value date of a lodged cheque on the cheque deposit slip to properly guide the bank customer and a notification to customer (if any) in respect of the deposit must also carry the value date

14.5 Responsibilities of NIBSS Plc

14.5.1 The Clearing System 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 matching with the day's image the bank has sent for collection, it may lead to erroneous settlement and large returns.

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

It shall be the responsibility of the offline CSGs (CSGs which are not connected to CS over network) to ascertain any updates to the Master Tables, before the

commencement of any session. Offline CSGs may have to approach the Clearing System for any updates.

15 RIGHTS

15.1 Clearing banks may have recourse to their customer(s) through legal means as provided for by the laws of the Federation for any loss of funds attributable to the operation of their customers' accounts.

15.2 A breach of the NBCS Rules shall be handled as follows:

15.2.1 The complaining party shall communicate observed breach in writing to the offending party.

15.2.2 Where the complainant is a customer and no response/satisfactory response is received after 10 working days, the complaining customer shall notify the Director, Consumer Protection Department of CBN with a copy to the Director, Banking and Payments System Department.

15.2.3 Where the complainant is a bank and no response/satisfactory response is received after 3 working days, the complaining bank shall route their complaint to NIBSS with a copy to the Director, Banking and Payments System Department.

15.2.4 The parties shall have recourse to the court of law in the event of unsatisfactory resolution of a breach at the CBN level.

16 DISCLAIMER

16.1 CBN and Settlement banks, in the conduct and settlement of clearing instruments, shall not incur any liability or additional responsibility other than that falling equally upon all member banks.

16.2 Members of the NBCS shall not be liable for any errors and/or omissions relating to clearing settlement of any clearing session if the error or omission is not identified and reported in writing within reasonable time. Late reports of errors and/or omissions by member banks shall be bilaterally resolved between the affected members.

17 ABUSES OF CLEARING PROCESS

17.1 Offences

Any of the under listed acts or such other acts that the offending bank stands to derive undue advantage from shall constitute abuse of the clearing system if it is proven that it is knowingly committed, these offences include:

17.1.1 Drawing or accepting instruments on unfunded accounts by a bank.

17.1.2 Persistent presentation of fake/forged instruments on other banks.

17.1.3 Willful wrong presentation of instruments of high value on other banks.

17.1.4 Banks charging beneficiaries for inward ACH credits.

17.1.5 Delayed presentation of customers' ACH items in the clearing System.

17.1.6 Delayed application of inward ACH items.

17.1.7 A bank refusing to pay its own instrument drawn on itself (Manager's Cheque/Draft).

17.1.8 Any other act that may be determined by the Central Bank of Nigeria and / or NBCH committee from time to time as constituting an abuse of the clearing system.

17.2 Recall of Inter-bank Electronic Fund Transfers (ACH)

Procedure for the recall of funds wrongly credited to beneficiary account at any member bank as a result of technical issues or operational error from presenting bank (leading to duplication of items or wrong credit to an account) is as follows:

17.2.1 The sending bank shall notify the receiving bank by email. Such a notification shall be considered as an implied indemnity.

17.2.2 The receiving bank shall place a hold on the beneficiary's account.

17.2.3 The fund is returned to the presenting bank within 7 days of receiving mail provided the customer has not withdrawn from the account subsequent to the wrong credit.

17.2.4 The receiving bank shall not use the wrong credit to settle in part or in full customer's outstanding indebtedness.

18. INDUSTRIAL ACTION

18.1 INDUSTRIAL ACTION AT CLEARING MEMBER BANK(S)

18.1.1 The affected bank shall write to the CBN immediately the industrial crisis commences, if the crisis is such as to prevent the officials of the bank from attending any clearing session. The letter to the CBN shall be addressed to the Branch Controller with a copy sent to NIBSS (where applicable), Directors of Banking & Payment System and Banking Supervision Departments. A bank that fails to write as indicated above shall be deemed to be part of clearing system for the period. NIBSS shall communicate the information of the industrial action to member banks and temporarily exclude the bank from clearing activities.

18.1.2 The Branch Controller or his designate shall make a formal announcement of the industrial action at the next clearing session.

18.1.3 Member banks shall reserve the right to reject financial instruments drawn on a bank that stays away from the clearing session for more than two (2) consecutive working days due to industrial action until the bank resolves its industrial crisis and returns to the clearing System.

18.1.4 Any bank returning to the clearing system after an industrial crisis shall give a day's notice in writing to the Branch Controller/Director BPSD with copies to NIBSS (where applicable), and all member banks of its intention to return to the clearing system and may return to the System the next day.

18.1.5 In the case of instruments, which had gone through the clearing before the industrial action started in the member bank, one additional day of grace shall be counted for the value dates of the instruments above the normal clearing duration ***from the date the member bank returned to the clearing system.***

18.2 Industrial Action Affecting NIBSS

In the event of an industrial action affecting the NIBSS), which prevents the clearing banks from transmitting clearing images and data, clearing activity may be conducted in a temporary place, which shall be arranged by the First Bank of Nigeria Plc. in conjunction with any other bank(s).

In this regard, banks shall exchange their clearing instruments bilaterally and adopt settlement by means of Bankers payments. The normal clearing duration shall be observed by all banks.

In the case of instruments, which had gone through the clearing before the industrial action started, one additional day of grace shall be counted for the value dates of the instruments above the normal clearing duration from the date they resume clearing operations. Where a temporary place could not be arranged while the industrial crisis lasts, banks may present their instruments direct to the Clearing office in that location or

the head Offices of the banks on which the instruments are drawn and they shall observe the normal clearing duration as applicable.

19. NATIONAL EMERGENCIES

In the event of a National Emergency that prevents the clearing system from operating, all working days during the emergency period shall not be counted as working days for purpose of determining clearing duration. The CBN shall write to all member banks to inform them of the National Emergency.

20. AMENDMENTS

The rules of the Clearing System may be amended by the CBN, as it may consider necessary. Member banks wishing to propose amendments to the Rules shall forward such proposals to the Director of Banking & Payment Department. The amendment(s) shall be widely circulated among member banks and sufficient notice given to all member banks before the effective date of the amendment(s).

21. ADJUDICATION ON DISPUTES

Any dispute between member banks on clearing activities shall be referred to the CBN for adjudication. The decision of the CBN shall be binding on the affected banks.

22. SANCTIONS

Appropriate sanctions shall be imposed by the CBN and / or NBCS committee on any bank that commits any of the offences listed under abuse of clearing process, section 17.

S/No	Offence	Monitoring Mechanism	Sanction
1	Transmission of data that are not in agreement with the images.	Based on paying bank complaints	N250.00 per cheque
2	Presentation of cheques with irregularity such as stale, post-dated, amount in words and figures differ which lead to loss of fund.	Based on paying bank/presenting bank complaint	The presenting and paying bank shall be jointly liable (50:50) if there is a loss.

3	Loss of funds due to failure of paying bank to detect duplicated cheques.	Based on customer's complaint.	Paying bank shall be fully liable
4	Re-presentation of already paid cheque	Based on paying bank complain	N250.00 per item
5	Failure to return an unpaid instrument within the clearing period/window without proper notice to the presenting bank	Based on customer's complaint.	Paying bank shall be fully liable
6	Presenting bank's failure to honour Special Caution Notice in line with section 14.0.6(i) & 14.0.6(ii) of this rule.	Based on paying bank complaint	Presenting bank shall be fully liable
7	Banks Charging beneficiaries for Inward ACH credits other than regulatory requirement.	Whenever a bank or customer complaint to CBN	200% of the charge/fee subject to a minimum of N5,000.00 to be charged per item against bank or credit to customer.
8	Delayed presentation of customers ACH items on the clearing system i.e. NEFT items initiated by customer must be presented on the clearing system latest on the following working day.	Based on customer's complaint to CBN	10% of ACH value with a cap of N10,000.00
9	Returning Inward NEFT items outside the returned window	Based on presenting Bank's observation.	10% of instrument value subject to a minimum of N10,000.00 per day , per item
10	A bank refusing to pay its own instrument drawn on itself (Manager's Cheque/Draft) with the exception of cases of forgery or theft.	When a clearing member complaint.	10% flat charge of face value or N10,000.00 flat charge per cheque, whichever is greater. In addition, paying bank shall pay full instrument value to presenting bank
11	Presenting of Non-NUBAN transactions for clearing.	As reported by NIBSS.	N1,000.00 per item.
12	Bank not treating (approve or reject) Direct	As reported by NIBSS.	N5,000.00 per item per day.

	Debit mandates within 48 hrs of getting alerts.		
13	Frivolous return of Direct debit instruments, where valid mandate exists and customer has sufficient funds.	Based on complaint of customer biller or presenting bank.	N10,000.00 per item.
14	Delayed application of inward ACH items received from clearing into customers' accounts i.e. beyond 2 hours after the closure of the session where the NEFT item contains valid account details.	Based on beneficiary complaint.	N5,000.00 per items
15	Late transmission of clearing data i.e. where NIBSS had to delay the closure of a clearing session to accommodate late transmission by a bank.	Based on NIBSS report.	N50,000.00 within the first hour and every N50,000.00 for every additional hour.
16	Delayed application of inward NIP into beneficiary's accounts beyond 4 minutes.	Based on complaints of sender and/ or beneficiary.	N10,000.00 per item
17	A failed NIP transaction not reversed into customer's account after one (1) working day.	Based on complaints of sender and/ or beneficiary.	N10,000.00 per item
18	Presenting or Paying Bank that applies COT charge on debit entries arising from returned cheques processing	Based on customer's complaint.	Refund + N10,000.00 to the customer
19	Undue delay in transmission of cheques valid for presentment which made a customer to suffer loss as a result of delay in getting value.	Based on customer's complaint.	N10,000.00 per item per day.
20	Presenting Cheques	Based on	N1,000.00 per item

	which do not meet the requirements of the Nigerian Cheque Standard.	Paying bank's complaints	
21	Failure to honour a NEFT recall request (made within 14 days of the erroneous presentment) where the customer's account involved is funded where the customer account was previously in debit balance i.e. presenting bank has presented instrument in error, not where recall is based on customer's request. Presenting bank is required to make a written request, which will indemnify the receiving bank.	Based on presenting bank's complaint.	NIBSS to recover the instrument value from the receiving bank for the favour of presenting bank.
	Account previously in debit prior to wrong inflow		
22	Failure to return a wrongly applied inward NEFT 7 working days after receiving a complaint made by presenting bank.	Based on presenting bank's complaint.	NIBSS to recover the instrument value from the receiving bank for the favour of the presenting Bank.
23	Payment of Fraudulent Instruments:		
23.1	Where the amount of the fraudulent cheque is below the confirmation threshold and the alterations are visible under the UV light/naked eye thus leading to fraud.	Based on paying bank complaint	The Presenting Bank shall be fully liable for the value lost. *Value Lost = Face value of cheque less recovered value.
23.2	Where the amount of the fraudulent cheque is below the confirmation threshold and the cheque was not altered but the signature was forged thus	Based on customer complaint	The Paying Bank shall be fully liable for the value lost. *Value Lost = Face value of cheque less recovered value.

	leading to fraud.		
23.3	Where the amount of the fraudulent Cheque is equal to or above the confirmation threshold and the alterations are visible under the UV light/naked eye thus leading to fraud.	Based on customer complaint	Both presenting Bank and paying Bank shall be jointly liable on the basis of (50:50) base on the value lost.
23.4	Where the amount of the fraudulent Cheque is equal to or above the confirmation threshold but the cheque was not altered.	Based on customer complaint	The Paying Bank shall be fully liable for the value lost. *Value Lost = Face value of cheque less recovered value.
23.5	Where the fraudulent instrument is a Bank Draft/Manager Cheque and the paying bank could have detected the fraud.	Based on complaint	The Paying Bank shall be fully liable
23.6	Where the fraudulent instrument is a Bank Draft/Manager Cheque, there are alterations visible under UV light, and there is no way the paying bank could have detected the fraud	Based on complaint	The Presenting Bank shall be fully liable
23.7	Where the fraudulent instrument is a Bank Draft/Manager Cheque, there are alterations visible under UV light, and the paying bank could have detected the fraud	Based on complaint	The paying bank and presenting Bank shall be fully liable 50:50
24	Frivolous return of other banks instrument(s) that meet Nigeria Cheque Standard for reason other than allowed in Section 14.0.8.	Being complaint from Paying bank	Presenting Bank shall pay a fine of N10,000.00 per cheque

25	Transmissions of cheques in a special clearing session (11)	Based on NIBSS report	Presenting Bank shall pay a fine of N100,000.00
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23. DEFINITIONS

23.1 ACH: Automated Clearing House

Any form of electronic payment instruments (single or bulk items) facilitating direct credit or direct debit to target bank accounts, through the Automated Clearing System infrastructure.

23.2 Clearing bank: *All banks approved by the CBN to participate in clearing System activities. These could be settlement or non-settlement banks*

23.3 Clearing day: *Where there are more than one clearing session within a day, the sessions will make up one clearing day. Clearing days start to count from the date the instrument is presented through the Clearing System.*

23.4 Clearing session *means the period between the commencement and closing of clearing business on each working day.*

23.5 Committee *refers to NBCS Committee. i.e a committee of all clearing banks*

23.6 NBCS: *Nigeria Bankers Clearing System*

23.7 NEFT: *NIBSS Electronic Funds Transfer*

23.8 NIBSS: *Nigeria Interbank Settlement System Plc*

23.9 NTB: *Nigeria Treasury Bills*

23.10 NTC: *Nigeria Treasury Certificate*

23.11 Settlement Banks: *these are clearing banks that are appointed by the CBN to clear and settle for themselves and other clearing banks, known as non-settlement banks. Settlement banks hold accounts with the CBN for the purpose of settling NBCS clearing positions.*

23.12 Stale Cheque: *A cheque presented in the clearing more than six (6) months after it is dated. Banks are not required to present or honour a stale-dated cheque.*

23.13 **Working days** start to count from the date of lodgment of the instrument with the collecting banks. 'Working day' includes Mondays through Fridays excluding public holidays.

23.14 **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.

23.15 **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 System 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.

23.16 **Ordinary Caution Notice** – This is document issued by the presenting bank to alert other clearing bank (s) about a suspicious instrument.

23.17 **Special Caution Notice** – This is document issued by the paying bank, after the closure of the return window to alert the presenting bank not to give value to such clearing instrument.

23.18 **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.

23.19 **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.

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

23.21 **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 System for clearing and settlement.

23.22 **ECPIX**: Electronic Cheque Presentment with Image Exchange

23.23 **NACS**: Nigeria Automated Clearing System

23.24 **CTS**: Cheque Truncation System

23.25 Managers' Cheque: A cheque guaranteed by a bank; a written order directed by a bank to pay; and a cheque drawn on the bank's owned fund.

23.26 Bank Draft: Same as Managers' cheque but it is drawn in a clearing zone payable in another clearing zone.

23.27 Bankers' Payment: This is a form of settlement/transfer of funds/payments between two banks. The bank making payment issues a Bankers' Payment in favour of the bank it intends to pay. This is mostly used in advance payment arrangement or prior arrangement for immediate cash transfer between parties.

APPENDIX A - CLEARING SYSTEM APPLICATION FOR MEMBERSHIP

WHEREAS BY SECTION 47 of the Central Bank of Nigeria Act the Central Bank is charged with the duty of organizing in conjunction with other banks, a clearing system in _____ and such other places as may be desirable;

AND WHEREAS THE Central Bank, pursuant to the said Section 47 of the Central Bank of Nigeria Act and in consultation with the banks duly established in _____ has decided to organize and set-up a Clearing System which will be operated under Rules and Procedures relating thereto duly made by the CBN/Clearing System committee amended from time to time in force.

AND WHEREAS the _____
A BANK DULY LICENCED TO OPERATE in Nigeria is desirous of becoming a member of the Clearing System upon the conditions herein after appearing in this application.

AND WHEREAS I _____
Being a _____
Of the said _____ and duly authorized on his behalf in the manner required by law and the memorandum and Articles of Association of the said _____
And with the intent that the obligations hereby undertaken shall be binding upon the said _____
I, _____ authorized as aforesaid and with the intent before mentioned, hereby apply for and on behalf of the _____ that the said Central Bank of Nigeria _____ be admitted into fully and complete membership of the clearing System and that in consideration of the exercise, enjoyment and use of the facilities, rights and privileges whatsoever of the clearing System the said

_____ hereby in consideration of the acceptance of the application herein made, undertakes for itself servants and/or agents to be bound by any Rules, regulations, Conditions and

Stipulations whatsoever duly promulgated and in force from time to time in respect of the Clearing System and its operations and with the intent that the rights, privileges and obligations that will arise on the acceptance of this application shall be mutually enforceable by the due process of law as between the Clearing System Organization and the applicant herein-named.

Dated this _____ day of _____ 20_____

(To be executed under seal or signed under power of Attorney where appropriate)

The Central bank of Nigeria

As on and from the day of commencement of the operation of the Clearing System and in consideration of the

_____ being a member of the Clearing System, the Central Bank of Nigeria, is hereby authorized to debit or credit the account of this Bank with them as may be necessary with the appropriate net balance arrived at in the daily settlement of the Clearing.

_____ 20_____

(Executed under Seal or signed under Power of Attorney where appropriate) Central Bank of Nigeria

APPENDIX B - REASONS FOR RETURNING INSTRUMENTS

- 01 Account Attached
- 02 Account Closed
- 03 Account Dormant
- 04 Account Name and Account number differ
- 05 Account Non-existent
- 06 Account not funded
- 07 Account Not valid for Clearing/Electronic Payment
- 08 Bank not in Clearing
- 09 Cheque drawn in foreign currency. Please present specially
- 10 Cheque incompletely drawn
- 11 Cheque Mutilated
- 12 Crossed to two banks
- 13 Drawer deceased
- 14 Wrong Amount transmitted
- 15 Drawer's confirmation required
- 16 Endorsement irregular
- 17 Incomplete/Irregular Mandate
- 18 Material alteration, requires drawer's signature
- 19 Incomplete Image
- 20 Payment stopped
- 21 Presentation/Crossing stamp required
- 22 Represent
- 23 Represented more than the allowed number of times

- 24 Spurious/Forged cheque
- 25 Stale/Post-dated
- 26 Amount in Words and figures differ
- 27 Wrong delivery
- 28 Blurred/Blank Image
- 29 Wrong Presentation Date
- 30 Cheque Not Valid for Clearing
- 31 Multiple Presentation
- 32 Cheque Already Paid
- 33 BVN Required
- 34 Refer to Registrar

APPENDIX C – SETTLEMENT AGENCY AGREEMENT FORMAT BETWEEN SETTLEMENT BANK AND NON-SETTLEMENT BANK

THIS AGREEMENT is made on the day of 20 - - BETWEEN **XYZ Bank, a licensed bank** incorporated in Nigeria and having its registered office at (hereinafter referred to as “**Settlement Bank**” which expression shall where the context so admit include its successors-in-title and assigns) of the one part and, **ABC BANK PLC**, a licensed bank incorporated in Nigeria and having its registered office at (Hereinafter referred to as “**Non-Settlement Bank**” which expression shall where the context so admit include its successor- in-title and assigns) of the other part.

WHEREAS:

- Settlement Bank has been appointed by the Central Bank of Nigeria (CBN) as one of the Settlement Banks in Nigeria to undertake Clearing/Settlement obligation for other Banks.
- Non-Settlement Bank has mandated the Settlement Bank to act as its agent for clearing and/or settlement of its instruments in all the clearing Systems. Settlement Bank has agreed with non-Settlement Bank to render this service subject to the following terms and conditions:

NOW THIS AGREEMENT WITNESSES AS FOLLOWS:

1. RESPOSIBILITIES OF THE SETTLEMENT BANK

That in pursuance of the said agreement and in consideration of the payment of fees to Settlement Bank by Non-Settlement Bank of the sum mentioned in clause (7) being processing and settlement fees respectively. Settlement Bank hereby agrees to settle the Non-Settlement Bank’s clearing net settlement position subject to the obligation of Settlement Bank, see section 6.1 for the conditions:

2. RESPONSIBILITIES OF NON-SETTLEMENT BANK

The non-settlement bank shall perform responsibilities in line with obligation of non-settlement banks as outline in section 6.2 of NBCS rule

3. OPERATIONAL MODALITIES

- (a) Non-settlement Bank shall ensure that their Accounts in relation to settlement of net clearing position is funded as and when due or the accounts are sufficiently funded;
- (b) Funding of the Settlement Account for the Daily Net Clearing Position of Non-settlement Bank must be done via RTGS on or before 2:00pm of CBN's settlement date, failing which Settlement bank shall immediately have recourse to Non-settlement Bank's clearing collateral which shall immediately be liquidated to accommodate any shortfall. In the event, the value of net settlement exceed the balance in the collateral account, Settlement Bank shall decline to further settle clearing instruments for Non-settlement Bank;
- (c) Any cost incurred by Settlement Bank in respect of late funding or refusal to fund the Settlement Account shall be borne by Non-settlement Bank
- (d) Settlement Bank shall transfer the net debit or credit of Non-settlement Bank as the case may be to the Settlement Account base on the advice from NIBSS Plc and the net posted by CBN to Settlement Bank account.
- (e) Settlement Bank shall transfer the settlement value to Non-settlement Bank through RTGS each day and vice versa
- (f) Non-settlement Bank shall not be allowed to overdraw the Settlement Account. In the case of overdraw of settlement accounts by Non-settlement bank, the settlement Bank shall have recourse to collateral security pledged by Non settlement bank.

4. SECURITY/COLLATERAL FOR CLEARING AND SETTLEMENT

In line with the condition stated in the Obligation of Non-settlement bank as relating to funding their settlement accounts.

- a) a) Non-Settlement Bank shall open a non-chequing account with Settlement Bank, to be designated "Settlement Account" wherein the net clearing position of Non-Settlement Bank shall be credited and/or debited as may be appropriate after each clearing session.
- b) Non-Settlement Bank shall also pledge with the Settlement Bank, Treasury Bills which shall not be less than ₦_____ million as per the guidelines, and the

Treasury Bills shall constitute collateral security for any debit balance in the Settlement Account.

- c) In the effect of non-funding, Settlement Bank is hereby authorized without further recourse to Non-Settlement Bank to re-discount Non-Settlement Bank's Treasury Bill in (b) above for purposes of recovering and netting off the debit balance in the Settlement Account.
- d) In the event of any shortfall in the clearing collateral arising from a rediscounting, a Non-Settlement Bank shall make up the shortfall in the clearing collateral (Treasury Bill) before the commencement of the next clearing session from the date of re-discount in order to bring the aggregate value of the investment up to the minimum value as specified in (b) above.

Non-Settlement Bank undertakes to bear the cost of re-discounting the Treasury Bills necessitated by a need to recover the debit balance in the Settlement Account balance in the Settlement Account.

5. SETTLEMENT LIMIT CONTROL PROCEDURE

- (a) Settlement Bank and Non-Settlement Bank shall agree on the settlement exposure limit in respect for Cheques, NEFT, NIP and NAPS credit transfers. Settlement bank shall provide NIBSS with information about the agreed limit, in writing, indicating the details (office phone number, mobile phone number, and e-mail address) of Settlement Bank and Non-Settlement Bank's contact persons who NIBSS should notify whenever there is a breach by Non-Settlement Bank.
- (b) Non-Settlement Bank has the primary responsibility of ensuring that its Cheques, NEFT, NIP and NAPS credit transfers do not exceed the agreed limit at every automated clearing session. Settlement Bank may employ the Clearing System Operations Interface of the clearing software (ECPIX) to monitor Non-Settlement Bank's Cheques and NEFT, NIP and NAPS credit items during the clearing window.

6. ACCESS

In accordance with the Agency Agreement,

- a) Non-Settlement Bank will ensure that all NACS equipments or infrastructures approved by NIBSS Plc and CBN for PBCC are obtained by the Non-settlement bank for transmission and monitoring the net settlement position.
- b) The Settlement Bank will provide the Non-Settlement Bank with daily statement of its Settlement Account showing the net settlement position.

7. GUIDELINES TO FEES CHARGES

The Non-Settlement Bank shall pay an annual settlement fee of the sum of N to the Settlement Bank.

8. INFORMATION

- a) The information sent between the Settlement Bank and the non-Settlement Bank will be in the format compatible with Clearing System requirement.
- b) All notices and other communication under the agreement shall be sent to the following address:

Settlement Bank:

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Non-Settlement Bank:

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9. DISCLAIMER (LIABILITY/INDEMNITY)

The Non-Settlement Bank as well as Settlement Bank shall be liable for any fraud committed or act of negligence by their officers/agents associated with the operation this Agreement.

10. COMPLIANCE WITH LAWS

Each party hereto agrees that it shall comply with all applicable laws, guidelines, codes, policies and regulations in the performance of its obligations or receipt of services including the procurement of permits and certificates where required. If at any time during the term of this Agreement, a party is informed or information comes to its attention that it is in violation of any law, guidelines, policy, regulation or code (or if it is so determined by any court of law, tribunal or other authority), that party shall immediately take all appropriate steps to remedy such violation and comply with such law, regulation, ordinance, policy or code in all respects.

Further, each party shall establish and maintain proper records of all transactions with the other party.

11. CONFIDENTIALITY

The confidential of information and data shall be in line with the NBCS rule, Section 6.3

12. DURATION/TERMINATION OF AGREEMENT

- i. This Agreement shall commence on the date herein above and will continue to be in full force and effect unless terminated in accordance with the provision of this Section.

Any amendments to this Agreement shall be made only with the written consent of both parties to this Agreement.

ii. Both parties shall remain responsible for their obligation with respect to action and events prior to such termination

iii. Each party shall have the right to terminate this Agreement if any of the following events occur:

a. if the other party is wound up or goes into liquidation, or for any reason ceases threatens to cease carrying on business or transfers its business or if a holden action is imposed on it by any supervisory or regulatory authority or if any licence issued to it is suspended or revoked by the CBN

b. A decree or order by a court or government agency or authority shall be entered for the appointment of a Manager, Receiver or Liquidator for the other party in an insolvency, marshalling of assets and liabilities or similar proceeding, or the other party shall consent to such appointment;

c. The other party shall commit a material breach of the terms of this Agreement or shall repeat or continue or fail to remedy any material breach;

d. The obligations of either party becomes prohibited by law or any other regulatory authority including but without limitation, to the Central Bank of Nigeria

iv. In the event of either party being desirous of terminating the Agreement, the party desiring to terminate shall give one month's notice in writing to the other party which shall be delivered to and acknowledged at the other party's earlier notified address and NIBSS and CBN would be duly notified.

v. The foregoing notwithstanding, the Settlement Bank shall be entitled to terminate this Agreement upon all or any of the following conditions:

a. If the Non-Settlement Bank's Settlement is contrary to 4 (b) above.

b. If the collateral security in 4 (c) above is insufficient to offset the debit balance in the Settlement Account

c. If the value of the Treasury Bills is below the minimum as specified in 4 (c) above

d. If the Non-Settlement Bank's performance of its obligation is unsatisfactory and/or other habitual breach of the provisions of these presents

vi. The Non-Settlement Bank may with the consent of the Settlement Bank, which consent shall not be withheld provided that the Settlement Account is at the time and remains in credit; upon giving the Settlement Bank one month's notice of its intention to do so, close the Settlement Account and open an account with another authorized Settlement Bank.

13. GOVERNING LAW

The Agreement shall be governed by and construed, interpreted and enforced in accordance with the Laws of the Federal Republic of Nigeria.

IN WITNESS WHEREOF the parties hereto have caused their respective Common Seals to be affixed hereto the day and year first above written.

THE COMMON SEAL OF THE WITHIN NAMED

XYZ BANK PLC.

WAS HEREUNTO AFFIXED IN THE PRESENCE OF: Central Bank of Nigeria

DIRECTOR SECRETARY

THE COMMON SEAL OF THE WITHIN NAMED

ABC BANK LIMITED

WAS HEREUNTO AFFIXED IN THE PRESENCE OF:

DIRECTOR SECRETARY

EXPOSURE DRAFT