

STATE BANK OF PAKISTAN

Digital Innovation & Settlements Department

Procedures and Operational Instructions for Pakistan Express Clearing System (PECS)

1. Objective

These Procedures set out the manner in which the requirements established under the PECS Rules shall be implemented and operated by participating institutions and the SBP Authorized Clearinghouse.

2. Overview

- 2.1 The operational premise of PECS is that an instrument is truncated at the presenting institution's branch and all subsequent steps in the clearing process are performed using the Electronic Image and its associated clearing data. The image shall be sent by the Presenting Institution to the Clearinghouse for onward transmission to the Paying Institution. The Pay/No-Pay decision by the Paying Institution shall be based on the electronic image. The physical instrument shall remain with the presenting institution until collected by the Clearinghouse. However, in case the paying institution has doubts about the veracity of the Instrument or contents of the image, it may mark the instrument as Defer for Physical.
- 2.2 The Instrument may be captured using two modes: Branch-Capture and Bureau-Capture. Branch-Capture shall be the primary mode where the branch of the presenting institution scans the instrument either at its own branch or at a nearby designated branch using a Compliant Scanner and transmits the Electronic Image via the Clearinghouse's System. In case, the presenting branch is unable to use the Branch-mode, it may use Bureau-Capture as a backup mode. Under Bureau-Capture, the Clearinghouse shall collect the Instrument, scan it, and transmit the electronic image to the Paying Institution.
- 2.3 The Clearinghouse shall issue the Clearing Calendar, the return reason-code catalogue, the scanner specification, the Image Quality Assurance (IQA) specification, the PECS technical specification, and operational implementation guidance.
- 2.4 The Clearinghouse shall prepare settlement batches and send them for settlement in PRISM+ (RTGS) for settlement as per the existing procedure.

3. Process Flow

- 3.1 The customer shall present the instrument at the presenting branch. The relevant official shall examine the instrument, and where the instrument passes the preliminary examination, the image shall be captured otherwise it shall be returned to the customer along with the reason for non-acceptance (Section-4.1 below).
- 3.2 If the presenting branch has a scanning facility available, they'll immediately scan the instrument. Otherwise, the instrument shall be routed to the nearest designated branch. Where designated

branch is not available, the instrument shall be routed for Bureau capture (Section 4.2 and 4.3 below).

- 3.3 The Image Quality Assurance (IQA) engine configured with the Presenting Institution shall perform the IQA against each scanned instrument. If the IQA is successful, the image shall be included in Image Cash Letter (ICL) files (batches) and transferred through the secured connectivity to the Clearinghouse (Section-4.4 to 4.6 below).
- 3.4 The presenting branch shall mark the instrument as **“Presented for Truncation”** (Section 4.7 below).
- 3.5 Upon receipt of the ICL batches from Presenting Institution, Clearinghouse shall perform the required validation and send the files to the Paying Institution (Section 4.8 to 4.10 below).
- 3.6 The Paying bank shall retrieve the images from Clearinghouse system, and determine the fate of Instrument as Pay, No-Pay, or Defer for Physical. Defer for Physical option shall be invoked if the Paying Institution is not satisfied with the veracity of the Instrument or its Electronic image (Section 4.11 to 4.21 below).
- 3.7 The Clearinghouse shall inform the Presenting Bank about the decision and prepare the settlement batches for submission to PRISM+.

4. Process Details

Instrument Deposit and preliminary examination

- 4.1 Upon receiving the Instrument from a customer, the presenting branch shall physically examine the instrument for apparent tenor, validity, authenticity and genuineness before capture. An instrument that fails preliminary examination shall not be truncated and shall be returned to the depositor at the counter with proper disclosure. The reason for non-acceptance shall be recorded in the branch record.

Image capture and quality assurance

- 4.2 An instrument that passes preliminary examination shall be scanned at the branch to produce a compliant Electronic Image along with the required clearing data set. Capture of instrument shall be performed on a Compliant Scanner, configured in accordance with the image specification agreed between the Clearinghouse and participating institutions.
- 4.3 Where a presenting branch has limited operational scanning capability, instruments deposited at that branch shall be routed to the nearest designated Branch for capture or presented through the nearest Bureau Service offered by the Clearinghouse.
- 4.4 The IQA engine of Clearinghouse system shall automatically screen each captured image against the defected conditions notified under the IQA standard. An image that fails IQA shall be re-captured. However, if an instrument repeatedly fails IQA, the branch shall re-examine the instrument physically, adjust capture settings or scanner condition as required, and, where a compliant image still cannot be produced, the branch shall make alternative arrangements like

capturing through nearby designated branch, Bureau Service, or presenting the instrument through Normal (Non-Truncated) clearing.

- 4.5 The Presenting Institution shall prepare ICL files containing the scanned images and comply with all necessary instructions in this regard. Before transmitting the image to the Clearinghouse, the presenting branch shall validate the captured clearing data against the instrument, with particular attention to the amount, date, the drawee routing and branch code, the instrument number and the account number.
- 4.6 Presentment shall be considered complete only when the Clearinghouse acknowledges receipt of a valid, IQA-compliant item; an item transmitted but not acknowledged is not “Presented for Truncation”. The presenting institution shall monitor for acknowledgment and resolve unacknowledged items before the applicable cut-off.

Franking or Marking the Instrument

- 4.7 The process of marking a physical Instrument is referred to as Franking. The presenting institution shall indelibly Mark or Frank the physical instrument as “Presented for Truncation” after receiving confirmation from the Clearinghouse that the instrument is IQA-compliant. Franking shall be carried out in a manner that enables the system to recognize that the instrument has been previously presented and that its image has been submitted in Clearinghouse system. Franking shall not obscure the drawer's signature, the amount fields, the date, the payee particulars, the crossing or the code line.
- 4.8 The Clearinghouse shall validate each item for structural completeness and data integrity, run duplicate detection against prior and concurrent presentments, record the item in the master clearing record with a timestamp, and make the Electronic Image and clearing data available to the relevant paying institution.
- 4.9 Items rejected during Validation shall be reported back to the presenting institution with the rejection reason. The presenting institution shall correct the identified issue and re-transmit. A validation rejection shall not constitute a return and shall not be communicated to the customer as a return.
- 4.10 Items flagged as suspected duplicates shall be quarantined by the Clearinghouse, and shall not form part of the clearing cycle, and shall be referred to the presenting institution for resolution. The presenting institution shall examine the franking and lodgment history of the underlying physical instrument, confirm whether an authorized lodgment exists, and respond to the Clearinghouse accordingly. A quarantined item confirmed as a genuine single presentment may be released for presentment and an item confirmed as a duplicate shall be withdrawn. The presenting institution shall monitor the fate of each presented item on the system until a final Fate is recorded.

Decisioning and Recording of Fate

- 4.11 The paying institution shall retrieve the Electronic Image and clearing data from the Clearinghouse system, and record the fate as Pay, No-Pay or Defer for Physical.
- 4.12 In the case of a Pay decision, the Clearinghouse shall inform the Presenting Bank of the decision and prepare the settlement batches for submission to PRISM+. The Paying Bank shall send an online notification to their customers about presentment of their instruments along with the Paid status, and shall debit their accounts. Accordingly, the Presenting Bank shall immediately credit the customer account and make the funds available.
- 4.13 In case of No-Pay decision, Clearinghouse shall inform the Presenting Bank about the decision and the instrument shall be excluded from the settlement batch. The Paying Bank shall send an online notification to their customers about presentment of their instruments along with the No-Pay status. Accordingly, the Presenting Bank shall also inform their customers about the No-Pay decision.

Defer for Physical (DFP)

- 4.14 DFP shall be invoked where a final decision can not be made properly on the Electronic Image. It is a controlled exception and shall not be used to obtain additional time, manage internal targets, or defer decisions that can reasonably be made on the basis of the Electronic image.
- 4.15 The paying institution shall record DFP against the item on the Clearinghouse portal by the applicable Return Session cut-off, with a valid reason code from the Return & DFP code catalogue agreed between the Clearinghouse and the member participants.
- 4.16 On receipt of a DFP marking, the Clearinghouse shall identify the specific original instrument held by the presenting institution and arrange its expedited delivery to the paying institution, in accordance with the timelines of the clearing cycle to which the deferred item is routed. Deferred original instruments shall be delivered separately from the routine periodic consignment and shall not be held back for that cycle.
- 4.17 The presenting institution shall release the specific deferred original instrument on the Clearinghouse's request and shall record the hand-off.
- 4.18 In intercity clearing, the Clearinghouse shall deliver deferred original instruments to the paying institution's Central Processing Unit (CPU) or an Assigned branch located in the city of presentment. This shall ensure that the fate of intercity instruments can be finalized within the prescribed clearing cycles. Where the paying institution specifically requires delivery to the Home Branch instead, delivery shall be made to that branch no later than two working days.
- 4.19 Upon receipt of the original instrument, the CPU or assigned branch, or the Home Branch, as applicable, shall record the final fate within the timeline prescribed for the relevant clearing cycle, so that the item is either cleared or returned. No item shall be left without a final Fate.

4.20 Where fraud, forgery or material alteration is suspected at the time of decisioning, the paying institution shall invoke DFP or request retrieval of the original instrument.

4.21 The Clearinghouse shall report DFP volumes, ageing and resolution times to SBP as part of the periodic clearing MIS, and shall bring persistent deferral patterns to the attention of SBP.

5. Operational Readiness

5.1 The presenting institution shall ensure that the branch has:

- Clearinghouse specification compliant Scanner
- robust primary and backup connectivity arrangements
- availability of secure storage for the safe interim custody of physical instruments (Section 8 below)
- availability and readiness of necessary access credentials for authorized personnel as per the requirement (Section 10 below)
- availability of trained staff in accordance with the requirements mentioned in Section 11 below

5.2 Presenting institutions shall progressively extend scanning capability across their branch network as per SBP mandated timelines.

5.3 Each participating institution shall nominate an appropriate focal person for PECS and share their contact details with SBP. Any change in the nominated focal person shall be communicated to SBP immediately.

5.4 The Clearinghouse shall provide participating institutions with connectivity details, portal user provisioning process, certificate enrolment process and testing environment required for onboarding. The Clearinghouse shall confirm successful end-to-end testing before a participant commences live presentment. Further, the Clearinghouse shall provide a fully functional and readily accessible Bureau Service for image capture as and when required.

5.5 Financial Institutions shall develop a new in-app facility for their customers through which the drawer can submit the date, payee name and amount of an instrument issued, prior to presentment. The corresponding retrieval facility shall present these details to the bank-user responsible for recording fate, alongside the presented item, to enable comparison at the time of decision.

5.6 Where the presented instrument does not match the details submitted by the drawer, the item shall be treated as an exception. The fate shall not be recorded as “Pay” until the exception is resolved. Resolution may be pursued through confirmation with the drawer, through inspection of the original instrument by invoking DFP, or by recording an appropriate No-Pay reason where the discrepancy is not capable of resolution within the cycle. The exception, the enquiry made, and its outcome shall be recorded.

- 5.7 Where an instrument is at or above a value threshold prescribed by SBP, or a threshold set by the institution under its own risk management framework, the paying institution shall apply enhanced verification before recording the fate as paid. Enhanced verification may include Call Back Confirmation (CBC), Multi-factor Authentication (MFA), or retrieval of the details submitted by the drawer prior to presentment in Section 5.5 above.
- 5.8 Where the drawer of a paid instrument requests a certified copy, the paying institution shall issue a certified copy of the Electronic Image together with confirmation of the Pay decision, the date of decision and the clearing reference, through its established customer-service channel, and shall log the request and its fulfilment. Banks shall clearly communicate the channel available for such requests.

6. Returns and Return Integrity

- 6.1 A No-Pay Fate shall carry a standardized return reason code from the catalogue agreed between the Clearinghouse and participating members. The code selected shall accurately reflect the actual ground of return. A general or “any other reason” code shall be used only where no specific code applies and shall be accompanied by an explanation.
- 6.2 No-Pay items shall be excluded from the Multilateral Net Settlement Batch (MNSB) and shall not be settled. The presenting institution shall inform the customer of the reason promptly on receipt of the return, using the reason as recorded and without substituting a different or softened explanation.

Return and deferral integrity

- 6.3 Each participating institution shall maintain a branch-wise record of all instruments returned and all items marked DFP, recording the reason code, the timestamp, the deciding staff member and the eventual resolution.
- 6.4 Each institution shall operate a monitoring process, at a frequency appropriate to its volumes and at minimum monthly, to identify branches or staff with anomalous return or deferral patterns. Indicators to be monitored include unusually high return rates relative to peer branches, repeated use of soft or general reason codes, returns concentrated near cut-off, and DFP events that resolve to Pay without a substantive defect having been found.
- 6.5 Where the monitoring process identifies returns or deferrals that were marked without proper cause, the institution shall investigate the matter, take punitive action against the staff or branch concerned, and record such action in its compliance register.

7. Clearing Cycles, Cut-offs and Cut-off Extension

- 7.1 Clearing shall operate through Truncation Cycles and Non-Truncation Cycles in accordance with the session schedule communicated by SBP.

- 7.2 In a Truncation Cycle: presenting institutions shall lodge Electronic Images and clearing data; the Clearinghouse shall validate and make items available to paying institutions; Paying institutions shall record fate before the MNSB submission time prescribed for that cycle; the Clearinghouse shall submit the MNSB to PRISM+ for settlement and presenting institutions shall release customer credit without delay upon Settlement Finality.
- 7.3 Items recorded as DFP shall be routed to the Non-Truncation Cycle designated for that purpose in the session schedule.
- 7.4 In a Non-Truncation Cycle: non-standard instruments collected up to the customer collection cut-off for that cycle, together with items routed as DFP, shall be processed. Paying institutions shall complete physical inspection and finalize fate in respect of both categories before the MNSB submission time for that cycle. The Clearinghouse shall submit the MNSB; and presenting institutions shall release customer credit without delay upon settlement Finality.
- 7.5 Where the Clearinghouse is unable to process a cycle within the prescribed cut-off owing to a system issue or an event beyond its reasonable control, it shall request SBP in writing to extend the cut-off for the affected cycle, stating the cause, the extension sought and the expected impact. The Clearinghouse shall record each extension and its cause in the periodic clearing MIS.

8. Custody, Retention and Retrieval of Physical Instruments

Custody of the physical instrument shall pass through three phases: interim custody at the presenting institution; delivery by the Clearinghouse; and archival custody at the paying institution. Chain of custody and an auditable record shall be maintained at every hand-off by the Clearinghouse.

Interim custody

- 8.1 From capture until collection by the Clearinghouse, the presenting institution shall retain each truncated instrument securely, in a manner that protects it against loss, damage, unauthorized access and unauthorized re-lodgment.

Delivery by the Clearinghouse

- 8.2 The Clearinghouse shall collect retained physical instruments from presenting institutions and deliver them to the respective paying institutions on a T+1 basis or as prescribed by SBP from time to time. Each consignment shall be accompanied by a manifest reconciling the physical instruments to the settled clearing record. Both the delivering and the receiving party shall acknowledge the hand-off, and discrepancies between the manifest and the consignment shall be recorded at the point of hand-off and referred to the Clearinghouse for resolution.

Archival custody and retention

- 8.3 On receipt of a consignment, the paying institution shall verify it against the manifest, take the instruments into archival custody and retain them securely for the applicable retention period.

The paying institution shall maintain an index enabling any retained instrument to be located and produced.

- 8.4 Retention of Electronic Images and associated clearing records shall be governed by the applicable statutory retention requirement; retention of original physical instruments shall continue to be governed by existing policies, practices and applicable legal and regulatory requirements.

Retrieval on demand

- 8.5 The custodian of a physical instrument shall produce the original instrument upon the valid request for the purposes of dispute resolution, investigation of suspected fraud or forgery, or legal proceedings.
- 8.6 Instrument retrieval requests shall be logged including recording the requesting party, grounds for the request, date of request, date of delivery of the instrument, and manner of production.

9. Management Information and Reporting

- 9.1 Participants and the Clearinghouse shall submit clearing MIS to SBP in the form and at the frequency prescribed by SBP. The MIS shall cover, as applicable:
- Volumes and values presented, settled, returned and deferred
 - Return statistics by reason code and deferral statistics with resolution times
 - IQA reject rates and validation rejection rates
 - Physical delivery performance and manifest discrepancies
 - Cut-off extensions and their reasons
 - Settlement failures and late settlements
 - Compensation claims received, acknowledged, resolved and recovered
 - Operational and security incidents affecting pecs.
- 9.2 Institutions shall retain the underlying data supporting each MIS submission and shall ensure that MIS figures reconcile to the master clearing record and to their own books.

10. Information Security and Access Administration

- 10.1 Electronic Images and clearing data shall be captured, transmitted, processed, stored and retained in a Secure System. Encryption shall be applied both in transit and at rest, with controls commensurate with the sensitivity of the data.
- 10.2 Access to Electronic images, clearing data and portal functions shall be role-based, uniquely attributable to a named user and logged. Capture, presentment, decisioning, override and administrative actions shall be traceable to the individual responsible. Shared or generic user accounts shall not be used for any PECS function.

- 10.3 Institutions shall maintain documented user-administration procedures covering provisioning, modification and prompt revocation of access on transfer or exit, segregation of duties between capture, decisioning and administration, and periodic review of user entitlements at least half-yearly.
- 10.4 Access to the PECS portal and all submission of data and images to the Clearinghouse shall use certificate-based authentication under the Public Key Infrastructure established for PECS, in addition to role-based access controls. Institutions shall manage certificate issuance, renewal, revocation and safe custody of private keys, and shall notify the Clearinghouse immediately of any suspected compromise of a key.
- 10.5 Electronic Images and their associated data shall be secured in a manner that ensures attribution to the presenting institution and tamper-evident from capture through archival. The Clearinghouse shall provide the necessary setup and issue implementation guidance to participating institutions in this regard.
- 10.6 Customer and account data handled in clearing process shall be used only for clearing, settlement, reconciliation, and dispute resolution.

11. Customer Awareness and Staff Training

- 11.1 Participating Institutions shall conduct public awareness activity through print, electronic and social media regarding the proper presentment of instruments and the safeguards that reduce the risk of fraud and forgery under truncation, including the significance of correct crossing, legibility, and the availability of the in-app facility described in Section 5.5.
- 11.2 Participating Institutions shall prominently display the customer presentment cut-off time for each clearing cycle at all branches and on their websites and shall keep customers informed of any changes to the Clearing Calendar.
- 11.3 Participants Institutions shall inform customers of their rights in respect of instruments cleared under PECS, including the right to a certified copy of a paid instrument, the applicable timelines for disputing a wrongly charged or wrongly cleared instrument, and the complaint escalation route.
- 11.4 Branch and operations staff shall be trained before a branch is designated for truncation, and on a continuing basis thereafter. Training shall cover the capture process and scanner operation, preliminary examination, IQA and re-capture, franking, data validation, the correct use of return reason codes, the proper use and limits of Defer for Physical, enhanced verification for high-value instruments, and custody obligations.

Annexure-A : Process Flow