



Central Bank of Nigeria

**Draft**

**NIGERIA BANKERS'  
CLEARING HOUSE  
RULES**

VERSION 0.10 (OCTOBER, 2009)



Central Bank of Nigeria

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## **1. PREAMBLE**

WHEREAS the Central Bank of Nigeria by CBN Act No. 7 of 2007 is to promote monetary stability and sound financial system in Nigeria.

WHEREAS the Central Bank of Nigeria by virtue of S. 47 of the CBN Act No. 7 of 2007 is charged with the duty of facilitating the clearing of cheques, credit instruments for banks and for this purpose to organize in conjunction with other Banks, clearing houses in such places as the Bank may consider necessary.

NOW THEREFORE the Central Bank of Nigeria, pursuant to S. 47 of the CBN Act of 2007 and having had consultations with banks duly established in Nigeria hereby issues the following rules for the guidance of all Nigeria Banks Clearing Houses.

### a. Objectives

The objectives of the NBCH are:

- (i) To provide a forum for the speedy and efficient collection of cheques, ACH, bills and other payment instruments payable or deliverable at or through offices of member banks of the NBCH by a system or systems of clearing.
- (ii) To draw up and prescribe from time to time standards for the use of the member banks of the NBCH in connection with clearing.
- (iii) To provide a mechanism for the settlement of clearing activities among member banks.
- (iv) To facilitate the implementation of an effective and efficient payment system in the Nigerian Banking Industry.
- (v) To do all such other lawful things as are incidental or conducive to the attainment of all or any of the aforementioned objectives.



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b. Scope

The Clearing House Rules shall be binding on all member banks of the NBCH with effect from.....

\*\* These rules supersede any previous NBCH rules

## **2. CONDITIONS FOR MEMBERSHIP**

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

- (i) Any bank wishing to become a member of the NBCH in any part of the federation shall apply in writing to the Director of Banking Operations Department on the prescribed form annexed herewith and marked Appendix I provided by the CBN. Membership shall imply membership of the appropriate Bankers Clearing House Committee.
- (ii) Any licensed bank that is not a member bank of the NBCH may enter into an agency agreement(s) with any member(s) of any NBCH for the purpose of accepting cheques drawn on it and for collecting cheques drawn on other banks
- (iii) A list of newly approved members of the NBCH shall be communicated to all clearing banks by the Clearing Superintendent.

## **3. MANAGEMENT OF CLEARING HOUSE**

- a. NBCH wherever located shall be administered by a committee. The committee shall comprise the representatives of clearing banks, the CBN and NIBSS where applicable.
- b. The CBN shall appoint the chairman of the committee, the Clearing House Superintendent and the Clearing House Superintendent Assistant(s).
- c. Each member bank shall appoint representatives to the committee who shall be the Head of Clearing or its equivalent in all branches. The name and status of such a representative shall be communicated, in writing to



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- the Chairman of the committee. Any representative of lower status shall not be admitted to committee meetings.
- d. Clearing sessions shall be presided over by the clearing superintendent and the assistant(s).
  - e. The decision(s) of the clearing superintendent shall be binding on all clearing representatives at any session. Any party dissatisfied with the decision(s) of the superintendent may at the end of the day's session appeal to the Head, Banking Services of the relevant branch of CBN.
  - f. A member bank shall be suspended from participating in any clearing session on the following reasons:
    - (i) 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 Settlement Bank shall be suspended from further participation in clearing house activities, nationwide.
    - (ii) Where the collateral so discounted is insufficient the settlement bank shall be suspended forthwith and further measures shall be taken in accordance to Section 2.7 of Attachment I;
    - (iii) When a settlement bank, persistently overdraws its settlement account maintained with the CBN
    - (iv) 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.
    - (v) Failure to provide acceptable or competent representatives at the clearing sessions despite a written notice issued by the Clearing Superintendent.
    - (vi) Failure to maintain adequate collateral with either the CBN in case of a settlement bank or its settlement bank in case of a



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non settlement bank *in accordance to the guidelines on the Nigeria banks clearing and settlement system (Attachment I).*

- (vii) When any member bank is suspended by the management of the CBN in the interest of the system for any other reason not hereto afore mentioned

#### **4. ELIGIBLE FINANCIAL INSTRUMENTS**

- a. Eligible financial instruments for clearing purposes shall include:
  - i. Paper instruments such as cheques, drafts, dividend/interest warrants, debit/credit notes, bankers payments, direct debits;
  - ii. Electronic payment instruments i.e. ACH (NEFT etc.) that are approved for clearing/settlement in the Automated Clearing House;
  - iii. Any other instrument that may be approved by the CBN.
- b. Each eligible financial instrument to be presented for clearing purposes shall not exceed the maximum amount as approved by CBN.

#### **5. DURATION OF HOLDING INSTRUMENTS**

- a. Paper Instruments:

Cheques lodged at the counter of any member bank shall be deemed paid Two (2) clearing days after the date of lodgment or 3 working days commencing from the day of lodgment.

- b. Electronic Instruments shall clear as follows:

- i. Electronic Instruments shall be presented to the clearing house within 24 Hours of receiving same from the originating customer unless the relevant service agreement dictates otherwise;
- ii. Direct Credits shall be applied to the beneficiary's account on the receiving date;
- iii. Direct Debits shall be deemed paid after two (2) clearing days or three (3) working days commencing from the day of lodgment.



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## **6. SETTLEMENT RULES**

- (i) The CBN shall appoint settlement banks, among member banks, from time to time for the purpose of settlement finality.
- (ii) Every non-settlement bank shall be required to appoint one of the settlement banks so designated as an agent bank
- (iii) Every settlement bank shall have the mandatory responsibility to maintain in credit its current account with the Central Bank of Nigeria and shall be required to deposit with the CBN the required clearing collateral and or any other securities such as NTB, NTC etc. the value of such collateral shall be determined from time to time by the CBN.
- (iv) Every non-settlement bank shall have the mandatory responsibility to maintain in credit its settlement current account with the settlement bank and shall be required to deposit with the settlement bank the agreed clearing collateral.
- (v) The clearing net settlement positions of such non-settlement bank shall be applied to the CBN settlement account of the settlement bank after every clearing session.
- (vi) The settlement activities between banks shall be in accordance with The guidelines on the Nigeria banks clearing and settlement system as set out in (Attachment I) hereto attached.
- (vii) The settlement and non-settlement banks relationships shall be governed by a properly executed agency agreement, a proforma of which is provided in Attachment I(Appendix).



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**SUMMARY OF CLEARING AND SETTLEMENT DAYS**

<u>INSTRUMENT TYPE</u>	<u>CLEARING PERIOD I.E. DURATION OF HOLDING INSTRUMENT</u>	<u>SETTLEMENT TIME</u>
1 Cheques (Fresh)	2 Days	Next Day
2 Cheques (Returned Items)	n/a	Same Day (Next day for second session)
3 ACH Credits (Fresh)	2 Days	Same Day
4 ACH Credits (Returned Items)	n/a	Same Day
5 ACH Debits (Fresh)	2 Days	Next Day
6 ACH Debits (Returned Items)	n/a	Same Day

**7. RETURN OF UNPAID INSTRUMENTS**

**(a) Time limit**

All financial instruments presented on member banks in any clearing area shall if unpaid be returned through the clearing house by the second (2<sup>nd</sup>) clearing day. Any unpaid instrument shall be returned through the clearing house. For the avoidance of doubt the time limit set for the return through clearing of any financial instrument drawn on branches in any clearing area are:

- (i) Cheques and all ACH - Second (2<sup>nd</sup>) clearing day or Third (3<sup>rd</sup>) working day commencing from the day of lodgment.
- (ii) Any financial instrument not returned on the last clearing day as stated in subsection (i) above shall be deemed paid and the collecting bank shall give value to its customer the next day except





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where a prior notice stopping payment had been sent to the bank within business hours of the last clearing day.

- (iii) All unpaid instruments must be returned through the clearing area where they were originally presented for clearing
- (iv) A paper instrument returned unpaid may be represented subject to a maximum of two (2) representations. After the third (3<sup>rd</sup>) time such an instrument shall not be represented.
- (v) The clearing cycle for both categories of instruments may be subject to review by the CBN from time to time in consultation with clearing banks

**CLEARING CYCLE OF PAPER INSTRUMENTS**

<b>TRANSACTION DAY</b>	<b>CHEQUE CLEARING CYCLE</b>
<b>MONDAY (T)</b>	Fresh cheques are deposited at bank branch
<b>TUESDAY (T+1)</b>	Cheques are presented at the clearing house
<b>WEDNESDAY(T+2)</b>	<ul style="list-style-type: none"><li>• Beneficiary Bank gets value</li><li>• Last/due date for the return of dishonored cheques</li></ul>
<b>THURSDAY (T+3)</b>	Bank customer receives value for cheques not returned

**(b) Reasons for returning instruments**

- (i) All clearing instruments returned unpaid shall bear a written reason for the cause of non payment. The reason shall be written on the instrument itself in generally accepted form and must not be at variance with actual fact.
- (ii) Reasons for return shall be as listed in Appendix II annexed hereto.
- (iii) Where an unpaid instrument is subject of any enquiry, the paying bank shall pass a debit note with a copy of the unpaid instrument through the clearing house to the collecting bank and shall indicate why the



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instrument is not paid. The original instrument may be returned to the collecting bank under confidential cover.

- (iv) Where the unpaid instrument is a fraudulent / spurious instrument, the Paying bank shall pass a debit note with a copy of the spurious instrument through the clearing house to the collecting bank. The paying bank MUST notify the presenting bank in writing and copy the Clearing House Superintendent.
- (v) Where cases of errors in the listing of clearing instruments occur or a wrong delivery is discovered, an adjustment will be made at the next clearing session by use of debit notes. Wrongly delivered clearing instruments shall be returned to the clearing house the next session following the session the wrong delivery was made.
- (vi) Where a paper item is delivered without a corresponding data transmission, the paying bank shall treat the instrument as a free item in line with the provisions of the Automated Clearing House Rules and Procedures (Attachment II annexed hereto). Such instruments must be returned to the presenting bank at the next clearing session, except where agreed between the banks to treat otherwise.
- (vii) Where data transmission is effected without the corresponding paper item or where wrong data is transmitted, such data must be returned to the presenting bank within the clearing period.

**(c) Delayed Application/Return of Direct Credits**

Clearing banks are required to apply inward direct credits to beneficiaries' accounts as prescribed in Section (7); a receiving bank that delays the application of direct credits or returns such outside the allowed window shall face appropriate sanction as approved by the CBN.

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



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## **8. HOURS OF CLEARING**

Clearing sessions shall commence each working day at 9.00 am or at such other times as the local circumstances and peculiarities may permit. Any other session shall be as stated in the automated clearing house rules (Attachment II)

## **9. CLEARING SESSION QUORUM**

The quorum of a clearing session shall be a simple majority of all settlement banks, including the CBN.

## **10. LATENESS TO THE CLEARING HOUSE**

Any member bank which arrives at the clearing house later than 15 minutes after the time scheduled for the clearing exercise shall not be allowed to take part in the session without the approval of the clearing house Superintendent.

## **11. LOCATION OF CLEARING HOUSE**

NBCH shall be located in premises as agreed by the CBN and the clearing banks.

## **12. OPERATIONAL COST OF THE CLEARING HOUSE**

- a. The CBN shall bear the operational cost of the NBCH where such is operated by it.
- b. NBCH members shall bear the operational cost of the NBCH where such is not operated by CBN.

## **13. MEETINGS OF CLEARING HOUSE COMMITTEE**

The committee shall meet at a place to be provided by the CBN on the last Wednesday of every quarter or any other day approved by the NBCH to discuss matters relating to the NBCH

- a. Attendance at meetings of the committee shall be mandatory and shall be a prerequisite for continued membership of NBCH
- b. A member bank may be penalized by suspension from participating in clearing activities for such periods as shall be determined by the CBN for non attendance at committee meetings without a



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satisfactory reason communicated in writing within five (5) working days before any scheduled meeting.

- c. Deliberations of the committee shall be recorded by the clearing house superintendent and presided over by the chairman. The recorded minutes shall be circulated to all members for adoption at the next meeting. A certified copy of the minutes of a meeting at which an amendment to these rules is proposed shall be forwarded to the Director of Banking Operations for necessary action.
- d. Meetings of the committee shall require a simple majority of the registered member banks.
- e. A member bank of the committee shall have one vote. The decisions of the committee shall be upheld by a simple majority vote count and where there is a tie, the chairman shall cast a verdict vote to break the tie and uphold a decision.

#### **14. RESPONSIBILITIES**

##### **(a) Responsibilities of members**

- (i) Clearing banks shall ensure that liability clauses are incorporated in all their account opening documentations and brought to their customers' notice while the said documents must be properly signed by the customer.
- (ii) At the end of every clearing session and upon the return of its representatives from the clearing house, a settlement bank must write a letter, signed in accordance with its mandate with the Central Bank, stating net figures for or against it as shown on the presentation form and signed by the clearing superintendent for the day. Such a letter must reach the Branch Controller before the clearing session following that to which the letter relates. The letter is not to be sent through the clearing house representatives.

Should there be any discrepancy, the Branch Controller must alert the bank during the next clearing session. Any settlement bank in respect of whom such a letter is not received within the specified period will be deemed to have accepted as correct the figure shown on the presentation form, for each clearing session.



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- (iii)** Every member bank shall subject to the agency agreement between settlement and non-settlement banks be represented at the clearing house by representatives who shall deliver and receive the documents to be cleared.

Each representative, in addition to his identity card, which shall be issued to him by his bank, should always have in his possession, whenever he is attending the clearing house on behalf of his bank, the clearing house entry card of member, which shall be issued to his bank by the CBN or NIBSS (where applicable). Such representatives shall:

-refrain from any activity that may bring discredit to his/her bank or disrupt the clearing session.

-conduct himself /herself with dignity in the house and respect and obey the clearing superintendent.

- (iv)** Member banks shall take full responsibility for the action of their own representatives. Members must send their representatives to the clearing house during clearing hours whether the member has any documents to pass through the clearing system or not.

- (v)** A presenting/collecting bank may be fully liable to the extent of any act of omission or commission including contributory negligence, that cause(s) any loss of funds through presentation of defective clearing instruments, if it fails to send a presentment caution letter to the paying bank.

- (vi)** A collecting bank that pays the proceeds of a defective forged instrument before maturity shall be fully liable for the loss of fund thereof.

- (vii)** A presenting/collecting bank shall be deemed negligent if:

**(a)** A customer's account is not properly opened and all documents required by regulation for opening of account are not obtained, cross-checked and verified according to established procedures.

**(b)** It fails to up-date its customer-information to ensure that its customers and their referees are genuine, with locatable addresses.



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- (c) A notice of caution is not sent to a paying bank branch with a copy sent to the chief inspector when:
- Instruments of large amount (N1m and above) are lodged into any account.
  - Instruments are lodged into dormant accounts, new accounts or salary accounts
  - Instruments of unusually large amount(s) is (are) lodged by a customer
  - Suspected spurious instrument
  - On the face of the instrument, irregularities such as erasures, post/stale date, mutilations, are evident
  - A special caution notice served at its presenting branch and/or head office/central clearing office within business hours before the due date is not acted upon. Such a caution notice will not be binding unless stamped 'Received and Confirmed'.
- (viii) A paying bank shall be absolved from liability if in the ordinary course of business it pays presented instruments in good faith, and in accordance with established banking procedures with proper and valid confirmation of its customers (where applicable)
- (ix) A paying bank that negligently pays a defective/forged instrument shall be:
- (a) Fully liable, up to the limit of available funds with the collecting bank, for any loss of funds arising from the payment of such instrument if not discovered within the stipulated clearing period;
  - (b) Liable if a caution notice served at its head office and/or the nearest branch of the paying bank or its central clearing office before due date is not acted upon.





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- (x) Both paying and collecting banks shall be jointly liable for any loss of funds due to defective instruments if they are both negligent in the clearing of the instruments.
- (xi) Caution Notices shall be processed in accordance to the provisions of the Electronic Caution Notice Rules, where applicable.

**(b) Responsibilities of members to Other Financial Institutions**

- (i) Clearing banks shall maintain properly signed and sealed Agency Agreement with any of their non-clearing financial institution customers that collect instruments (e.g. Primary Mortgage Institution, Microfinance Bank, Stock Brokers and Finance houses).
- (ii) *Settlement banks shall maintain properly executed Agency Agreement with their non-settlement banks. (Appendix of Attachment I)*
- (iii) The agreement shall contain adequate provisions that shall convey full liability to the institutions for any instrument they collect for clearing.
- (iv) *Where a paying bank is unable to return an instrument within the clearing period and has sent a special caution notice to the presenting bank the physical instrument must be returned to the presenting bank within 2 extra days failing which the presenting bank may give value without further recourse to the paying bank.*
- (v) *Paying bank must ensure that all caution notices delivered to their offices within normal banking hours are accepted. However, presentment caution notices must be delivered to the paying bank within the due date of the underlying clearing instrument.*

**(c) Responsibilities of members to Bank Customers**

Bank customers shall be entitled to receive value for their uncleared effects/instruments for collection on due date (where due date is a day after the last clearing day for the return of the instrument) without hindrance except where their instruments are dishonoured and returned



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unpaid to them within the stipulated clearing duration or are the subject of an inquiry/fraud.

Every Clearing Bank shall indicate the value date of a lodged cheque on the Cheque Deposit Slip, to properly guide the Bank customer.

## **15. RIGHTS**

- a Clearing banks may have recourse to their customer(s) through legal means as provided for by the laws of the Federation for any loss of funds attributable to the operation of their customers' accounts.
- b A breach of the NBCH Rules shall be handled as follows:
  - i. The complaining party shall communicate observed breach in writing to the offending party.
  - ii. The complaining party shall notify the Banking Supervision Department of CBN if after 10 work days there is no response/satisfactory response.
  - iii. The parties shall have recourse to the court of law in the event of unsatisfactory resolution of a breach at the CBN level.

## **16 DISCLAIMER**

- (a) CBN/Settlement banks in the conduct and settlement of clearing instruments, shall not incur any liability or additional responsibility other than that falling equally upon all member banks
- (b) Members of the NBCH shall not be liable for any errors and/or omissions relating to clearing settlement of any clearing session if the error or omission is not identified and reported in writing within reasonable time. Late reports of errors and/or omissions by member banks shall be bilaterally resolved between the affected members.





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## **17. ABUSES OF CLEARING PROCESS**

### **(a) Offences**

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

- (i) Drawing or accepting instruments on unfunded accounts by a bank.
- (ii) Persistent presentation of fake/forged instruments on other banks.
- (iii) Willful wrong presentation of instruments of high value on other banks.
- (iv) Banks charging beneficiaries for inward ACH credits.
- (v) Delayed presentation of customers' ACH items in the clearing house.
- (vi) Delayed application of inward ACH items.
- (vii) A bank refusing to pay its own instrument drawn on itself (Manager's Cheque/Draft).
- (viii) Any other act that may be determined by the Central Bank of Nigeria and / or NBCH committee from time to time as constituting an abuse of the clearing system.

### **(b) Sanctions**

Appropriate sanctions shall be imposed by the CBN and / or NBCH committee on any bank that commits any of the above listed offences.

## **18. INDUSTRIAL ACTION IN MEMBER BANKS**

- (a) The affected bank shall write to the CBN immediately the industrial crisis commences, if the crisis is such as to prevent the officials of the bank from attending any clearing session. The letter to the CBN shall be addressed to the Branch Controller with a copy sent



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to NIBSS(where applicable), Directors of Banking Operations and Banking Supervision Departments. A bank that fails to write as indicated above shall be deemed to be absent from the clearing house and shall be liable to appropriate penalty as may be determined by the CBN.

- (b) The Branch Controller or his agent shall make a formal announcement of the industrial action at the next clearing session.
- (c) Member banks shall reserve the right to reject financial instruments drawn on a bank that stays away from the clearing session for more than two (2) consecutive working days due to industrial action until the bank resolves its industrial crisis and returns to the clearing house.
- (d) Any bank returning to the clearing house after an industrial crisis shall give a day's notice in writing to the Branch Controller with copies to NIBSS(where applicable), and all member banks of its intention to return to the clearing house and may return to the house the next day.
- (e) In the case of instruments, which had gone through the clearing before the industrial action started in the member bank, one additional day of grace shall be counted for the value dates of the instruments above the normal clearing duration ***from the date the member bank returned to the clearing house.***

## **19. INDUSTRIAL ACTION AFFECTING CLEARING HOUSE LOCATION**

In the event of an industrial action affecting the location of the clearing house (Clause 11), which prevents the clearing house from sitting, clearing activity may be conducted in a temporary place, which shall be arranged by the First Bank of Nigeria Plc. in conjunction with any other bank(s).

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

In the case of instruments, which had gone through the clearing before the industrial action started, one additional day of grace shall be counted for the value dates of the instruments above the normal clearing duration *from the date they resume clearing operations.* Where a temporary place could



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not be arranged while the industrial crisis lasts, *banks may present their instruments direct to the Clearing office in that location or the head Offices of the banks on which the instruments are drawn and they shall observe the normal clearing duration as applicable.*

## **20. NATIONAL EMERGENCY**

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

## **21. AMENDMENTS**

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

## **22. ADJUDICATION ON DISPUTES**

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

## **23. DEFINITIONS**

- (a) **ACH:** Any form of electronic payment instruments (single or bulk items) facilitating direct credit or direct debit to target bank accounts, through the Automated Clearing House infrastructure.
- (b) **Clearing bank:** All banks approved by the CBN to participate in clearing House activities. These could be settlement or non-settlement banks
- (c) **Clearing day:** Where there are more than one clearing session within a day, the sessions will make up one clearing day. Clearing days start to count from the date the instrument is presented through the Clearing House.



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- (d) **Clearing session** means the period between the commencement and closing of clearing business on each working day.
- (e) **Committee** refers to NBCH Committee. i.e a committee of all clearing banks
- (f) **NBCH**: Nigeria Bankers Clearing House
- (g) **NEFT**: NIBSS Electronic Funds Transfer
- (h) **NIBSS**: Nigeria Interbank Settlement System Plc
- (i) **NTB**: Nigeria Treasury Bills
- (j) **NTC**: Nigeria Treasury Certificate
- (k) **Paying bank**: This is the bank that is expected to give value on the instrument presented for clearing
- (l) **PBCC**: Participating Bank Clearing Center
- (m) **Presenting bank**: The bank that receives value for the proceeds of the instrument presented for clearing. Otherwise known as the collecting bank.
- (n) **Settlement Banks**: these are clearing banks that are appointed by the CBN to clear and settle for themselves and other clearing banks, known as non-settlement banks. Settlement banks hold accounts with the CBN for the purpose of settling NBCH clearing positions.
- (o) **Working days** start to count from the date of lodgment of the instrument with the collecting banks. 'Working day' includes Mondays through Fridays excluding public holidays.

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**APPENDIX I - CLEARING HOUSE APPLICATION FOR MEMBERSHIP**

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

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

AND WHEREAS the \_\_\_\_\_

A BANK DULY LICENCED TO OPERATE in Nigeria is desirous of becoming a member of the \_\_\_\_\_ Clearing House upon the conditions herein after appearing in this application.

AND WHEREAS I \_\_\_\_\_

Being a \_\_\_\_\_

Of the said \_\_\_\_\_ and duly authorised

In this behalf in the manner required by law and the memorandum and Articles of Association of the said \_\_\_\_\_

And with the intent that the obligations hereby undertaken shall be binding upon the said \_\_\_\_\_

I, \_\_\_\_\_ authorized as

aforsaid and with the intent before mentioned, hereby apply for and on behalf of

the \_\_\_\_\_ that the said



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\_\_\_\_\_ be admitted into  
fully and complete membership of the clearing House and that in consideration  
of the exercise, enjoyment and use of the facilities, rights  
and privileges whatsoever of the clearing House the said

\_\_\_\_\_ hereby in consideration of the acceptance of the application herein made,  
undertakes for itself servants and/or agents to be bound by any Rules,  
regulations, Conditions and Stipulations whatsoever duly promulgated and in  
force from time to time in respect of the \_\_\_\_\_ Clearing House and  
its operations and with the intent that the rights, privileges and obligations that  
will arise on the acceptance of this application shall be mutually enforceable by  
the due process of law as between the Clearing House Organisation and the  
applicant herein-named.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_\_

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

The Central bank of Nigeria

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

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

\_\_\_\_\_ 19 \_\_\_\_\_

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



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**APPENDIX II- REASONS FOR RETURNING INSTRUMENTS**

- 1 Account Attached
- 2 Account Closed
- 3 Account Dormant
- 4 Account Name and Account number differ
- 5 Account Non-existent
- 6 Account not funded
- 7 Account Not valid for Clearing/Electronic Payment
- 8 Bank not in Clearing
- 9 Cheque drawn in foreign currency. Please present specially
- 10 Cheque incompletely drawn
- 11 Cheque Mutilated
- 12 Crossed to two banks
- 13 Drawer deceased
- 14 Drawer's attention required
- 15 Drawer's confirmation required
- 16 Endorsement irregular
- 17 Incomplete/Irregular Mandate
- 18 Material alteration, requires drawer's signature
- 19 Missing paper item
- 20 Payment stopped
- 21 Presentation/Crossing stamp required
- 22 Represent
- 23 Represented more than the allowed number of times
- 24 Spurious/forged cheque
- 25 Stale/Post-dated
- 26 Words and figure differ
- 27 Wrong delivery





Central Bank of Nigeria

## **ATTACHMENT I - GUIDELINES ON THE NIGERIA BANKS CLEARING AND SETTLEMENT SYSTEM**

### **GUIDELINES ON NIGERIA BANKS CLEARING AND SETTLEMENT SYSTEM**

#### **Introduction**

Pursuant to enhancing the efficiency of the payments system, it has become necessary to provide a viable framework for managing the settlement positions of banks. This is aimed at ensuring settlement finality at the CBN, given the important role that a well functioning payments system has on monetary policy, financial stability and overall economic activity.

All banks will continue to maintain a single account with the CBN. While the single account to be maintained by a Settlement Bank will be known as a Settlement Account, the single account to be maintained by a non-settlement bank will be known as an Operations Account.

The following procedures will guide the operations of the Clearing and Settlement system:

#### **General**

1. The Central Bank of Nigeria (CBN) in pursuance of Section 47 of the CBN Act, 2007, will ensure that appropriate Rules, Standards and Procedures exist and are observed for the effective operation of the Clearing and Settlement System.
2. Settlement Banks must ensure that they and their non-Settlement Banks are fully conversant with the Nigeria Bankers' Clearing House (NBCH) Rules, procedures and standards necessary for the efficient and secure running of the daily clearing process, nationwide.





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3. Members of the Nigeria Bankers' Clearing House (the House) must report any problem that may have a detrimental effect on the daily operation of the House to the Clearing House Superintendent and the Director, Banking Operations Department of the CBN.
4. Settlement banks must be financially accountable for the settlement of their financial instruments and those of their non-settlement banks that they settle for.
5. Settlement banks must maintain a minimum of the prescribed clearing collateral, at the CBN and to the satisfaction of the Bank so that amounts for settlement can be applied by the Bank without delay, and to achieve settlement finality.
6. It is the duty of the settlement banks to submit for clearing, technically accurate data and paper clearing instruments. They must ensure that the data and paper clearing instruments are processed correctly and adhere to the relevant standards and Service Level Codes, in accordance with the Nigeria Bankers' Clearing House Rules and Procedures.
7. It is the duty of settlement banks to accept all the clearing instruments, whether paper or electronic, presented to them and their non-settlement banks. Subsequently, they or acting on behalf of their non-settlement banks may return or recall such instruments/electronic data, as are allowed within the Clearing House Rules.
8.
  - (a) The relationship between the settlement banks and any non-settlement banks shall be governed by an agency agreement entered into between the two parties.
  - (b) Pursuant to 8(a) where the non-settlement bank account with a settlement bank is not adequately funded, an appropriate amount of the clearing collateral shall be immediately rediscounted. The amount of clearing collateral that has been utilized to fund the account shall be replaced within 24 hours, failing which the settlement bank may decline to present or receive clearing instruments on behalf of the non-settlement bank.



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- (c) A settlement bank must give the CBN and the non-settlement banks it represents four (4) weeks notice before terminating its agency agreement for any other reason apart from 8(b) above. Similarly, a non-settlement bank must give the CBN and the settlement bank

representing it four (4) weeks notice before terminating the agency agreement.

9. Pursuant to section 8(b) above, the agency agreement shall specify a clearing collateral to be pledged by the non-settlement bank to the settlement bank. The minimum clearing collateral to be pledged by a non-settlement bank shall not be less than N250 million, which shall be reviewed from time to time.

## **2.0 Clearing Instruments and Collateral**

- 2.1 It is the duty of the Settlement Banks to be able to send and receive clearing instruments/data files to and from the Clearing Houses.
- 2.2 Financial instruments to be exchanged at the clearing house shall be subject to approval by the CBN which will consider their suitability, with reference to the national technical standards and to any other requirements prescribed by the Bank, in conjunction with the Bankers Committee, regarding the size, shape and form of the instruments and the materials used in their production.
- 2.3 The Settlement Banks shall provide clearing collateral to the CBN in Nigerian Treasury Bills.
- 2.4 The level of collateral shall be determined by CBN on an annual basis; the collateral amount shall be sum of highest (debit) settlement position of individual settlement banks for the immediate preceding one year, divided equally among the settlement banks.



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- 2.5 All Settlement Banks must ensure that their Settlement Accounts with the CBN are appropriately funded at given times.
- 2.6. 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 Settlement Bank shall be suspended from further participation in clearing house activities, nationwide.
- 2.7 Where the clearing collateral is insufficient to fund a debit settlement position, the CBN shall apply its regulatory powers as it deems fit. The principle of unwind shall not be an option under this rule.
- 2.8 In the event of any clearing bank being suspended from participation in clearing house activities, the NBCH shall be given a notice of one clearing session to allow for return of cheques presented on such a bank. This is to resolve the settlement problems that may result from such a suspension.

### **3.0 CONTINGENCY PLANS**

- 3.1 Settlement Banks shall provide adequate contingency for both Outward and Inward clearing, to ensure that they can continue to provide clearing and settlement services to the non-settlement banks, in the event of a major disruption to their operation.
- 3.2 Pursuant to 3.1 all Settlement Banks shall have adequate proxy agreements with each other for the purpose of providing clearing and settlement services to the non-Settlement banks.
- 3.3 In the event of developments that may prevent banking operation, especially the disruption of outward and inward clearing process or data transmission, the financial instruments of the non-settlement



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bank shall be presented/received in the clearing house by its proxy with which it has agency agreement.

The net Settlement position shall be posted into the Settlement Bank's Account with the CBN

#### **4.0 Outward Clearing**

It is the duty of all Settlement Banks to ensure that paper items and the corresponding clearing data files conform to the relevant Standards and are presented in accordance with these guidelines as well as the National Clearing House Rules. Consequently, a Settlement Bank must ensure that:

- 4.1 The crossing stamp of the non-settlement bank is visible on all paper items passing through the Zonal Clearing House (ZCH).
- 4.2 Any returned and received unpaid items can be traced to the relevant office of the non-settlement bank.
- 4.3 Individual items bear appropriate sort codes and are appropriately encoded. All clearing items for the clearing house must be posted encoded with the amount in line with NACS standards.
- 4.4. The items are presented in accordance with the Agency Agreement place between the Settlement Bank and its Non-Settlement Bank.

#### **5.0 Outward Exchange Financial /Data Files**

- 5.1 It is the duty of the Settlement Banks to effect the delivery of the various items for exchange at the clearing house within the limits established in the exchange time table.
- 5.2 It is the duty of presenting Settlement Bank to deliver items prepared



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for presentation to the correct Receiving Settlement Bank and send/deliver/transmit clearing data files it has created from the paper to the ZCH.

- 5.3 Upon receipt of the items at the ZCH by the receiving Settlement Bank, it has a duty to ensure that the items are securely delivered to its non-Settlement Bank.
- 5.4 Subject to the Agency Agreement, non-Settlement Banks that already possess PBCC/NACS equipment, may:
  - 5.4.1 Make use of their clearing equipment to process their own cheques and deliver the data files to the Settlement Bank's Clearing Centre for verification. Such a non-Settlement Bank should transmit directly to the accounts of the respective Settlement Banks representing them in the Clearing House.

## **6.0 Inward Clearing Data/Files**

Subject to the Agency Agreement between the Settlement Bank and the non-Settlement Bank, the following procedure shall apply:

- 6.1 A Receiving Settlement Bank must perform a sufficient check of all items received to ensure that the correct financial instruments have been received.
- 6.2 The cheques so received shall be promptly delivered to the Non-Settlement Bank in accordance with the Agency Agreement.
- 6.3 A receiving Settlement Bank as well as a paying bank must perform adequate checks on all items received, to identify instruments with no corresponding entries on the clearing data files received on the same day before processing the items. It must also process the papers on the same day of receipt, to locate individual items that have been wrongly delivered.



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6.4 The final net settlement positions of the Settlement banks shall be made available after the clearing sessions, to the CBN for settlement finality.

## **7.0 OBLIGATIONS**

### **7.1 OBLIGATIONS OF SETTLEMENT BANKS**

7.1.1 Settlement Banks shall clear and settle for all non-Settlement Banks that have accepted to clear through them.

7.1.2 Settlement Banks shall ensure they post into the account of each of the non-Settlement banks with them the net settlement position of the non-Settlement banks from all the CBN clearing zones.

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

### **7.2 OBLIGATIONS OF THE CBN**

7.2.1 The CBN shall maintain Settlement Accounts for each of the Appointed Settlement Banks, into which shall be posted all the net settlement positions (Debit/Credit), of each of them, including the net settlement position of their respective non-settlement banks.

7.2.2 The CBN shall provide statements of the Settlement accounts in all clearing centres not later than 9.00 a.m. next business day.

7.2.3 At the end of the clearing session in each of the clearing centres, the



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CBN shall transfer the net settlement positions of the appointed Settlement Banks to their Head Office Settlement Accounts with the CBN.

- 7.2.4 The CBN shall provide an information centre that will enable the Settlement Banks have access to prompt information relating to their Settlement Accounts as may be required.
- 7.2.5 In the event of a Settlement Bank being stripped of its settlement status for reasons other than those stated in para. 2.5 above by the CBN, the Bank shall grant a maximum of one month notice to that Settlement Bank and its non-settlement banks.
- 7.2.6 Any absence from the clearing house should be communicated in writing to all relevant banks at least 48 hours before such absence will take effect.
- 7.2.7 Settlement Banks that were previously absent from the clearing house should inform the Clearing Superintendent and other banks in writing at least a session before their resumption.

## **8.0 OBLIGATIONS OF NON-SETTLEMENT BANKS**

- 8.1 Obligations of the non-settlement banks are stated in the attached Appendix.
- 9.0 Pursuant to the implementation of this Settlement System, the Cash Drawing Facility hitherto in use at the CBN Branches by deposit banks shall be abolished.

**BANKING OPERATIONS DEPARTMENT  
9<sup>TH</sup> MARCH, 2004**





Central Bank of Nigeria

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

**WHEREAS:**

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

**NOW THIS AGREEMENT WITNESSES AS FOLLOWS:**

**1. RESPOSIBILITIES OF THE SETTLEMENT BANK**

That in pursuance of the said agreement and in consideration of the payment of fees to Settlement Bank by Non-Settlement Bank of the sum mentioned in clause (7) being processing and settlement fees respectively. Settlement Bank hereby agrees to process Non-Settlement Bank’s clearing instruments and represent it at the Clearing House and settle Non-Settlement Bank’s net settlement position, subject to clause 12, the following conditions:





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- a) Settlement Bank shall for the duration of this agreement be the sole representative of Non-Settlement Bank on an exclusive basis at the Clearing House.
- b) Settlement Bank undertakes to accept Non-Settlement Bank's physical instruments and process them for payment after which the net settlement position shall be credited and/or debited (as the case may be) to the settlement account of Non-Settlement Bank with Settlement Bank.
- c) Settlement Bank will ensure that physical instrument(s) to be presented at the Clearing Session shall be prepared in the prescribed format for transmission to the clearing house as prescribed in the Clearing House rules and procedures
- d) Settlement Bank will thereafter exchange the physical instruments of Non-Settlement Bank and its own instruments as may be required at the Clearing House with representatives of other settlement banks.
- e) Settlement Bank will make the inward clearing instruments and reports of Non-Settlement Bank instruments collected from the Clearing House available for pick up by Non-Settlement Bank's authorised representative (as notified to Settlement Bank) immediately after the end of each clearing session.
- f) Settlement Bank will ensure that it is represented at the Clearing House each working day at all the clearing sessions.
- g) Settlement Bank will, to the best of its ability represent the interest of Non-Settlement Bank at the Clearing House.
- h) Settlement Bank will inform Non-Settlement Bank of any changes that occur in the Clearing House immediately the information is received by Settlement Bank.
- i) Delivery of all instruments between Settlement Bank and Non-Settlement Bank must be duly acknowledged by the authorised representative of the receiving bank as notified to the other party.



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- j) Settlement bank will be held responsible for ensuring that the net credit settlement position is transferred to the non-settlement bank's Account with the CBN, in accordance with NACS guidelines.

## **2. RESPONSIBILITIES OF NON-SETTLEMENT BANK**

- a) Non-Settlement Bank will ensure that its instruments conform to the required standards as approved for the Nigerian Banks Clearing System.
- b) Non-Settlement Bank will ensure that it provides the physical instruments and other information as required by Settlement Bank in the format specified for Nigeria Automated Clearing System (NACS).
- c) In accordance with the clearing rules and Know Your Customer (KYC) guidelines of CBN, Non-Settlement Bank shall maintain current and up to date information on its customers.
- d) Non-Settlement Bank shall be responsible for ensuring that all instruments delivered to Settlement Bank for clearing purposes are prima facie good instruments and that person or persons presenting any instruments to Non-Settlement Bank are duly authorized and entitled so to do.
- e) Non-Settlement Bank agrees to indemnify and hold Settlement Bank harmless in respect of any liability and/or loss whether direct or indirect that may arise as a result of this agreement. Accordingly, Non-Settlement Bank hereby undertakes to be primarily responsible and liable for all instruments presented for clearing through Settlement Bank and in case of any diversion, conversion, instrument cloning and/or any other fraudulent dealing in respect of any instrument presented for clearing by Non-Settlement Bank through Settlement Bank, Settlement Bank is hereby indemnified and held harmless from any loss arising therefrom and Non-Settlement Bank shall make good whatever loss and/or liability that may arise from such dealings without involving Settlement Bank and in case Settlement Bank is called upon to answer to any of such charges, Non-Settlement Bank shall take over the charges and make good the loss without involving Settlement Bank.



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- f) Non-Settlement Bank shall comply with NACS' guidelines for cheque Clearing and Settlement, which guidelines will be made known to Non-Settlement Bank for purposes of efficient and hitch free operation of these presents.

### **3. OPERATIONAL MODALITIES**

- a) The Non-Settlement Bank shall deliver to the Settlement Bank all its clearing instruments physically with or without electronic data and shall ensure that the clearing instruments are delivered before \_\_\_\_\_ a.m./p.m on the day preceding the 1<sup>st</sup> clearing session or before \_\_\_\_\_ a.m for the second clearing sessions in a secured medium.
- b) Where the clearing instruments are to be delivered physically without electronic data, Settlement Bank undertakes to accept Non-Settlement Bank's physical instruments and process them for presentment at the Clearing Centre.
- c) Where the clearing instruments are to be delivered with electronic data Non-Settlement Bank shall ensure that the electronic data of the physical instruments to be presented at the clearing session is prepared in the format requested by the Zonal Clearing House (ZCH) as stated in the Nigerian Automated Clearing House Rules and Procedures.
- d) Settlement Bank will thereafter exchange the physical instruments as may be required at the ZCH with representatives of other settlement banks. Settlement Bank will ensure that Non-Settlement Bank have access to its settlement positions as advised by the ZCH.
- e) Settlement Bank shall transfer the net credit of the non-settlement bank to its operations account with the CBN within 24 hours, in line with the agency agreement.
- f) Without prejudice to the provision of the preceding paragraph, the Non-Settlement Bank cannot be allowed to overdraw its non-chequing account. Where the Non-Settlement Bank ends the day with a net debit clearing position, the Settlement Bank shall have recourse to the Non-Settlement Bank's clearing collateral pledged pursuant to the Agreement.



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#### **4. SECURITY/COLLATERAL FOR CLEARING AND SETTLEMENT OF NON-SETTLEMENT BANK'S CHEQUES**

- a) Non-Settlement Bank shall open a non-chequing account with Settlement Bank, to be designated "Settlement Account" wherein the net clearing position of Non-Settlement Bank shall be credited and/or debited as may be appropriate after each clearing session.
- b) Non-Settlement Bank shall also pledge with the Settlement Bank, Treasury Bills which shall not be less than ₦\_\_\_\_\_ million as per the guidelines, and the Treasury Bills shall constitute collateral security for any debit balance in the Settlement Account.
- c) In the effect of non funding, Settlement Bank is hereby authorized without further recourse to Non-Settlement Bank to re-discount Non-Settlement Bank's Treasury Bill in (b) above for purposes of recovering and netting off the debit balance in the Settlement Account.
- d) In the event of any shortfall in the clearing collateral arising from a rediscounting, a Non-Settlement Bank shall make up the shortfall in the clearing collateral (Treasury Bill) before the commencement of the next clearing session from the date of re-discount in order to bring the aggregate value of the investment up to the minimum value as specified in (b) above.
- e) Non-Settlement Bank undertakes to bear the cost of re-discounting the Treasury Bills necessitated by a need to recover the debit balance in the Settlement Account.

#### **5. ACCESS**

In accordance with the Agency Agreement,

- a) Settlement Bank will provide Non-Settlement Bank with electronic viewing access to the Nigeria Automated Clearing System at Non-Settlement Bank's premises by allowing it to view its net settlement position in the Clearing House, or as agreed by the two parties.



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- b) Settlement Bank will provide Non-Settlement Bank with the infrastructure to electronically view their net settlement position on the NACS such as Personal Computers in the Settlement Bank premises.
- c) The Settlement Bank will provide the Non-Settlement Bank with daily statement of its Settlement Account showing the net settlement position.
- d) The Settlement Bank will ensure that all relevant equipment as approved for the NACS such as Reader-Sorter and inter-connectivity between NIBSS and CBN are installed and functional.

**6. RETURNED ITEMS**

The Settlement Bank will consider an inward clearing instrument deemed to have been honoured or paid unless the Non-Settlement Bank delivers the instruments to be returned unpaid to the clearing house to a Settlement Bank at the latest by the following cut-off time:

- ◆ by ..... a.m./p. m. prior to the last working day before the instrument is due to clear, where the instrument is to be returned at the 1<sup>st</sup> clearing session of the day OR not later than 4 (four) hours before commencement of the 2<sup>nd</sup> clearing session of the day.

**7. GUIDELINES TO FEES CHARGES**

- a. There shall be a processing fee of ₦\_\_\_\_\_ per Clearing instrument payable by the Non-Settlement Bank to the Settlement Bank subject to a maximum of N..... per annum
- b. The Non-Settlement Bank shall also pay an annual settlement fee of the sum of N ..... to the Settlement Bank.

**8. INFORMATION**

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



Central Bank of Nigeria

Settlement Bank:

.....  
.....

Non-Settlement Bank:

.....  
.....

**9. DISCLAIMER (LIABILITY/INDEMNITY)**

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

**10. COMPLIANCE WITH LAWS**

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

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

**11. CONFIDENTIALITY**

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





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- b. Settlement Bank agrees not to use any information provided by Non-Settlement Bank for any purpose other than as permitted or required of under this Agreement.
- c. Settlement Bank therefore agrees not to disclose or provide any information so received to a third party except with the express permission of Non-Settlement Bank or as may be lawfully required.

## **12. DURATION/TERMINATION OF AGREEMENT**

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

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

- ii. Both parties shall remain responsible for their obligation with respect to action and events prior to such termination
- iii. Each party shall have the right to terminate this Agreement if any of the following events occur:
  - a. if the other party is wound up or goes into liquidation, or for any reason ceases threatens to cease carrying on business or transfers its business or if a holden action is imposed on it by any supervisory or regulatory authority or if any licence issued to it is suspended or revoked by the CBN
  - b. A decree or order by a court or government agency or authority shall be entered for the appointment of a Manager, Receiver or Liquidator for the other party in an insolvency, marshalling of assets and liabilities or similar proceeding, or the other party shall consent to such appointment;
  - c. The other party shall commit a material breach of the terms of this Agreement or shall repeat or continue or fail to remedy any material breach;
  - d. The obligations of either party becomes prohibited by law or any other regulatory authority including but without limitation, to the Central Bank of Nigeria



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- iv. In the event of either party being desirous of terminating the Agreement, the party desiring to terminate shall give one month's notice in writing to the other party which shall be delivered to and acknowledged at the other party's earlier notified address and NIBSS and CBN would be duly notified.
- v. The foregoing notwithstanding, the Settlement Bank shall be entitled to terminate this Agreement upon all or any of the following conditions:
  - a. If the Non-Settlement Bank's Settlement is contrary to 4 (b) above.
  - b. If the collateral security in 4 (c) above is insufficient to offset the debit balance in the Settlement Account
  - c. If the value of the Treasury Bills is below the minimum as specified in 4 (c) above
  - d. If the Non-Settlement Bank's performance of its obligation is unsatisfactory and/or other habitual breach of the provisions of these presents
- vi. The Non-Settlement Bank may with the consent of the Settlement Bank, which consent shall not be withheld provided that the Settlement Account is at the time and remains in credit; upon giving the Settlement Bank one month's notice of its intention to do so, close the Settlement Account and open an account with another authorized Settlement Bank.

### 13. **GOVERNING LAW**

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

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

THE COMMON SEAL OF THE WITHIN NAMED  
**XYZ BANK PLC.**  
WAS HEREUNTO AFFIXED IN THE PRESENCE OF:





Central Bank of Nigeria

\_\_\_\_\_  
**DIRECTOR**

\_\_\_\_\_  
**SECRETARY**

THE COMMON SEAL OF THE WITHIN NAMED  
**ABC BANK LIMITED**  
WAS HEREUNTO AFFIXED IN THE PRESENCE OF:

\_\_\_\_\_  
**DIRECTOR**

\_\_\_\_\_  
**SECRETARY**

EXPOSURE



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**ATTACHMENT II - NIGERIA AUTOMATED CLEARING HOUSE RULES AND PROCEDURES**

**NIGERIA INTER BANK SETTLEMENT SYSTEM PLC**

**NIGERIA AUTOMATED CLEARING SYSTEM: RULES AND PROCEDURES**

**1 GENERAL PRINCIPLES**

- 1.1** The Central Bank of Nigeria (CBN) in pursuance of Section 41 of Central Bank of Nigeria Act of 1991 will guide to ensure that appropriate Rules, Standards and Procedures exist for the effective operation of the Nigeria Automated Clearing System (NACS) and will ensure that the appropriate mechanisms are in place to manage the rules.
- 1.2** The Central Bank of Nigeria in conjunction with the Bankers Committee have mandated Nigerian Inter-Bank Settlement System (NIBSS) Plc to provide for its members clearing and settlement services for financial instruments and the electronic data relating to the paper instruments in Nigeria.
- 1.3** Nigeria Inter Bank Settlement System (NIBSS) Plc will provide for clearings to be held each business day in Nigeria, as will be defined by the Central Bank of Nigeria from time to time for the interchange, between the settlement members of financial instruments drawn on banks in Nigeria and meeting the Automated Clearing System's Clearing House Rules.
- 1.4** The Central Bank of Nigeria will appoint a staff of the Bank, not below the rank of a manager to superintend the Nigeria Automated Clearing House especially as pertains to physical exchange of cheques as well as settlements. Nigeria Inter Bank Settlement System (NIBSS) Plc will appoint a Clearing House Manager who shall be responsible for the day-to-day management of the clearing house within guidelines and authorities delegated to him by the Managing Director.
- 1.5** Settlement members must ensure that they and their staff are fully conversant with the Nigeria Automated Clearing Systems' Rules, Procedures and Standards necessary for the efficient and secured running of the daily clearing process.



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- 1.6 Members shall report any problem that may have a detrimental effect on the daily operations of the system to the Clearing House Manager.
- 1.7 Settlement members shall be financially accountable for the settlement of financial instruments handled by them or their agents.
- 1.8 Members, whether direct or Indirect must maintain adequate clearing collateral with Central Bank of Nigeria to the satisfaction of the Bank so that amounts for settlement can be applied by the Bank without delay, and settled in accordance with the timetable.
- 1.9 It shall be the duty of members to submit for clearing, technically accurate data and paper clearing instruments. Members shall ensure that the data and paper clearing instruments, submitted by Direct Participating Banks, are processed correctly and conform to the relevant standards as determined by NIBSS Plc from time to time.
- 1.10 It shall be the duty of members to accept all the clearing instruments, whether paper or data presented to them or their agents at the Nigeria Automated Zonal Clearing Center. Subsequently they or their agents may return or recall such instruments/data, as are allowed within this Rules.
- 1.11 Clearing banks shall advise NIBSS Plc of changes in their process systems in accordance with NIBSS Plc change control procedures.

## 2.0 CLEARING INSTRUMENTS

- 2.1 Financial instruments to be exchanged at the Zonal Clearing Center shall be subject to approval by the CBN who shall consider their suitability, with reference to the national technical standards and to any other requirements prescribed by the CBN regarding the size, shape and form of the instrument and the materials used in its production.
- 2.2 Financial instruments that do not bear a sorting code shall be excluded from outward exchange files.



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### **3.0 CONTINGENCY PLANS –CLEARING BANKS/NIBSS PLC**

3.1 All members shall provide adequate contingency for outward clearing to ensure that they can continue to provide automated clearing data and paper to other members following a major disruption to their out-ward clearing process or data transmission.

3.2 Nigeria Inter Bank Settlement System (NIBSS) Plc shall provide adequate contingency for all clearing data files (Outward, Inward and Settlement files) to ensure that it can continue to provide automated clearing data to its members following a major disruption to its primary and/secondary network.

#### **Contingency comprises of the following:**

- Physical media contingency for total network failure.
- Physical media contingency for total authentication failure.
- Physical media contingency for single authentication failure.
- Physical media contingency for settlement.

#### **3.3 Physical media contingency for total network failure.**

A direct participating bank shall in the event of a total network failure produce exchange files on physical media, authenticate and submit the files to the ZCH.

#### **3.4 Physical Media contingency for single member network failure**

- If a single member cannot access the network then, they shall produce their exchange files in physical media and deliver them to the ZCH within the time frame.
- Once the affected member has opted for physical media, the clearing house manager, shall also supply the members inward clearing files on physical media.



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### **3.5 File Authentication**

- 3.5.1 Members shall ensure that all outward exchange files for transmission to the ZCH are authenticated.
- 3.5.2 Outward files shall have a security trailer generated and incoming files shall have the security trailer verified.
- 3.5.3 Members are obliged to conform to the Certification Practice Statement and Information Security Policy of the Nigeria Automated Clearing System.

### **3.6 Certification Management**

It shall be the duty of members to abide by the rules and procedures for generating public/private key pair and obtaining the public key certificates in order to maintain authentication integrity.

### **3.7 Key Management**

Members shall have in place the necessary controls and associated procedures for management of authentication key as laid-down in the automated clearing security standards. The management of keys is the responsibility of the members.

### **3.8 Generation of the File Security Trailer**

Members shall adhere to the procedures for the generation of the file security trailer as contained in the automated clearing security standards.

### **3.9 Verification of the File Security Trailer**

Members shall abide by the procedures for the verification of incoming files as laid down by these rules.

### **3.10 Monitoring of the Authentication Process**



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Members shall adhere to the procedures for the creation, authentication and sending of files as contained in the security policy of Nigeria Automated Clearing System.

### 3.11 Archiving of Audit Trails and Files Security Trailers

A member is required to retain an audit trail of files and file security trailers procedures covering a member's internal audit trail from the authentication server as defined in the Certification Practice Statement.

## 4.0 DATA COMMUNICATION MANAGEMENT

4.1 It shall be the duty of all members of Nigeria Automated Clearing System to be able to send and receive clearing data files from the ZCH and to support NIBSS in the effective management of the network.

### 4.2 Outward Clearing

It shall be the duty of all members to ensure that paper items and the corresponding clearing data files conform to the relevant NACS Standards and presented in accordance with this rules.

- The crossing stamp of the presenting bank is visible on all paper items passing through the ZCH.
- An audit trail of all items is maintained by allotting an Item Sequence Number to each item (ISN).
- Returned and received unpaid items can be traced to the relevant office of the presenting bank.
- Individual items bear appropriate sort codes and appropriately encoded. All paper items for clearing shall be amount encoded in line with NACS standards. All clearing banks are required to validate the contents of the code line, including transaction/sort codes.



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- The items are presented in accordance with bi-lateral agency agreement between Direct Participating Banks (DPB) and Indirect Participating Banks (IPB).
- The Items Sequence Numbers (ISN) (which is unique within the same day) is assigned to all financial instruments.

**5.0 OUTWARD EXCHANGE FINANCIAL/DATA FILES**

5.1 It shall be the duty of PBCCs to effect the deliveries of the various items for exchange at the zonal clearing house within the limits established in the clearing schedule, which shall be as follows:-

**CLEARING SCHEDULE FOR THE NACS**

**SESSION I**

**SESSION II**

<b>TIME</b>	<b>ACTIVITY</b>	<b>TIME</b>
8.00am	Deadline for the transmission of clearing files to ZCH	2.00pm
8.00am – 9.00am	<i>Physical Instrument Exchange at ZCH</i>	2.00pm – 3.00pm
9.30am	<ul style="list-style-type: none"> <li>• PBCCs to download clearing reports and files</li> <li>• CBN to download Net Settlement reports and files</li> </ul>	3.30pm

5.2 It shall be the duty of presenting banks to deliver items prepared for presentation to the correct PBCC; and send clearing data files it has created from the paper to the ZCH.

5.3 Upon receipt of the items from the ZCH by the PBCC, it shall be the duty of the PBCC to ensure that the items are securely delivered to the Indirect Banks whose duty it is to collect at the premises of PBCC.





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**6.0 INWARD CLEARING/DATA FILES**

- 6.1** A PBCC shall perform a sufficient check on all items received to ensure that the correct financial instruments have been received.
- 6.2** A PBCC shall perform checks on items received, to identify instruments with no corresponding entries on the clearing data files received on the same day before processing the item. It shall also process the papers on same day of receipt to locate individual items that have been wrongly delivered.
- 6.3** In the event that a PBCC cannot receive clearing data files from the network in accordance with the exchange time-table it shall immediately notify the Clearing House Manager, who shall thereafter copy a physical media containing settlement claim figures of the PBCC, inward exchange files and clearing reports.
- 6.4** The final net settlement positions of banks, including those of indirect banks shall be electronically made available at the scheduled time to Central Bank of Nigeria to enable it effect the settlement finality.
- 6.5** The ZCH shall provide remote on-line access that will enable Central Bank of Nigeria to enquiry and down-load data items, including CBN (ZCH) Summary Report and MIS.
- 6.6** NIBSS shall ensure that all PBCC have remote on-line access to the ZCH for enquiry and downloading of relevant data items, including reports files as well as aggregate net settlement position of banks, as may be required from time to time

**NIBSS PLC  
AUGUST 16, 2002**