

Guidelines for Clearing Operations

State Bank of Pakistan

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1 Definitions

Actual Cost means the cost paid by the Bank to third parties for providing the Short Message Service (SMS).

Bank includes the Banking Institution licensed under the Banking Companies Ordinance (BCO), 1962 and the Microfinance Banks licensed under the Microfinance Institutions Ordinance, 2001.

Business Days mean all working days except public or banking holiday(s) as announced by the Federal Government from time to time.

Centralized Clearing means the process through which designated branches of Drawee receive delivery of Clearing and decide the fate of payment instruments using their online banking systems/applications.

Clearing means the process of transmitting, reconciling and, in some cases, confirming payment instruments prior to settlement, including the netting of payment instruments and the establishment of final positions for settlement.

Clearing House(s) as defined in Payment Systems and Electronic Fund Transfer (PS&EFT) Act, 2007.

Collecting Bank means a Bank that presents/collects the payment instruments to Clearing House for the purpose of Clearing.

Collection of Return means the process through which the Collecting Bank receives back the payment instruments from the Clearing House as rejected/returned by the Drawee.

Delivery of Clearing is the process whereby Clearing House delivers the payment instruments to Drawee for Clearing.

Delivery of Return means the process through which the Drawee rejects the payment instruments due to any of the reasons mentioned in Annexure A and returns the same to the Collecting Bank through the Clearing House.

Direct Membership means a membership of the Clearing House that enables a member of the Clearing House to participate directly in the clearing process.

Drawee as defined in the Negotiable Instruments Act, 1881.

Drawer as defined in the Negotiable Instruments Act, 1881.

Force Majeure means any delays or failures in the performance of a Clearing House and/or Banks and to the extent it is caused by the occurrences or circumstances beyond reasonable control of Clearing House and/or Bank, including but not limited to, acts of

God, fire, strikes or other labor disturbances, riots, civil commotion, war or any other causes similar to those specified herein.

Intercity Clearing means the Clearing that takes place between cities.

Non-Standard Payment Instrument means the payment instrument that does not conform to the standards defined by SBP vide PSD Circular No. 01 of 2014, CPD Circular No. 1/2014 dated January 30, 2014, PSD Circular 4, dated November 4, 2015 and any other standards specified by SBP from time to time. This excludes the definition of non-standard instruments given by Clearing House (if any).

On-us Payment Instruments are payment instruments presented and drawn on the same Bank.

Overnight Clearing means the Clearing that takes place on an overnight basis.

Payee as defined in the Negotiable Instruments Act, 1881.

Payment Instrument means an instrument as prescribed in Negotiable Instruments Act, 1881.

Post-Dated Payment Instrument is the payment instrument bearing a date later than the date of presentment for Clearing.

Return code means the number that indicates the reason, as attached at Annexure A, for returning the payment instrument as unpaid.

Same-Day Clearing means the Clearing that takes place on same-day.

SBP means the State Bank of Pakistan established under the State Bank of Pakistan Act, 1956 (XXXIII of 1956).

Stale Instrument means the payment instrument that is presented with a date of issue that has exceeded six (6) months from the date of the payment instrument or as specified on it.

Sub-membership means a membership that enables an institution (which has no direct membership with the Clearing House) to participate in the clearing process through any direct member of the Clearing House.

T means the business day on which the payment instrument is lodged for Clearing.

Anything that is not defined in these Guidelines shall have the same meaning as defined in Payment Systems and Electronic Fund Transfers (PS&EFT) Act, 2007 and the Negotiable Instruments Act, 1881.

2 Scope of the Guidelines

The Guidelines will be applicable on Banks and Clearing House(s) that have been nominated under the Rules for Payment Systems Operators (PSOs) and Payment Service

Providers (PSPs) issued by SBP under the PS&EFT Act, 2007 and are involved in clearing of payment instruments in local currency.

2.1 Exclusion

The Guidelines will not be applicable to SBP-Banking Services Corporation (BSC) and also exclude the payment instruments issued by SBP, SBP-BSC and Federal and Provincial Governments.

3 Objectives

The objectives of these Guidelines are to bring efficiency in clearing processes and standardize the payment instruments' collection and clearing operations in the country resulting in timely realization of funds to payee.

4 Effective Date

The effective date of these Guidelines is **January 01, 2018**.

5 Authority

These Guidelines are issued by the SBP in pursuance to Section 3 of the PS&EFT Act, 2007.

6 Clearing Operations

- i. Banks shall develop Clearing manuals containing operational details of different clearing batches that are being processed by them. The manuals shall contain separate chapters for different clearing batches as well as Standard Operating Procedures (SOPs) for the processing of each clearing batch. Banks shall ensure that their Clearing Operations are in line with these Guidelines.
- ii. Clearing House and the Banks shall not be liable for any failure or delay in Clearing due to any force majeure event.
- iii. Clearing House and the Banks shall strictly follow the timelines mentioned in these Guidelines. In case of any delay in clearing processes by the Clearing House or the Bank, SBP may impose penalty as per Section 74 of PS&EFT Act, 2007.

6.1 Same Day Clearing

- i. Clearing House shall develop transparent criteria regarding the eligibility of the Banks and their respective branches for Same Day Clearing and disseminate the same to all Banks.
- ii. Banks shall designate branches to offer Same Day Clearing and provide the list of such branches to the Clearing House.
- iii. Banks shall develop criteria for Same Day Clearing that should at minimum contain the payment instruments eligible for Same Day Clearing, its value and time limits etc. and disclose the same via website and branches.
- iv. Banks shall ensure that payee account is credited against the proceeds of the payment instrument lodged in Same Day Clearing, before the close of operations/business day.
- v. Same Day Clearing shall be processed as per the following timeline:

Clearing Sessions	Collection by Clearing House	Delivery by Clearing House	Collection of Returns	Delivery of Returns
Same Day Clearing	10:00 am T+0	12:30 pm T+0	2:00 pm T+0	3:30 pm T+0

6.2 Overnight Clearing

- i. Banks shall ensure that payee account is credited against the proceeds of the payment instrument lodged in overnight clearing before the close of next business day.
- ii. Overnight Clearing shall be processed as per the following timeline:

Clearing Sessions	Collection by Clearing House	Delivery by Clearing House	Collection of Returns	Delivery of Returns
Overnight Clearing	5:30 pm T+0	9:00 am T+1	1:00 pm T+1	3:30 pm T+1

6.3 Intercity Clearing (Centralized)

- i. Banks shall centralize their clearing operations to make the Intercity Clearing more efficient provided inter and intra city cash withdrawals/payments through payment instruments are offered by the Banks to payees. Consequently, the practice of physical movement of intercity payment instruments shall be discontinued.
- ii. The Intercity Clearing shall be processed as follows:
 - a. Bank shall designate a branch in each clearing region for processing and clearing of any payment instrument drawn on the online branches of the Bank in other cities.
 - b. The Clearing House shall forward the intercity payment instruments in a separate bundle to the branches designated by the Bank for processing of Intercity Clearing.
 - c. The Clearing House and Bank's charges for clearing of intercity payment instruments shall be in line with intra-city clearing charges.
 - d. The designated branch shall process intercity payment instruments as per the timeline mentioned in these Guidelines.
- iii. Banks shall ensure that payee account is credited against the proceeds of the payment instrument lodged in Intercity Clearing before the close of next business day.
- iv. Centralized Intercity Clearing shall be processed as per the following timeline:

Clearing Sessions	Collection by Clearing House	Delivery by Clearing House	Collection of Return by Clearing House	Delivery of Returns by Clearing House
Intercity Clearing (Centralized)	5:00 pm T+0	9:00 am T+1	1:30 pm T+1	3:30 pm T+1

6.4 Intercity Clearing (De-centralized)

- i. Banks that do not have online branches shall conduct the clearing cycles as per the existing procedures. However, the banks shall process the intercity payment instruments on T+3 days.
- ii. Banks shall ensure that payee account is credited against the proceeds of the clearing before the close of T+3 days.

6.5 Settlement of Clearing Batches

- i. Clearing House(s) shall submit the batches of all Clearing cycles and their returns to SBP and SBP-BSC as mentioned in table below.

Clearing Sessions	Timings for Settlement
Overnight & Intercity Clearing (Centralized)	9:30 am
Intercity Clearing (Decentralized)	10:00 am
Same Day Clearing	1:00 pm
Overnight & Intercity Clearing Return	2:00 pm
Intercity Clearing Return (Decentralized)	1 :30 pm
Same Day Clearing Return	3:00 pm

- ii. Clearing House shall request SBP in writing to extend the cut-off time for settlement if:
 - a. It faces any system/operational issues
 - b. Clearing House is unable to process the payment instruments due to any force majeure event.

7 Clearing Operations in Remote Areas

7.1 Centralized Clearing

- i. In cities/towns where Clearing House services are not available, Payment instruments deposited by payee shall be cleared bilaterally between Collecting Bank and Drawee.

- ii. Drawee having online branches in such areas shall designate a branch in each city/town for centralized processing of Intercity as well as Intra-city Payment instruments on T+1 day.
- iii. In case Drawee branch is not located in the region/city of collecting branch, the Collecting Bank shall process the payment instruments through any nearest designated Drawee branch on T + 2 days.

7.2 De-Centralized Clearing

Banks that do not have online branches in remote areas/regions shall process the payment instruments as per the existing procedure and shall ensure that Payee account is credited on T + 1 and T + 4 days for Intra-city and Intercity Clearings respectively.

7.3 Settlement Procedure

- i. In cities/towns where Clearing House services are not available, Banks shall settle their clearing obligations through their respective treasuries/head offices using MT 202 in Pakistan Real-time Interbank Settlement Mechanism (PRISM). For this purpose, Banks shall devise a mechanism/internal procedures to be followed by their branches and treasury for smooth and timely settlement of payment instruments.
- ii. Banks shall credit the payee's account before the end of business days of T+1, T+2 and T+4, as described in Para 7.1 & 7.2. In case of any violation, SBP may impose penalty as per Section 74 of PS&EFT Act, 2007.

8 Compensation for Delayed Payments

- i. In case the Collecting Bank fails to credit the payee's account as per the timelines mentioned in these Guidelines, due to any reasons (like payment instrument lost during transit or error/discrepancy in payment instruments made by Clearing House or Bank during the processing of payment instruments), it shall pay the mark up @ 3% above the SBP policy rate to payee for the period of delay subject to determination and notification of the error as per Section 36 of the PS&EFT Act, 2007
- ii. Collecting Bank shall pay the compensation amount to payee's account without any claim from the payee within thirty-one days from the lodge of payment instrument by the payee.
- iii. In case the Collecting Bank is not responsible for the delay it can claim the compensation payment from Drawee or Clearing House whoever is responsible except in case the Drawee/Clearing House has declared force majeure.
- iv. Banks/Clearing House shall not be liable to compensate the payees in case the Bank/Clearing House declares force majeure. The Bank shall communicate the force majeure events to customers.

9 Responsibilities of Collecting Bank

- i. Collecting Bank shall formulate a policy for payment instruments' collection that should cover at minimum the timeframe for presentment of payment instruments, schedule of charges, timelines to credit the payee's account and compensation policy for delayed payments.

- ii. Collecting Bank shall ensure that post-dated and stale payment instruments are not presented by payee in clearing cycles.
- iii. Collecting Bank shall ensure that payee has written its name and International Bank Account Number (IBAN)/Account Number on rear side of the payment instrument.
- iv. Endorsements, clearing stamp and/or branch stamp shall be affixed on the payment instrument as per the PSD Circular No. 01 of 2014 and PSD Circular Letter No 2/2014 or any circular that may be issued by SBP thereafter.
- v. Collecting Bank shall process the payment instruments for the next business day clearing in case the payee presents it after the cut-off time as prescribed by the Collecting Bank in its payment instruments collection policy.
- vi. For on-us payment instruments, Collecting Bank shall ensure to make funds available to payee on the same day in cases where the Drawee branch is centralized.
- vii. Collecting Bank shall carefully prepare sealed bags containing 'Payment instruments', 'Add List', 'Bundle Cover' and 'Summary/Delivery Receipt' as per the format provided by the Clearing House. In case of any discrepancy/error in reconciliation of payment instruments, the Collecting Bank shall be liable for the actual damages incurred in this regard.
- viii. Sealed bags shall be prepared keeping in view the schedule of each clearing cycles mentioned in Para 6 & 7. In case of any delay, the payment instruments of such branch shall not be included in the respective clearing cycle.
- ix. Collecting Bank shall not allow its payee to recall/cancel the payment instrument once it has been submitted to the Clearing House.
- x. Collecting Bank shall provide the notification about the fate of each payment instrument to payee through SMS or any other appropriate means, where applicable. Collecting Bank shall not charge the payees for SMS more than it is paying i.e. on actual cost recovery basis.
- xi. In case of returned payment instruments,
 - a. Collecting Bank shall inform the payee through appropriate means i.e. SMS/email etc.
 - b. In case the payee fails to collect his/her payment instrument within 72 hours, a letter containing reasons for returned payment instrument(s) should be sent to payee's current mailing address requesting the payee to collect his/her payment instrument.
 - c. In case of a fake/forged payment instrument, Collecting Bank shall provide a copy of the payment instrument to the payee, along with the reason thereof.

10 Responsibilities of Clearing House

- i. The Clearing House shall develop transparent criteria for the direct as well as sub-membership of the Clearing House. The roles and responsibilities of the direct and sub-members regarding clearing processes and settlement shall be clearly described.
- ii. The Clearing House shall develop Clearing manuals containing operational details of different clearing batches that are being processed by it. The manuals shall contain separate chapters for different clearing batches as well as SOPs for the processing of

- each clearing batch. The Clearing House shall ensure that its manuals are in line with these Guidelines.
- iii. The Clearing House shall provide the sample documents along with pre-defined formats and entries that are required to be submitted by Collecting Bank and Drawee in sealed bags.
 - iv. The Clearing House shall develop internal policy/SOPs in consultation with its members to conduct Clearing operations during strikes/disruptions/natural calamities and communicate the same to its members by December 2017. All members shall comply with the instructions issued by the Clearing House, in this regard. The Clearing House shall seek prior approval from SBP for making any amendments or alterations to its policy.
 - v. The Clearing House shall make alterations/modifications to its Rules / SOPs as required by SBP from time to time, under notification to its members.
 - vi. The Clearing House shall specify branches and areas covered for clearing operations.
 - vii. The Clearing House shall not charge Drawee/Collecting Bank on account of Non-Standard Payment instruments if it complies with the standards specified by SBP-PSD Circular No. 01 of 2014, CPD Circular No. 1/2014 dated January 30, 2014, PSD Circular 4, dated November 4, 2015 or with any other instructions issued by SBP from time to time.
 - viii. The Clearing House shall prepare the sealed bags carefully. In case of any errors/discrepancies in Clearings or its returns and any errors occurred due to repairing of MICR line that results in delays or wrongful credits, the Clearing House shall be liable to pay the compensation as mentioned in Para 8.
 - ix. The Clearing House shall ensure the collection and delivery of Clearing/Clearing returns are as per the timelines mentioned in Para 6. In case of any delay it shall be liable to pay compensation as mentioned in Para 8.
 - x. The Clearing House shall not accept, in any circumstances, the returned payment instruments from Drawee after the cut of time, except in cases where the Drawee and Collecting Bank mutually decide to do so before the settlement of return batches at SBP/SBP-BSC. Such exceptions shall be recorded by the Clearing House along with the documentary proof.
 - xi. The Clearing House shall collect the Clearing bags from all branches even if there are no payment instruments in respective clearing cycles.
 - xii. The Clearing House shall refuse to accept the Clearing bags from the Collecting Bank/Drawee in case they are improperly sealed, tampered with or the seal is broken.

11 Responsibilities of Drawee

- i. Drawee shall ensure that the issuance of payment instruments conform to the standards specified by SBP vide PSD Circular No. 01 of 2014, CPD Circular No. 1/2014 dated January 30, 2014, PSD Circular 4, dated November 4, 2015 and any other instructions/regulations issued by SBP from time to time. Drawee shall be liable for any actual damages due to processing of Non-Standard Payment instruments.
- ii. In case Clearing bags are improperly sealed, broken or tampered, Drawee shall refuse to accept the Clearing bags and inform the Clearing House immediately.

- iii. Drawee shall reconcile the payment instruments carefully and in case of any differences it shall inform the Clearing House in writing and rectify the errors.
- iv. Drawee shall ensure that special crossing stamp bearing the Name of the Bank/Collecting Branch name/Clearing stamp bearing the value date is affixed as per the instructions issued by SBP via PSD Circular No. 01 of 2014 and PSD Circular Letter No 2/2014.
- v. Drawee shall be liable for actual damages/loss incurred due to processing of post-dated and stale payment instruments.
- vi. Drawee shall affix “Posted/Discharged” stamp on the honored Payment instruments and it shall retain the payment instruments in the safe custody as per the relevant laws.
- vii. Drawee shall provide the return memo along with the returned/dishonored payment instrument. The list of return codes are attached at Annexure-A.
- viii. In case of a fake/forged payment instrument, Drawee shall return the copy of fake/forged payment instrument along with return memo to Collecting Bank.
- ix. Drawee shall carefully prepare sealed bags containing returned payment instruments, bundle covers, add lists and signed Summary Delivery Receipts. In case of any discrepancy/error that results in delays, Drawee shall be liable as mentioned in Para 8.
- x. Drawee shall provide the copy of the payment instrument to the Drawer upon request.

12 Dispute Resolution Mechanism

- i. Banks shall have a well documented Consumer Grievance Handling Mechanism (CGHM) as per the Guidelines issued by BC&CPD vide Circular No. 1 dated February 29, 2016 and any other instructions issued by SBP from time to time. CGHM shall be made visible and accessible to the public as per the said Guidelines.
- ii. Banks shall resolve the clearing related issues/complaints within seven working days from the date of receipt of complaint.
- iii. In case a dispute arises between any Banks, the Bank(s) shall report the issue in writing to the Chief Executive Officer (CEO) of the Clearing House along with complete details of the dispute within ten working days from the date of receipt of complaint. In this regard, the following steps shall be taken:
 - a. An interim reply shall be given to customer after ten working days from the date of receipt of complaint.
 - b. The Clearing House shall convene a meeting of the Banks and resolve the disputes by mutual agreement within three working days.
 - c. All such disputes shall not take more than fifteen working days from the date of receipt of complaint for their resolution. However, the fraud related complaints shall be resolved within thirty days from the date of receipt of complaint.
- iv. The disputes that cannot be resolved amicably between the Clearing House and Banks within the specified time may be referred to Chief Manager of the respective SBP-BSC office.

- v. In case of any customer complaint regarding delayed credit, Collecting Bank shall pay the compensation amount to payee within thirty-one days from the date of receipt of complaint.

13 Disclosure Requirements

- i. Banks shall prominently display the cut-off time for presentment of payment instruments in each clearing session in all branches and on their websites. Further, the Banks shall also take necessary steps to keep the payee/drawer duly informed of the changes in any policies formulated by them from time to time.
- ii. Banks shall disclose the time for availability of funds in payees' accounts.
- iii. Banks shall clearly disclose the rights, responsibilities and liabilities of payee/drawer with respect to collection and clearing of payment instruments.
- iv. Banks shall provide a list of its centralized, decentralized and designated branches for processing of various clearing cycles on its website.

Annexure A: Return Codes

Sr. No	Codes	Details/Reasons
1	Funds:	
	1.1	Amount in words and figures differs
	1.2	Insufficient funds in Drawer's Account
	1.3	Unclaimed deposit - funds transferred to SBP
2	Payment instrument:	
	2.1	Date is missing
	2.2	Duplicate Instrument/Instrument lodged again in Clearing
	2.3	Fake Instrument
	2.4	Forged/Tempered Instrument
	2.5	Incomplete Instrument/Required details are missing
	2.6	Not Drawn on us
	2.7	Stale Instrument
	2.8	Payment instrument contains extraneous matters/conditional statements
	2.9	Post-Dated Instrument
2.10	Suspicious	
3	Account:	
	3.1	Closed/Inactive
	3.2	Dormant Account
	3.3	Blocked/frozen
3.4	Non-resident account, Form A-7 required	
4	Stamp:	
	4.1	Bank's Special Crossing required
	4.2	Clearing stamp required
4.3	Stamp date is invalid	
5	Payment:	
	5.1	Payment stopped by drawer
	5.2	Payment stopped on order of legal/court or any law enforcement agency
5.3	Payment cannot be processed due to force majeure event	
6	Drawer's signatures:	
	6.1	Alteration on payment instrument requires drawer's signature
	6.2	Signature is forged
	6.3	Signature is missing
6.4	Signature is unauthorized	
7	Endorsement:	
	7.1	Incomplete
	7.2	Forged
7.3	Collecting Bank's endorsement/discharge unsigned/irregular/illegible	
8	Miscellaneous:	
	8.1	Any other reason (Please elaborate below) ----- -----