



While the netting process related to inter-city clearing is piped through (Company Account) SBP General Account whereby *Banks' DAD Accounts are debited against SBP General Account in the city of payment on day one and thereafter Banks' DAD Accounts are credited against SBP General Account in the city of collection on the next day*. This process will have to be modified to create a simple single net. For this purpose NIFT will implement a single day cycle by transmitting the fate through secure electronic means. ***(In a composite netting environment the entries on SBP General Account may be dispensed with)***.

PROCESS SUMMARY - - - CENTRALIZATION OF NET

- There will be no change in the clearing procedure, reporting and functions. The change will have no effect at branch level.
- The existing cycle and accounting approach for Intercity Clearing will be altered to create a composite net for this product.
- NIFT will furnish composite nets of all automated centers at Karachi on a product-wise basis to State Bank of Pakistan at Karachi.
- Local SBP offices and main branches in different cities may make arrangements for obtaining copies of reports in existing format for control and management of reconciliation.
- NIFT to provide comprehensive details of NET position to member bank's Operations / Treasury offices in Karachi by secured email (Optional Service).
- NIFT may provide advance information to treasury departments (by secured email) so that they are assisted in fund management (Optional Service).



In actual practice the existing clearing software has been amended to create an electronic file in conjunction with each net (this amendment has already been implemented at a majority of NIFT's clearing centres). All these files will be securely transmitted to the Consolidation cell being established at NIFT in Karachi where the consolidation process will be executed to create the respective composite nets. The desired net will be transmitted to RTGS department at SBP employing secured email.

The consolidation cell will be in constant touch with the RTGS department at SBP and all exceptional cases like late receipt of nets from any of the centres will be handled as advised. Netting of special clearing operations for taxation closings etc will also be handled on the same lines.

INTERFACE WITH BANKS AND THEIR BRANCHES.

These changes will be transparent to the branches and they will continue to receive reports and instruments in the existing format, there will be absolutely no change in the basic clearing procedure. All branches of banks and their regional offices will continue to interface NIFT's local offices for enquiries, reconciliation and provision of images and data.

Since each Bank's consolidated position will be impacted in Karachi (for all cities) the respective main branches and treasury units at banks will be involved in some additional accounting and reconciliation efforts in order to exercise control over the consolidation process. As an optional service NIFT will endeavor to assist banks in the reconciliation process by providing detailed statements which will reflect their consolidated netting positions.

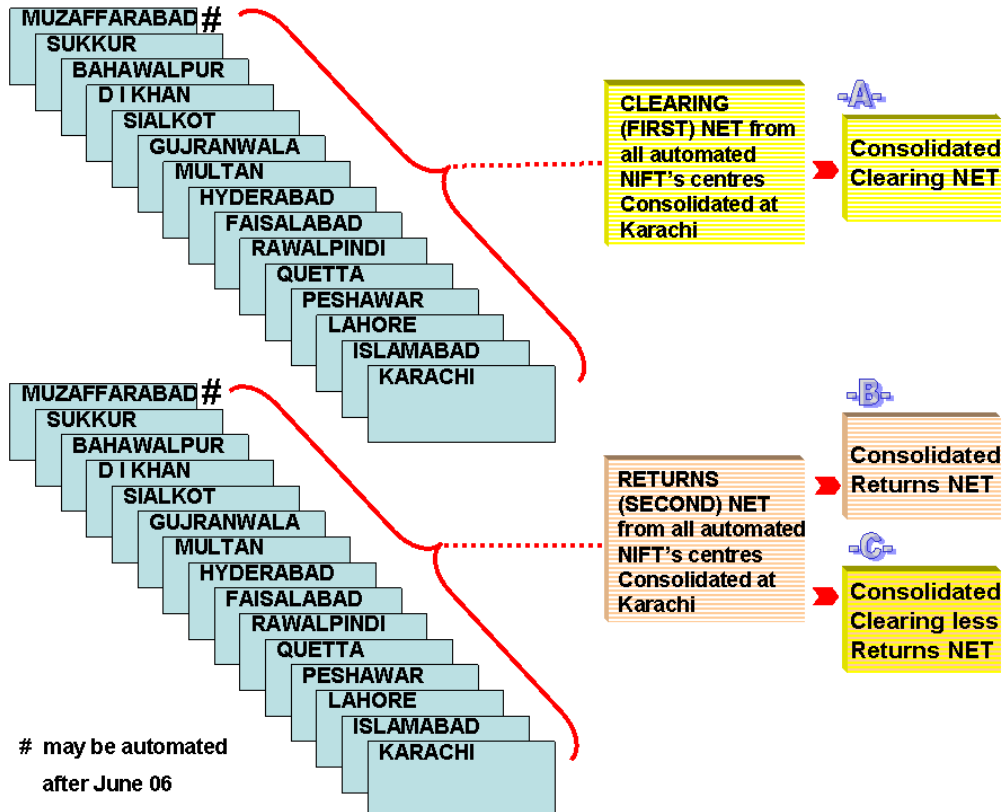
Furthermore, we could optionally provide advance information (through electronic channels directly from Karachi) of the respective banks' position to treasury departments by employing PKI security. All banks will need PKI security for this optional service and NIFT is equipped to offer this facilitation

INTERCITY CLEARING.

A slight change will be necessitated in the processing cycle of Inter-city Clearing: currently the accounting process of Inter-city clearing is spread over two days (debit in paying city on day one and credit at lodging / originating city on day two). This will be streamlined to provide consolidated nets. The debit will coincide with electronic intimation of the net to the lodging city on same day. Banks and their clients could also benefit by advance electronic intimation. (The returned cheques, if any, will be provided on the next day)

PROCESSING PARTICULARS:

The entire consolidation process will be managed by NIFT; data from all NIFT centers will be sent to NIFT, Karachi; on secure communication links. It will be consolidated by NIFT in Karachi and passed on to the State Bank of Pakistan. NIFT is creating a separate cell for this purpose. Within each product (Main Clearing, Same Day and Intercity) the generic processing logic will be identical.



The stipulated schedule for transmission of composite nets to the RTGS could be depicted as shown in the following table:

| <i>Net Position</i> | <i>Time</i> | <i>Selection</i> |
|---|-------------|------------------|
| 1 Main Overnight Clearing: Inward | 9.30 am ** | -A- |
| 2 Same Day High Value: Clearing - Returns | 2.30 pm ** | -C- |
| 3 Intercity Clearing: Clearing - Returns | 2.30 pm ** | -C- |
| 4 Main Overnight Clearing (Return) | 5.30 pm ** | -B- |

** projected closing times

It is obvious that the software is flexible to provide consolidated outputs as required by the RTGS department at SBP and NIFT would in a position to alter the above schedule at a very short notice.

INTRODUCTION:

The current approach involves decentralized netting at all cities; the new approach, as planned by the Payment Systems Department of the State Bank of Pakistan, envisages a netting on a country wide basis for each product.

Currently NIFT'S systems create separate nets by city and submit the same to State Bank of Pakistan in each city and the relevant net position is debited / credited to banks' current accounts in that city. The new system will require NIFT to collect nets from all automated centers and provide a consolidated net to the State Bank of Pakistan for entry into the RTGS system; hence, the countrywide net position will subsequently be debited / credited to banks' accounts centrally within the RTGS system in Karachi. (It may be relevant to mention that this has no bearing upon other operations in the local current accounts of banks in any city).

NETTING DETAILS:

As agreed there will be two aspects of the countrywide netting procedure:

- Basically nets from all cities will be consolidated by product:
 - Main Clearing,
 - Same-day High-value clearing and
 - Inter-city clearing.
- Same-day high-value clearing and intercity will also be netted out further so that the position provided will be inward less return.

The rationale for this approach is based upon the following:

Main Clearing – inward nets for the main clearing and returns will not be merged because of the fact that the time gap between inward presentation (9.00 am) and returns processing (early to late afternoon) is quite significant.

Same-day High-value clearing – time gap between inward net (12.00 am) and returns net (around 1.30 pm) for same day is too small and separate inward / returns netting for same day may actually cause delays.

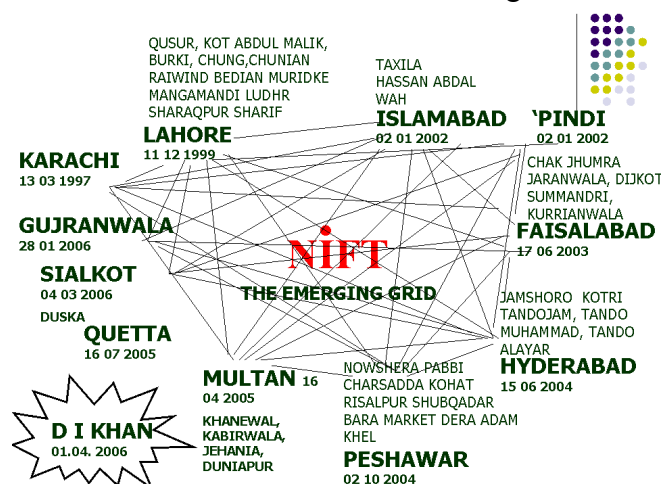
Inter-city clearing: This is a product with comparatively very low transaction amounts and the actual clearing dates may have to be synchronized through partial electronic processing as explained later.

Provision of consolidated nets to State Bank of Pakistan - Position March, 2006

The State Bank of Pakistan is now finalizing arrangements to commission the RTGS system by the end of June 06. The key element of change that will impact the clearing system is the centralized netting methodology. NIFT has carried out necessary preparations for this change inasmuch as the basic software amendments have been completed and tested.

Furthermore, the clearing automation process has been propagated to twelve cities and over 30 satellite towns. (These comprise of branches in areas adjacent to automated cities not previously covered by SBP and managed the settlement process through NBP or other means including cash payment) Of the remaining three cities two will be covered by June 06 – Muzaffarabad will be covered subsequently. A number of other satellite towns are also being annexed.

**NIFT'S CLEARING
GRID AS ON 1.4.2006
(ON START OF THE
D.I.KHAN CENTRE)**



At a meeting held in SBP, Payment Systems Department on 06-03-06 the following steps were considered essential for ensuring a smooth and systematic conversion to the new procedure:

- Commencement of parallel running atleast one month before the live operation.
- The State Bank of Pakistan, RTGS department to provide NIFT a sample consolidated net along with the relevant net data file prepared in appropriate format (as required by SBP) in order to elaborate and define their requirements. (A sample file was prepared by NIFT and sent for testing in 2005 but SBP have now advised that a lot may have changed since and, hence, this approach was considered appropriate).
- NIFT team to provide a document on process description.

The following pages are designed as the description of the process to be implemented at NIFT (designed and based on advice and discussions with the RTGS department).