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BANKING AND PAYMENTS SYSTEM DEPARTMENT

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To: All Deposit Money Banks, Micro Finance Banks, Other Financial Institutions, Mobile Money Operators, and Payments Service Providers.

CIRCULAR ON NIGERIA BANKERS' CLEARING SYSTEM RULES, 2018
(REVISED)

The Central Bank of Nigeria (CBN), in furtherance of its mandate for the development of electronic payments system in Nigeria, hereby issues the revised Nigeria Bankers' Clearing System (NBCS) Rules.

Please, note that the effective date of the Revised NBCS Rules is 1st September, 2018.

Please, be guided accordingly.

Thank you for your usual cooperation

'Dipo Fatokun

Director, Banking and Payments System Department

**NIGERIA BANKERS' CLEARING SYSTEM RULES
(REVISED)**

APPROVED

May, 2018

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1. PREAMBLE

In exercise of the powers conferred on the Central Bank of Nigeria (CBN) under the Sections 2(d), 33 (1)(b) and 47(2) of the CBN Act 2007 to promote sound financial system in Nigeria, issue guidelines, facilitate the development of an efficient and effective payments system in Nigeria, and prescribe rules and regulations for the efficient operation of the clearing and settlement system, the CBN hereby issues the following rules for the operation of the Nigeria Bankers' Clearing System (NBCS).

1.1 Objectives

The objectives of the NBCS rules are:

1.1.1 To provide for efficient operation of **Automated Clearing System**, speedy and efficient collection of cheques, **ACH instrument**, bills and other payment instruments payable or deliverable to member banks of the NBCS by a system or systems of clearing.

1.1.2 To prescribe appropriate standards for the use of the NBCS.

1.1.3 To provide a mechanism and framework for the clearing and settlement of payment instruments among member banks.

1.2 Commencement

The Nigerian Bankers' Clearing System Rules shall take effect from the day the approved rules are released.

These rules supersede any previous NBCH rules, Cheque Truncation Guidelines, NACS Rules and Clearing & Settlement Guidelines

2. APPLICATION FOR MEMBERSHIP OF THE NBCS

2.1 Membership of the NBCS shall be restricted to CBN, Deposit Money Banks, and the operator of the NBCS.

2.2 Any bank wishing to become a member of the NBCS shall present an application in writing to the Director, Banking and Payments System Department, CBN which shall contain an undertaking to be bound by these Rules and such other information as may be prescribed by the CBN from time to time.

2.3 Any licensed bank that is not a member of the NBCS may enter into an agency agreement with any member bank of the NBCS for the purpose of accepting

cheques and other instruments drawn on it and for collecting cheques drawn on other banks

2.4 A list of newly approved members shall be communicated to all clearing banks by the CBN / NIBSS.

3. MANAGEMENT OF CLEARING SYSTEM

3.1 Establishment, Membership and Operation of the Nigeria Bankers' Clearing System Committee

3.1.1 There is established a committee to be known as the Nigeria Bankers' Clearing System Committee which shall be responsible for the administration of the NBCS.

3.1.2 The Committee shall comprise representatives of Member Banks.

3.1.3 Each member bank shall nominate its Head of Clearing as a representative to the Committee.

3.1.4 There shall be a Chairman for the Committee to be appointed by the CBN

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

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

3.1.7 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 of two consecutive meetings of the Committee, without a satisfactory reason communicated in writing within five (5) working days before or after any scheduled meeting.

3.1.8 Meetings of the Committee shall be presided over by the Chairman. The minutes shall be circulated to all members within one month after the meeting for necessary adoption at the next meeting.

3.1.9 Where there is a proposed amendment to these rules, a certified copy of the minutes of the meeting shall be forwarded to the ACH, Cheques & IP Scheme Board through the Office of the Director, Banking & Payments System of CBN for necessary action.

3.1.10 The quorum for any meeting of the Committee shall be not less than half of the number of members.

3.1.11 A member of the Committee shall have one vote. The decisions of the Committee shall be by a simple majority of members present and voting. In the event of equality of vote, the Chairman shall have a casting vote.

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

3.2 Stakeholders

The stakeholders of the NBCS shall include:

- a) Central Bank of Nigeria
- b) NIBSS
- c) Deposit Money Banks
- d) Clearing System Committee
- e) Other Financial Institutions
- f) Payments System Service Providers (PSSP)

4. ELIGIBLE FINANCIAL INSTRUMENTS

4.1 Eligible financial instruments for clearing purposes shall include:

4.1.1 Paper-based payment 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 instruments that are approved for clearing/settlement in the Clearing System;

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

4.1.4 For the avoidance of doubt, Direct Debit, either in paper or truncated form, shall no longer be eligible for clearing purposes

4.2 Each eligible paper-based payment 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 the CBN.

5. DURATION OF HOLDING INSTRUMENTS

5.1 Paper-based Payment Instruments deposited by the customer at any member bank shall be deemed paid by 10pm of the next working day (T+1) except where:

- a) it is returned by the paying bank
- b) a special caution or an extension of value date request has been received from the paying bank.

5.2 Electronic payment instruments shall clear as follows:

5.2.1 Electronic payment 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 Electronic payment Instruments shall be presented to the clearing system in the next applicable session if instruction is received from customer less than 2 hours before closure of session available for the financial instrument, unless the relevant service agreement dictates otherwise;

5.2.3 Where the account details are valid, direct credits shall be applied to the beneficiary's account within 2 hours after the close of the clearing session.

5.2.4 Direct debits shall be deemed paid by the same session next clearing day, if not returned.

6 SETTLEMENT RULES AND PROCEDURES

6.1 General

6.1.1 Any bank wishing to become a Settlement Bank shall apply in writing to the Director, Banking and Payments System Department, CBN. The Application shall be approved upon the fulfillment of criteria as may be prescribed by the CBN from time to time.

6.1.2 A non-settlement bank shall apply to a Settlement Bank to settle payment instruments on behalf of the non-settlement bank.

6.1.3 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 which shall contain in the minimum obligation set out in Section 6 of this Rules.

6.1.4 A Settlement Bank shall, for the duration of the agency agreement, be the sole representative of a Non-Settlement Bank on an exclusive basis for Clearing Settlement provided that a Non-Settlement Bank shall be entitled to participate in clearing sessions through another settlement bank where its Settlement Bank is suspended or otherwise unable to participate in clearing sessions.

6.1.5 A Settlement Bank shall be financially accountable for the settlement of its payment instruments and those of its non-settlement banks.

6.1.6. A Settlement Bank shall maintain with the CBN the minimum collateral prescribed by the Bank.

6.1.7. 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 be as prescribed by the CBN.

6.1.8 Where a non-settlement bank's account with a settlement bank is not adequately funded; an appropriate amount of the collateral shall be immediately rediscounted. The amount of 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.

6.1.9 A Settlement Bank shall give the CBN and a non-settlement bank it represents thirty (30) days' notice before terminating its agency agreement for any other reason apart from 6.1.1 above. Similarly, a non-settlement bank must give the CBN and the Settlement Bank representing it, thirty (30) days' notice before terminating the agency agreement.

6.1.10 A Settlement Bank shall maintain credit position in its current account with the Central Bank of Nigeria and pledge to CBN, the required settlement collateral in the form of securities such as NTB and FGN Bonds. The value of such collateral shall be determined from time to time by the CBN.

6.1.11 Where a Settlement bank fails to fund its account with the CBN, the CBN may without recourse to the Settlement Bank, re-discount the Settlement bank's securities pledged for purposes of recovering.

6.1.12 The Settlement Bank shall provide the Non-Settlement Bank with daily statement of its Settlement Account, showing the net settlement position.

6.1.13 A non-settlement bank shall maintain credit position in its current account with its Settlement Bank and pledge to the Settlement Bank the agreed clearing collateral.

6.1.14 The net settlement positions of a non-settlement bank shall be applied to its settlement bank's account with the CBN

6.1.15 In the event of a Settlement Bank being stripped of its settlement status for reasons other than those stated in section 6.1.9 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 A Settlement Bank shall settle for a non-Settlement Bank with which it has an agency settlement agreement.

6.2.2 A Settlement Bank shall post into the account of a non-Settlement bank under it the net settlement position of the non-Settlement Bank.

6.2.3 A non-Settlement bank shall within 24 hours credit its settlement account with the Settlement Bank where the net settlement position is a debit.

6.2.4 Where a non-Settlement bank fails to fund its account with the Settlement Bank, the Settlement Bank may without recourse to the Non-Settlement Bank re-discount the Non-Settlement bank's collateral pledged for purposes of recovering and netting off the debit balance in the Settlement Account.

6.2.5 Settlement Bank shall agree with the Non-Settlement Bank on the settlement exposure limit in respect of payment instruments and how to monitor same.

6.3 Obligations of Non-Settlement Banks

6.3.1 A non-Settlement Bank shall open an account with its Settlement Bank 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").

6.3.2 Non Settlement Banks shall pledge collateral in the sum of an amount not less than N250,000,000.00 (Two hundred and fifty million naira only) or any other sum as may be prescribed by the CBN 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.

6.3.3 A Non-Settlement Bank shall indemnify Settlement Bank against any liability or loss whether direct or indirect that may arise as a result of this agreement.

6.3.4 A Non-Settlement Bank shall pay an annual Settlement fee to the Settlement Bank as may be agreed between them from time to time.

6.3.5 In the event of any shortfall in the collateral arising from a rediscounting, a Non-Settlement Bank shall make up the shortfall in the collateral before the commencement of the next clearing session from the date of re-discounting, in order to bring the aggregate value of the collateral up to the initial value of the collateral.

6.3.6 In respect of 6.3.5 above, Non-Settlement Bank shall undertake to bear the cost of re-discounting the collateral pledge necessitated by a need to recover the debit balance in the Settlement Account.

6.3.7 Non-Settlement Bank shall agree with the Settlement Bank on the settlement exposure limit in respect of payment instruments and shall keep within the set limit.

6.4 Suspension from the Clearing System

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

6.4.1 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;

6.4.2 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;

6.4.3 When a bank overdraws its settlement account maintained with CBN for three consecutive working days, notwithstanding the provisions of section 6.4.1

6.4.4 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.

6.4.5 Failure to provide the requisite infrastructure to enable electronic exchange of eligible payment instrument.

6.4.6 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 section 6 of these Rules.

6.4.7 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

6.5 Confidentiality of Information

6.5.1. A settlement bank shall maintain strict confidentiality in respect of any confidential information made available to it pursuant to their settlement agency agreement and may not disclose same except with the express permission of the Non-Settlement Bank or as may be lawfully required.

6.5.2. Settlement Bank shall not use any information provided by Non-Settlement Bank for any purpose other than as permitted or required under the Agency Agreement.

7. THE NBCS CHEQUE TRUNCATION MODEL

7.1 For the purpose of this rule, “cheque” shall include all paper based - payment instruments

7.2 Model for truncation

The overall model for NBCS shall be any of the following:

7.2.1 Generic model – ‘Image and Data’ model:

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

7.2.2 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 within prescribed time frame defined by these Rules.

7.2.3 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 banks.

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 for cheque truncation shall be as advised by NIBSS.

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 or as may be prescribed by the CBN.

7.6 Retention of physical cheque

The retention period of physical cheques by the presenting bank shall be minimum of five (5) years.

7.7 Data Storage

The operator of the Automated Clearing System shall keep electronic copies of the cheque images for a minimum period of 10 years.

7.8 Minimum Storage Standards

The Cheque front shall be stored in both Grey Scale and Black-and-White format while the reverse side shall be stored in Black-and-White only.

7.9 Use of Dedicated Secure Network

Images and MICR data, duly encrypted & digitally signed by the presenting bank, shall travel over a secured network connecting all the Clearing System Gateways (CSGs) with the Clearing System.

7.10 Transmission of Image / Data

The presenting bank's capture system shall transmit the MICR data and images of the cheques to its Clearing System Interface electronically or through electronic storage media.

7.11 Media Based Transmission of Exchange Files

All data and image files to be exchanged shall be encrypted using Public Key Infrastructure (PKI) that is used during network transmission to create the files for transfer using physical electronic media options.

8. CLEARING DURATION AND RETURN PERIOD

8.0 Time limit

The clearing cycle for each category of instruments shall be as stated below and is subject to review by the CBN from time to time, in consultation with clearing banks.

<u>S/N</u>	<u>INSTRUMENT TYPE</u>	<u>CLEARING PERIOD</u>	<u>RETURN PERIOD</u>
1	CHEQUES	T+1	5pm T+1

2	ACH CREDIT	24 HOURS	24 HOURS
3.	ACH DEBIT	24 HOURS	24 HOURS

8.1 Return of payment instruments

8.1.1 All clearing instruments returned unpaid shall bear the appropriate returned reason code as listed in **Appendix A** annexed hereto.

8.1.2 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.

8.1.3 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 code as advised by the paying bank before delivering the returned physical cheque to the beneficiary.

8.2 Delayed Application/Return of Direct Credits

8.2.1 Clearing banks are required to apply inward direct credits to beneficiaries' accounts. A receiving bank that delays the application of direct credits or return such outside the allowed window shall face appropriate sanction, as stipulated in these Rules.

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

9. PROCEDURE FOR CLEARING

9.1 General Procedure

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.

A typical transaction flow shall be as follows:

TRANSACTION DAY	CHEQUE CLEARING CYCLE
DAY 1 (T)	Fresh cheques are deposited at bank branch
DAY 2 (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:

a. Session 1 (6pm-8am): Permits all clearing instruments (cheque, NEFT–fresh and returned items)

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

Note: NIBSS Plc. may apply a charge as specified by CBN for Fresh cheque transmitted during the 11th session where a bank transmits more than 100 cheques.

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

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

9.1.2. *Settlements for Sessions 1, 11 & 2 shall be same day, while settlement for Session 3 (Return Instruments) shall be next working day.*

9.1.3 *All unpaid clearing cheques shall be returned same day.*

9.1.4 *NIBSS shall ensure that all inward files and reports are available to banks for download within 1 hour of session closure.*

9.1.5. *CBN, NIBSS and at least two- third of clearing system members may change Clearing timeline, as circumstances may require.*

9.1.6. NIBSS with the approval of CBN may create a new session or delete a session as the case may be with proper notice to clearing system members.

9.2 Point of Truncation

The determination of the point of truncation shall be at 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 prescribed in rule 9.1.1

9.3 Clearing Procedure at the Presenting Bank

9.3.1 Preliminary Verification

It shall be the duty of the Presenting Bank to validate the physical instrument and it 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 eye or under Ultra Violet light.

9.3.2 The Presenting Bank shall exercise due diligence in accordance with the minimum security standard specified in the Nigeria Cheque Standard.

9.3.3 Crossing (Stamping)

Every cheque received for the purpose of clearing are required to be stamped compulsorily on its face (physical or electronic) by the presenting bank, while presentation stamp on the reverse side shall be optional. The presenting bank has the responsibility to ensure that all electronically stamped cheques are stamped physically before they are archived.

9.3.4 The following processes shall be handled as set out in Appendix B:

- I.** return processing,
- II.** capture of images and data,
- III.** reject repair and balancing,
- IV.** processing at clearing system gateway (CSG) – Outward, Inward and return processing
- V.** Clearing, Image Quality Analysis (IQA) and Failure Handling,
- VI.** Item Processing and
- VII.** Special Processing at Clearing System

10. CLEARING SESSION QUORUM

Simple majority of member banks may make recommendations to the CBN for a change in clearing operation or activities.

11. OPERATIONAL FEES OF THE CLEARING SYSTEM

11.1 All Clearing members shall pay reasonable fee for transactions processed on the clearing system to NIBSS based on the approved rate by CBN.

11.2 Each member bank shall pay an annual fee as may be determined by the Clearing System Committee for the Committee's activities.

12 RESPONSIBILITIES OF MEMBER BANKS

12.1 General Responsibilities

12.1.1 Member banks shall ensure that account opening documentations contain clauses that clearly specify the liability of customers in respect of clearing activities.

12.1.2 Subject to the provisions of these Rules, member banks shall not accept, clear or pay any payment instrument into any account other than the account of the beneficiary as stated on the face of the instrument.

12.1.3 At the end of every clearing session, a Settlement Bank shall reconcile its net settlement position with the figure advised by NIBSS and where there is any discrepancy, the Settlement Bank shall alert CBN and NIBSS immediately for corrective action.

12.1.4 Member banks shall participate at each clearing session irrespective of whether they have instruments to present or not.

12.1.5 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.

12.1.6 Member banks shall generate internal control reports at the end of the session and day to effectively reconcile same. Any identified discrepancy shall be resolved not later than the following business day.

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

12.1.8 Where a Paying Bank is unable to return a cheque within the clearing deadline, it shall serve a Special Caution Notice on the Presenting Bank. The

Deadline for submission of Special Caution Notice shall be two (2) hours after the closure of return cheque session.

12.1.9 Special Caution Notice shall be acknowledged by the Presenting Bank to be binding.

12.1.10 The Paying Bank shall 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.

12.1.11 Where there is a debit note on the Special Caution Notice received by the Presenting Bank and not returned same working day, it shall be deemed as honoured.

12.1.12 On the request of the Paying Bank, the Presenting Bank shall release a physical instrument to the Paying Bank who may retain it for not more than a period of 3 months effective from the date of the release to the Paying Bank. Where required by law or regulation, the Paying Bank may request for an extension after which period, the Paying Bank shall return the physical instrument to the presenting Bank for safe keeping.

12.1.13 The Presenting Bank shall reject other banks' payment instrument at the point of deposit or scanning where the payment instrument does not meet the Nigeria Cheque Standard or where the information on the payment instrument's MICR line is wrong or any other irregularity is noticed on the payment instrument.

12.1.14 The request for extension of value date must be sent by the Paying Bank at least 30 minutes before official closure of last session (return session) by NIBSS.

12.1.15 The Presenting Bank has the right to reject cheques written in colours other than black or blue.

13 RESPONSIBILITIES OF PRESENTING BANK

13.1 Presenting Bank shall store physical payment instruments for five (5) years

13.2 The Presenting Banks shall put in place arrangements to physically archive the cleared instruments for ready retrieval, whenever required at a later date.

13.3 A Presenting Bank shall verify the validity of the payment instrument presented in respect of its tenor and other features. Images and MICR data to be sent to the clearing system must match.

13.4 A Presenting Bank shall be liable for any act of omission or commission that causes any loss of funds as a result of its non-compliance with rule 13.2.3.

13.5 The Presenting Bank shall ensure that the data transmitted is the data meant for that day's clearing.

13.6 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 valid and traceable addresses.

(iii) On the face of the presented payment instrument, irregularities such as erasures, post-dated or stale mutilation, are evident.

(iv) It allows the withdrawal of cleared funds from payment 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 Ultra Violet light or eye.

13.7 The Presenting Bank shall take appropriate care to match the name of the beneficiary with the account name before processing ACH credit. The Receiving bank shall not be liable if it applies fund into the account number sent to it. The liability for wrong account shall be that of the Presenting Bank and not the Receiving Bank.

13.8 Presenting Bank shall include the payee name, payee account number and payee Bank Verification Number in the data being presented for payment instruments.

14 RESPONSIBILITIES OF PAYING BANK

14.1 A bank that negligently pays a defective instrument shall be liable provided that a bank shall not be liable for such payment if the payment is made in good faith, and in accordance with established banking procedures such as obtaining proper and valid confirmation from its customer in respect of the payment

instrument 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.

14.1.2 The paying bank shall verify the signature on the image of a cheque.

14.2 Responsibilities of members to Other Financial Institutions

Member banks shall execute Agency Agreement with other financial institutions that collect payment instruments (e.g. Primary Mortgage Institution, Microfinance Bank, Stock Brokers and Finance Systems etc)

14.2.1 The agency agreement shall include indemnity clause in favour of member banks.

14.3 Responsibilities of Member Banks to their Customers

14.3.1 A member bank shall notify its customers of any un-cleared payment instruments deposited within 24 hours of the deposit.

14.3.2 A member bank shall give value for the payment instruments at the end of the due date (where due date is lodgment date + 1) except where the payment instruments are dishonored or returned unpaid within the stipulated clearing duration or are the subject of an inquiry.

14.3.3 A member bank shall indicate the value date of a lodged cheque on the cheque deposit slip and a notification to customer (if any) in respect of the deposit shall also indicate the value date and time which shall not be later than 10pm local time on the value date.

14.4 Responsibilities of NIBSS Plc.

14.4.1 NIBSS shall ensure that the Clearing System Table is synchronized with the master table information which may include sort codes, transaction codes, branch codes, bank codes, calendar, and designated branches.

14.4.2 NIBSS shall ensure that any change in the Clearing System Table is automatically updated on the online CSGs, and shall inform member banks to update their capture systems immediately. CSG supervisors of member banks shall ensure that their internal systems are updated accordingly.

14.4.3 It shall be the responsibility of member banks to ensure that their offline CSGs (CSGs which are not connected to CS over network) are updated before the commencement of any session after the change.

15 DISPUTE RESOLUTIONS

15.1 A breach of these Rules shall be handled as follows:

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

15.1.2 Where the complainant is a customer and no 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.

15.1.3 Where the complainant is a bank and no satisfactory response is received after 3 working days, the complaining member bank shall forward its complaint to the Director, Banking and Payments System Department.

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

16 ABUSES OF CLEARING PROCESS

16.1 The abuses of the Clearing System are set out in the Sanction Grid in Rule 23.

16.1.1 The CBN may from time to time prescribe sanctions for any other abuses.

16.1.2 All monetary penalties payable under the Sanctions Grid shall be paid into the Penalty Account of the CBN.

16.2 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 is as follows:

16.2.1 The Presenting Bank shall first notify the Receiving Bank in writing or by email. Such a notification shall be deemed as an indemnity in favour of the Receiving Bank by the Presenting Bank.

16.2.2 Upon receipt of the notification, the Paying Bank shall place a hold on the amount in the beneficiary's account and shall return the funds to the Presenting Bank within 7 days of receiving the notification provided the customer has not

withdrawn the funds from the account subsequent to the wrong credit.

16.2.3 Where the wrong credit has been withdrawn by the Paying Bank's customer, the watch-listing provisions under the BVN Framework shall apply. This is without prejudice to any other rights of the Presenting Bank to take any legal step to recover the funds from the customer.

16.2.4 The Receiving Bank shall not use the wrong credit to settle the customer's outstanding indebtedness to it and shall not consider such credit as the property of the customer.

17. INDUSTRIAL ACTION

17.1 INDUSTRIAL ACTION AT CLEARING MEMBER BANK(S)

17.1.1 A member bank affected by an industrial action shall notify the Director, Banking & Payments System Department of the CBN and NIBSS immediately the industrial action commences, if the industrial action is such that prevents the member bank from participating in any clearing session. NIBSS shall communicate the information of the industrial action to all other member banks and temporarily exclude the affected member bank from clearing activities.

17.1.2. If the member bank fails to notify the CBN and NIBSS as required by rule (17.1.1.) the member bank shall be deemed to be part of the clearing system for the period.

17.1.3 Member banks may reject financial instruments drawn on a member bank that is unable to participate in clearing sessions for more than two (2) working days due to industrial action until the affected member bank resolves its industrial action and returns to the clearing System.

17.1.4 A member bank returning to the clearing system after an industrial action shall give one business day notice to the Director, Banking & Payments System Department, of the CBN, NIBSS and all member banks of its intention to return to the clearing system and may return to the System the next business day.

17.1.5 In the case of payment 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 returns to the clearing system.

18. OPERATION OF CLEARING SYSTEM DURING AN EMERGENCY

In the case of any event that prevents the clearing system from operating for a period of time, all working days during the period shall not be counted as working days for purpose of determining clearing duration. The CBN shall inform all member banks of such event and give appropriate directives.

19. AMENDMENTS

19.1 These Rules may be amended by the CBN from time to time, as it may consider necessary.

19.2 Member banks may propose amendments to the Rules by forwarding same to the Director of Banking & Payments System Department.

20. ADJUDICATION OF 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 member banks.

21. SANCTIONS GRID

Appropriate sanctions shall be imposed by the CBN on any member bank that commits any of the abuses listed in this rule 15.

S/No	Abuse	Monitoring Mechanism	Sanction
1	Transmission of data that is not in agreement with the images.	Based on paying bank complaints	N1,000.00 per item
2	Clearing of payment instrument 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 payment instrument	Based on customer's complaint.	Paying Bank shall be fully liable
4	Re-presentation of	Based on	N1,000.00 per item

	already paid payment instrument	paying bank complain	
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 12.1.9 of these Rules.	Based on Paying Bank complaint	Presenting Bank shall be fully liable
7	Banks Charging beneficiaries for Inward ACH credits except as prescribed by the CBN.	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 the bank. In addition, a refund of the charge to the beneficiary of the inward ACH credit., ..
8	Delayed presentation of customers ACH instruments on the clearing system.	Based on customer's complaint to CBN	10% of ACH item with a cap of N10,000.00 per payment instrument
9	Returning Inward NEFT items outside the return window	Based on presenting Bank's complaint.	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) other than in cases of forgery or theft.	When a clearing member complains.	10% flat charge of face value or N10,000.00 flat charge per cheque, whichever is higher. 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	A member bank not treating (approve or reject) Direct Debit mandates within 48 hours of getting alerts.	As reported by NIBSS.	N5,000.00 per item per day.
13	Frivolous return of Direct debit instruments, where valid mandate exists and customer has sufficient funds.	Based on complaint of customer or Presenting Bank.	N10,000.00 per item.

14	Delayed application of inward ACH items received from clearing into customer account i.e. beyond 2 hours after the closure of the session where the NEFT item contains valid account details.	Based on beneficiary's complaint.	N5,000.00 per item.
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	Presenting or Paying Bank that applies account maintenance charge on debit entries arising from returned cheques processing	Based on customer's complaint.	N10,000.00 per item. In addition, refund of the charge to the customer.
17	Undue delay in transmission of cheques valid for presentment	Based on customer's complaint.	N10,000.00 per item per day.
18	Presenting Cheques which do not meet the requirements of the Nigerian Cheque Standard.	Based on Paying Bank's complaint.	N1,000.00 per item
19	Where a Paying Bank fails to honour an ACH credit recall request (made within 14 days of the erroneous presentment) in accordance with Rule 16.2	Based on Presenting Bank's complaint.	N10,000.00 per item per day In addition, NIBSS to recover the instrument value from the Paying Bank in favour of the Presenting Bank.
20	Failure to return a wrongly applied inward ACH item within 7 working days after receiving a complaint made by the Presenting Bank.	Based on Presenting Bank's complaint.	N10,000.00 per item per day NIBSS to recover the instrument value from the Paying Bank in favour of the Presenting Bank.

21	Payment of Fraudulent Instruments:	As stated below	As stated below
21.1	Where the amount of the fraudulent payment instrument is below the confirmation threshold and the alterations are visible to the eye or under Ultra Violet light.	Based on Paying Bank complaint	The Presenting Bank shall be fully liable for the value lost.
21.2	Where the amount of the fraudulent payment instrument is below the confirmation threshold and the payment instrument was not altered but the signature was forged.	Based on customer complaint	The Paying Bank shall be fully liable for the value lost.
21.3	Where the amount of the fraudulent payment instrument is equal to or above the confirmation threshold and the alterations are visible to the eye or under Ultra Violet light.	Based on customer's complaint	Both presenting Bank and paying Bank shall be jointly liable for the value lost on a 50:50 basis.
21.4	Payment where there is no confirmation and the amount of the fraudulent payment instrument is equal to or above the confirmation threshold even when the payment instrument was not altered.	Based on customer's complaint	The Paying Bank shall be fully liable for the value lost.
21.5	Where the fraudulent payment instrument is a Bank Draft/Manager Cheque and the Paying Bank could have detected the fraud had it exercised due care and skill.	Based on complaint	The Paying Bank shall be fully liable
21.6	Where the fraudulent payment instrument is a Bank Draft/Manager's Cheque, there are	Based on complaint	The Presenting Bank shall be fully liable

	alterations visible under Ultra Violet light, and the Presenting Bank failed to detect the fraud.		
21.7	Where the fraudulent payment instrument is a Bank Draft/Manager Cheque and there are alterations which Presenting Bank could have detected using Ultra Violet light, and the Paying Bank could also have detected the fraud.	Based on customer's complaint	The paying bank and presenting Bank shall be fully liable 50:50
22	Frivolous return of other banks's payment instrument(s) that meet Nigeria Cheque Standard for reasons other than allowed in Section 12.1.13.	Based on complaint from Paying Bank	Presenting Bank shall pay a fine of N10,000.00 per payment instrument.
23	Transmission of more than 100 cheques in the special clearing session (11)	Based on NIBSS report	Presenting Bank shall pay a fine of N50,000.00
24	Willful presentation of wrong payment instruments on other banks	Based on Paying Bank's complaint	Presenting Bank shall pay a fine of 10% of face value
25	Persistent presentation of fake/forged instruments on other banks	Based on Paying Bank's complaint	Presenting Bank shall pay a fine of 20% of face value of the payment instrument
26	Member banks failing to indicate the correct reason for returning a payment instrument	Based on Presenting Bank's complaint	N 250 per instrument

22. DEFINITIONS

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.

Member Banks: All banks approved by the CBN to participate in clearing system activities. These could be settlement or non-settlement banks

Clearing day: The day of the exchange of payment instruments between the Presenting Bank and the Paying Bank..

Clearing session means the period between the commencement and closing of a clearing cycle.

Clearing System Committee means the committee established under rule 3.

NBCS: means Nigeria Bankers Clearing System

NEFT means NIBSS Electronic Funds Transfer

NIBSS means Nigeria Interbank Settlement System Plc

NTB means Nigeria Treasury Bills

23.10 **Payment Instruments** means an instrument, authority or a process enabling a payer to issue a payment instruction and includes currency or any electronic means of effecting payment

Settlement Banks means CBN, and member banks appointed by the CBN to settle for themselves and other member banks, known as non-settlement banks..

Stale Cheque means cheque presented for clearing more than six (6) months after the date on the face of the cheque.

Working days means Mondays through Fridays excluding public holidays.

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— means the conversion of a physical cheque into a substitute electronic form for transmission to the Paying Bank.

Ordinary Caution Notice – This is an electronic or a physical document issued by the Presenting Bank to the Paying Bank about a suspicious payment instrument.

Special Caution Notice – This is an electronic or a physical 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.

MICR' (Magnetic Ink Character Recognition)Line (means, 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 means (i) the bank by which a payment instrument is payable.

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

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

CTS: Cheque Truncation System

Managers' Cheque or Bank Draft means 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. These Rules supersede the Nigerian Banker's Clearing House Rules, Cheque Truncation Guidelines, Nigeria Automated Clearing System Rules and Clearing & Settlement Guidelines

APPENDIX A

REASONS FOR RETURNING INSTRUMENTS

- 01 Account Attached due to Legal or regulatory restrictions
- 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 Cheque Crossed to two banks
- 13 Drawer deceased
- 14 Amount transmitted differs from amount on cheque image
- 15 Drawer's confirmation required
- 16 Endorsement irregular
- 17 Incomplete or Irregular Mandate
- 18 Material alteration requires drawer's signature
- 19 Incomplete Image
- 20 Payment stopped
- 21 Crossing stamp required
- 22 Cheque Already Paid
- 23 Presented more than 3 times
- 24 Spurious or Forged cheque
- 25 Cheque, Stale or Post-dated
- 26 Amount in Words and figures differ
- 27 Wrong delivery
- 28 Blurred or Blank Image
- 29 BVN Required
- 30 Cheque Not Valid for Clearing
- 31 Multiple Presentation
- 32 Refer to Registrar

APPENDIX B

PROCEDURE FOR CHEQUE TRUNCATION

1.0 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 shall be captured or keyed in to complete the data record.

1.1 Reject Repair and Balancing

The presenting bank 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.

2.0 Return Processing

The Presenting bank shall receive the return exchange file 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.

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

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.

3.2 Image Quality Analysis (IQA) and Failure Handling

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

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.

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.

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.

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.

4.0 Processing at Clearing System Gateway (CSG) - Inward Clearing

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.

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.

4.3 Control Mechanism

The Paying Bank shall verify that all the inward 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. If any files are lost in transmission the bank may request the Clearing System for retransmission of images and data.

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.

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

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.

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.

5.3 Payment Processing

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

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.

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.

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.

5.7 Current Account Maintenance Fee

The Presenting and Paying Banks shall not charge 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 Guide to Bank Charges.

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.

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.

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.

6.0 Special Processing at Clearing System

6.1 Caution Notice

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

6.2 Different Status of CSG / Bank

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.

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.