

Electronic Cheque Clearing Rule Book

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DEFINITIONS

Term	Definition
<i>Accepted Cheques</i>	The cheques that were replied by the Paying Members as accepted.
<i>Apparent Alteration</i>	The original cheque looks like changed.
<i>ECC</i>	Electronic Cheque Clearing System an interbank cheque clearing solution.
<i>NRB</i>	Nepal Rastra Bank.
<i>Cheque Cycle</i>	A counter that shows the number of the presentment times for a cheque in the ECC.
<i>Cheque Date</i>	The date that is written on the cheque (due date).
<i>Cheque Truncation</i>	Scanning the cheque and transferring its electronic image and data without moving the physical cheque to the Paying Member.
<i>Clearing Date (T)</i>	The date on which a cheque shall move from the Presenting Member to the Paying Member to be cleared. In other words, it is the date on which the customer account will be credited in the Presenting Member.
<i>Clearing House</i>	Nepal Clearing House Limited
<i>Clearing Session Date</i>	The date on which a clearing session will be settled.
<i>Clearing Session Number</i>	A unique number generated automatically by the system, and it identifies each clearing session.
<i>Electronic Payment Information</i>	The cheque payment information exchanged through ECC.
<i>FIs</i>	Financial Institutions that process cheques payments, and has a membership in ECC.
<i>Go Live</i>	The date the ECC system comes into operation.
<i>Honored Cheques</i>	The cheques that were received by a Presenting Member as accepted by a Paying member.

<i>Image</i>	The electronic scanned cheque image (face and back).
<i>MICR</i>	Magnetic Ink Character Recognition. MICR Line is the information printed on a designated space (bottom) of the cheque that is read automatically at the scanning stage.
<i>Mutilated</i>	Damaged cheque image that causes unclear and/or misleading cheque information.
<i>NCHL</i>	Nepal Clearing House Limited, the Clearing House that hosting and operating the ECC.
<i>NCP</i>	<i>Net Clearing Position</i> that represents the financial position for each member at the closure of each clearing session, The NCP might be net debit or credit, and it is calculated on a multilateral basis.
<i>Non-Standard Cheques</i>	Old design cheques that don't fulfill the new Standards and Specifications for cheques issued by NRB.
<i>Member</i>	Bank or Financial Institution that process cheques payments, and has a membership in ECC.
<i>Paying Member</i>	A Member that issues Cheques Book and those cheques are presented by a Presenting Member through ECC for clearing.
<i>PKI</i>	Public Key Infrastructure.
<i>Post Dated Cheque</i>	A cheque that holds a future value date.
<i>Presenting Member</i>	A Member that receives a cheque drawn on other member from the customer scans and submits it to ECC. It is also known as Bank of First Deposit (BFD).
<i>Presented Cheques</i>	The cheques submitted through the ECC from the Presenting Member (or what is also known BFD Member) to the Paying Member.
<i>Received Cheques</i>	The cheques received by the Paying Member on the Inward Clearing cycle.
<i>Rejected Cheques</i>	The cheques that were replied by the Paying Member as rejected.
<i>Returned Cheques</i>	The cheques that were received by the Presenting Member as rejected.

<i>Nepal Settlement System</i>	The System that used for settling any interbank transaction and used to settle the Net Clearing Position for the ECC members.
<i>Standard Cheques</i>	New design cheques that fulfill the new Standards and Specifications document issued by NRB.
<i>High Value Cheque</i>	Cheque with high value transaction limit.

1 INTRODUCTION

Modernizing the Banking sector in Nepal is an essential strategic objective that Nepal Rastra Bank seeks to realize by implementing an advanced cheque clearing solution that manages the daily cheque clearing cycle electronically.

1.1 ECC System

ECC is the state-of-the-art interbank cheque clearing solution that has replaced the manual cheque clearing solution in Nepal. It is an image-based, cost-effective, cheque clearing and settlement solution, where the original paper cheques are transferred to scanned images in order to be presented electronically through the secured communication channels from the member in which they are deposited to the member on which they are drawn resulting in a faster access to funds, lower transportation expenses and increased cheque trust.

ECC calculates the multilateral net clearing position and sends to the Settlement System of Nepal Rastra Bank for settlement of the net clearing position of the direct member. The Central System of the clearing mechanism lies at Nepal Clearing House Limited.

1.2 Legal Framework

The Rules book and its rules shall be the legal boundary that must be followed by all concerned parties including NRB, NCHL and all Participating Members. This Book provides the required rules that control the electronic Image-based cheque clearing process using the new solution (ECC). It includes the following boundaries:

1. Permission for members operating in Nepal and subject to the provisions of Nepal Rastra Bank to participate in ECC.
2. The Clearing House shall run ECC as per operating rules prescribed by NRB.
3. The legal authority for such rules and procedures is Nepal Rastra Bank Act 2058 BS (2002) and the provisions of Article (chapter 2) item (5) thereof, which requires that NRB "To establish and promote the system of payment, clearing and settlement and to regulate these activities".
4. Each Member in the system shall comply with these procedures when carrying out its banking operations related to ECC.
5. The NRB may modify these rules and procedures as necessary with the consultation and recommendations of NCHL and the participating members and notify all the members accordingly. All such modifications may be in the form of NRB Circulars and/or approved NCHL notifications.

6. The rules and procedures mentioned in this “ECC Rule Book” will be effective once the system goes live.

1.3 Objectives

ECC is an initiative of Nepal Rastra Bank to modernize the banking sector and the payment systems in Nepal. ECC aims to cut-off the overhead cost, effort and time that were spent to complete a cheque clearing cycle and to eliminate physical cheques movement. It is intended also to accelerate the production cycle and to contribute in the economic growth on a nation-wide scale.

ECC will provide faster access to funds for both individuals and corporations, reduce payments overhead costs, minimize associated risks, and promote efficiency in terms of speed and security of payments.

2 OPERATING RULES

The implementation of ECC requires a full awareness and understanding to the operating rules of the new electronic cheque clearing cycle, and a full understanding to the roles and the responsibilities of each party (Presenting members, Paying members, NCHL and NRB). In order to guarantee a smooth running of the system, and to have a clear reference in case of disputes, the ECC Rule Book followed by ECC Operating Rules have been developed to clarify the following:

1. Roles and responsibilities of all ECC members.
2. ECC operations and use in the normal business days, exceptional working days, holidays and the different business situations.

3 CURRENCIES

ECC will provide the clearing of payment transactions at the inter-member level in all process stages in Nepalese Rupee, US Dollar, EURO and Sterling Pound on each business day or any other currency as approved by NRB.

4 THRESHOLDS

NRB will apply a threshold for the cheque amount to be cleared in ECC through its operating rules. The thresholds will be defined and validated automatically by ECC as the following:

1. System Thresholds: The maximum amount limit allowed for cheques to be cleared through ECC.
2. Session Thresholds: The maximum amount limit allowed for cheques clearing using a certain clearing session.

5 MEMBERSHIP AND MEMBERS' TYPES

5.1 Membership

Membership of the ECC System shall be open to all Banks and FIs operating in Nepal or any other entity at the discretion of NRB.

5.1.1 Direct member

Direct member have **cheque accounts for their customers**, issue their own cheques, and collect payments for cheques deposited by their customers from other members. They shall have **direct communication link with the ECC** and **hold account at NRB** for settling the net Clearing Position (NCP).

Scenario	Account at NRB	Direct Connection with ECC	Outward Cheques	Inward Cheques
1	Yes	Yes	Yes	Yes
2	Yes	Yes	No	Yes
3	Yes	Yes	Yes	No

5.1.2 Indirect Member

Indirect member have **cheque accounts for their customers**, issue their own cheques, and collect payments for cheques deposited by their customers from other members. **They shall have a direct communication link with the ECC; yet they have No account held at NRB** for clearing purpose. Therefore they need to settle their Net Clearing Position (NCP) through a direct member that has account held at NRB.

Scenario	Account at NRB	Direct Connection with ECC	Outward Cheques	Inward Cheques
4	No	Yes	Yes	Yes
5	No	Yes	No	Yes
6	No	Yes	Yes	No

5.1.3 Special Member

Special Members are those large corporates that have large number of cheques, and they are authorized to present their cheques through a direct or an indirect member to ECC.

5.1.4 Member Agreement

Each direct or indirect Member must sign an agreement with the Clearing House. The special member must sign an agreement with the direct or indirect Member for extending the branch activity relationship, and an official confirmation shall be sent to the Clearing House by the concerned Direct or Indirect Member.

An Indirect Member must sign an agreement with a Direct Member for the settlement purposes.

5.2 Members' Types

ECC will support only the following members' types:

- **Direct Members:** Banks and FIs that have account at NRB for clearing purpose and direct communication links with ECC.
- **Indirect Members:** upon the approval of NRB and the Clearing House.

6 MEMBERS' REGISTRATION

6.1 Registration

The Clearing House must obtain a copy of the official NRB approval before registering any new direct member, indirect member, or any new special member. Moreover, the new members must satisfy the eligibility criteria mentioned in “Members Eligibility” section 7.2.

NRB will issue a list of the Clearing House members prior to the go live date of the system. Any new members will be published and circulated by the Clearing House once the registration process is completed.

6.2 Members Prerequisites

All members shall have similar working procedures in order to manage and control the cheque clearing cycle from their side. They are expected to accommodate qualified staffs with experience in the cheque clearing process in order to execute their daily operations in a safe and sound manner and thus minimize any potential risk.

7 MEMBERS RIGHTS AND OBLIGATIONS

7.1 Operating Rules and Rules Book Compliance

Each member of the system must comply with the ECC Operating Rules and Rule Book issued by NRB, the latest NRB Circulars and the NCHL notifications approved by NRB.

All ECC members shall ensure that their employees, agents, and the employees of their agents are complying with the ECC Rule Book and Operating Rules Book issued by NRB.

The latest NRB Circulars and/or NRB approved NCHL notification shall supersede the ECC Operating Rules and Rule Book issued by NRB.

7.2 Participation Eligibility

In order to be eligible for direct and indirect membership, a member must satisfy the following minimum eligibility criteria:

1. Licensed as a Bank or FIs in Nepal jurisdiction.
2. Holding account in NRB; or having established a legal agreement with another Direct Member who holds an account in NRB to act as their settlement agent for settling the Net Clearing Position (NCP).
3. Able to cover its liabilities and to pay its debts once they fall due, and not be insolvent as defined in accordance with any Insolvency Act applicable to the member.
4. Maintain a sufficient level of liquidity in accounts at NRB at the stipulated cut-off times.
5. Pay the applicable Participation fees to the NCHL according to “Fees and Charges” mentioned in the Operating rules.

8 MEMBERS MANAGEMENT

8.1 Member Suspension

NRB has the full authority to suspend a member from the system for any reason it deems appropriate. A member might be suspended for reasons such as but not limited to; license has been revoked by NRB, has declared insolvency or has been declared solvent, or has failed to meet with the regulations declared in the Operating Rules and ECC Rules Book.

In case of suspension of a member, all its unsettled payments in the ECC will be automatically rejected, but the suspended member shall still be liable for making payments to the concerned parties.

8.2 Member Resumption

Resumption of a suspended member in the ECC may happen with approval of NRB in case that the reason for suspension has been rectified to the satisfaction of NRB.

8.3 Member Termination

NRB has the full authority to terminate any member from ECC for any reason it deems appropriate. The termination of a member is accomplished to permanently oust it whenever that decision is taken (normally by NRB authority). Termination is irreversible where terminated members will no longer be accessible to deal with through the cheque clearing functionalities, although the member information will remain existent for future reference.

8.4 Member Withdrawal

Any member would like to withdraw from ECC must send an official request to NRB ninety (90) days in advance. NRB has the full authority to accept or reject the withdrawal request.

8.5 Member Notification

Upon receipt of an official circular issued by NRB, NCHL shall notify electronically all members of any members' suspension, termination, withdrawal or resumption.

8.6 Identification

Each member shall be represented on ECC with a unique identification member number (ID) provided by NRB. Moreover; a unique identification number for each branch shall also be provided by NRB.

9 MEMBER CONNECTIVITY

9.1 System Architecture

The Clearing House operates in Application Service Provider (ASP) model for providing its services to the members. All application systems and database components of all members are centrally installed in the Clearing House data centers. The ECC central node application systems are fully web-enabled. Members are required to access the centralized servers using the web browser, for performing ECC functions and accessing information of their own ECC databases.

All members shall set up and maintain a member platform which comprises workstations, cheque scanners and printers for connecting to the ASP model. The member platform, connectivity and network requirements shall be specified by the Clearing House.

NCHL may define and/or change the System Architecture depending upon the system requirements.

9.2 PKI and Certification Authority

The use of Public Key Infrastructure (PKI) will provide data authenticity, integrity and non-repudiation features, adding the required security to the ECC system. It has been made mandatory for all members to apply digital signature on the cheque image and data. The information shall be encrypted and digitally signed throughout the cheque clearing cycle. The image and data are secured by using the PKI during transmission of image/data between the Presenting Member, the Clearing House and subsequently to the Paying Member and vice versa.

NCHL may define and/or change the PKI and Certification Authority process referred in the ECC Operating Rules depending upon the security requirements to streamline and automate the process. NCHL will notify the same to all the members.

10 SYSTEM OPERATION

10.1 Daily Operation

The Clearing House shall manage the daily operations of the ECC central by configuring the daily clearing session's timing, validating automatically the presented/replied cheque, overseeing the overall clearing cycle and guaranteeing a mature closure and submission of the Net Clearing Position (NCP) of clearing sessions to NRB. The Clearing House main activities can be summarized as the following:

1. Receiving cheques from presenting members for outward clearing, and assuring the presented cheques validity.
2. Transmitting cheques to respective Paying members for inward clearing
3. Receiving replied cheques and rejected cheques from Paying members
4. Transmitting replied cheques and returned cheques to Presenting members.
5. Ending the clearing session of the current business day.
6. Generating the Net Clearing Position (NCP) and submitting the file to NRB for settlement through the direct members' accounts.
7. Starting a new clearing session.

10.2 Clearing Sessions

ECC daily clearing sessions have the following parameters:

1. **Clearing Date (T):** The date on which the cheque shall move from the Presenting Member to the Paying Member to be cleared. In other words; it is the date on which the customer account will be credited in the Presenting Member.
1. **Currency:** Defines the cheques currency that can be presented and cleared within the clearing session.
2. **Session Start:** The time that the Presenting members can start presenting cheques.
3. **Session End:** The ending time of the clearing session within a business day (T).
4. **First Cut-off Time (Presentment Cut-off time):** The time when all cheques within the clearing session must be submitted by the Presenting members.
5. **Second Cut-off Time (Reply Cut-off Time):** The time when all cheques must be replied by the Paying members.
6. **Urgency level:** ECC shall support the following urgency levels:
 - **Regular Clearing:** For regular cheques clearing
 - **Express Clearing:** Critical timely-based cheque clearing which requires immediate reply from the Paying Member.
 - **High Value Clearing:** For high value cheque clearing.
 - **Adjustment Clearing:** For adjustment transaction clearing.

NRB reserves the right to adjust the actual start time/end time of each session on any business day due to any reason it deems appropriate.

10.3 Regular Clearing Sessions

Any presented cheque under a Regular clearing session must be replied before the end of the Regular Clearing Session (**before the reply cut-off time**); otherwise it will be **auto-accepted**.

The session configuration for the regular clearing session has the following settings for a particular business day (T):

1. Starts from the previous business day (T-1) at 14:00.
2. First Cut-off Time (End of Presentment) takes place at 14:00 on the current business day (T). Cheques presented after that time will be assigned automatically to the clearing session of the next business day.
3. Second Cut-off Time (End of Reply) takes place at 15:00 on the current business day.

10.4 Express Clearing Sessions

The Express Clearing session must be started and completed before the end of the first cut-off time of the regular clearing session. Any presented cheque under Express Clearing must be replied within **30 minutes**; otherwise it will **be auto-rejected** by the system with a "time out" reason.

The determination of presenting a cheque with Express Clearing urgency shall be governed by the following:

1. Express Clearing should be used for timely-based critical cheques. The determination of cheques for Express Clearing is the responsibility of the Presenting member, based on a request from their customers.
2. The ECC shall also determine the cheque amount limits for express clearing based on the thresholds defined by NRB.

Express Clearing Sessions shall have the following schedules (Sunday to Thursday) that specify the starting time, presentment durations and cut-off times for each Express Clearing Session:

1. First Session:

- Starts at 10:00
- First Cut-off Time (End of Presentment) is at 11:00
- Second Cut-off Time (End of Reply) is at 11:30

2. Second Session:

- Starts at 11:00
- First Cut-off Time (End of Presentment) is at 12:00
- Second Cut-off Time (End of Reply) is at 12:30

3. Third Session:

- Starts at 12:00
- First Cut-off Time (End of Presentment) is at 13:00

- Second Cut-off Time (End of Reply) is at 13:30

10.5 High Value Clearing Session

Any cheques with high value transaction limit shall be processed through High Value Clearing Session available in all business days from Sunday to Friday as per the following schedule:

- Starts at 10:00
- First Cut-off Time (End of Presentment) is at 10:30
- Second Cut-off Time (End of Reply) is at 11:30

Any presented cheque under a High Value clearing session must be replied before the end of reply cut-off time; otherwise it will be auto rejected.

10.6 Adjustment Clearing Session

ECC will allow clearing of adjustment transactions due to wrong claim by members within a defined transaction amount limit and the original transaction not more than 30 days. Such transactions will be processed through a standard adjustment slip (to be arranged by claiming bank) for the amount equivalent to the difference. Such session will be available twice a week on (T+3) settlement cycle for all participating banks in all clearing currencies as per the following schedule.

- Starts at 10:00 (T)
- First Cut-off Time (End of Presentment) is at 10:00 (T+3)
- Second Cut-off Time (End of Reply) is at 11:30 (T+3)

Any presented cheque under Adjustment Clearing Session must be replied before the end of reply cut-off time; otherwise it will be auto accepted.

10.7 Friday Session

Special Regular Clearing Sessions shall have the following schedules for **Friday** that specifies the starting time, presentment durations and cut-off times for each Regular Clearing Session:

1. Session:

- Starts at 10:00
- First Cut-off Time (End of Presentment) is at 11:00
- Second Cut-off Time (End of Reply) is at 11:30

10.8 Cheque Clearing Flow

The Cheque Clearing Flow is based on transferring the electronic cheques images within the defined daily clearing sessions' durations for presenting and receiving cheques.

The complete clearing cycle from the beginning till the end takes place within the **same business day** (T+0). And any cheque presented after the first cut-off time shall be cleared on the next business day (T+1).

The Cheque Clearing Flow can be summarized in the following main point:

1. The Cheque Clearing Flow starts with the outward clearing at the Presenting member.
2. The Clearing House routes the presented cheques from the Presenting member to the Paying member.
3. The Inward Clearing starts at the Paying member.
4. The Reply is sent from the Paying member to the Presenting member through ECC to accept /reject the payment of the cheque.
5. The Clearing Cycle ends when ECC submits the NCP for the replied cheques to the NRB for settlement amongst all Presenting and Paying members.

10.9 Business Calendar

The normal business days are six business days starting from Sunday to Friday of each week. The Business Calendar shall be defined on ECC as prepared by NRB for all members, which includes the working days, non-working days and holidays.

10.10 Session Exceptions

10.10.1 Session Extension

NRB has the full authority to approve or reject the extension, and the NCHL will notify all members with the session extension period.

10.10.2 Session Termination

NRB has the full authority to terminate a session for any reason it deems appropriate. NCHL will notify all members in case the session termination action has been taken. In this situation, all pending cheques in the terminated session will be rejected due to the “session terminated” return reason.

The cheques that are already replied by the Paying Members will be settled at the next available session.

10.10.3 Session Re-schedule

NRB has the full authority to change the timing of the session for any reasons it deems appropriate. NCHL will notify the same to all members.

10.11 System Parameters

The Clearing House has the authority to apply certain constraints and obligations in order to guarantee a smooth cheque clearing cycle with the minimal risk level. The Clearing House can define the following parameters:

1. **Cheque Threshold:** the maximum amount of the cheque that can be transmitted for regular clearing. Any cheque exceeding the predefined amount limit must be presented outside the system.
2. **Stale Cheque:** The stale cheque is a cheque presented with a date of issue that has exceeded six (6) months from the date of presentment of the cheque or presented after the presentment time period specified on the cheque. Any old dated cheque exceeding the pre-defined age will be rejected by the system.
3. **Maximum Number of Presentment Cycles** for a cheque (in case of re-presentment required) is three times. Cheques cannot be re-presented within the same clearing session.
4. **Maximum Batch Cheques Count:** limits the number of cheques to be captured within a batch. The maximum cheques count per batch is 25.

10.12 Clearing Sessions Settlement

10.12.1 Settlement Schedule

The System prepares the Net Clearing Position (NCP) file for all members in a multilateral basis at the end of each session (Regular and Express), and submits the NCP file to the settlement system in NRB for settlement at pre-defined intervals.

10.12.2 Settlement Process

The System prepares the Net Clearing Position (NCP) for all members at the end of each session at pre-defined intervals, and submits the NCP to the settlement system in NRB for settlement purposes.

Fees, charges and penalties files are generated from the system at the closure of the clearing session and sent to NRB to be settled. On the other hand, the members can view and download their fees, charges and penalties readable reports from the system at any time and at their convenience.

10.13 Finality of Payment

When settlement of the Net Clearing Position (NCP) in the NRB is completed successfully, all the cheques payments that are included in the NCP file are deemed 'final'. The Net Settlement in the settlement system is irrevocable.

10.14 Modification of Clearing Session

NRB has the full authority to add new clearing sessions and/or change the timings of the sessions referred in the ECC Rule Book and ECC Operating Rule for any reasons it deems appropriate as per the recommendation from NCHL. NCHL will notify the same to all members.

11 CHEQUE STANDARDS AND SPECIFICATIONS

All new cheques issued by the Members operating in Nepal must satisfy the Cheque Standards and Specifications issued by NRB.

12 RESPONSIBILITIES

12.1 Presenting Member Responsibilities

1. The Presenting member should capture the image including the MICR Line Data if available or manually enter the required data with the captured image of all cheques presented by the customers before the cut-off time stated in the ECC Operating Rules and the Rule Book and submit to the ECC.
2. The Presenting member should present a cheque for payment to the Paying member electronically by transmitting through the ECC the following:
 - The front and back image of the cheque in Gray scale.
 - The Electronic payment information (MICR Line Data of the cheque)
 - Any other electronic payment information of the cheque stipulated by the NRB from time to time
3. Before transmitting the image and the MICR Line Data of the cheque, the Presenting member shall ensure that:
 - The image is a true, complete and accurate image of the original cheque as specified in ECC Operating Rules.
 - The electronic payment information (MICR Line Data) transmitted is the same as that on the physical cheque.
 - It has verified the cheque as specified in the ECC Operating Rules and recognize and non-conforming cheques:
 - i. A cheque that does not conform to the NRB Cheque Standards and Specifications.
 - ii. A cheque with missing payee name, date, amount in words and/or figures, account number, signature and/or Ultra Violet fields, watermark, microprint of the signature line.
 - iii. Cheque date is 'invalid' (defined as postdated or stale).
 - iv. The amount in words and figures are not matching.
 - v. A cheque with amended MICR line information, i.e. cheque serial number, member code, branch code, account number, and/or transaction code field.
 - vi. Cheques mutilated by members or customers.
 - vii. Cheques with apparent alterations.
4. The Presenting member shall ensure that the cheque is not stamped more than two times by the same member.
5. The Presenting member shall ensure that the total number of images and the value transmitted through the ECC corresponds to the total number of cheques and the value retained at the Presenting member.

6. The presenting member should not present the Non-conforming cheques described under item (ii), (iii) and (iv) in clause 12.1.3 above. A penalty will be charged if a member fails to do so.
7. The Presenting Member should flag and send the cheque to the Paying Member in the cases of a Non-conforming cheque described under item (i), (vi) and (vii) in clause 12.1.3 above, to notify the Paying Member that the cheque is a Non-conforming cheque.
8. The Presenting Member shall provide the customer with a Deposit Slip at the point of deposit, as stipulated in the Operating Rules. The deposit slip generated from the ECC or a pre-printed standard form as stipulated in The Operating Rules may be used.
9. The Presenting Member shall credit the proceeds of the cleared cheques to the customer accounts at the time stipulated in the Operating Rules.
10. The Presenting Member shall retain the physical cheque that already paid in the presenting/branch for at least **two** business days before sending to the archive.
11. Upon an official request (i.e. NRB, Court), the Presenting member, in general, should make available the physical cheque within **six** business days of the request made.
12. The Presenting Member shall safely keep the physical cheque for at least **seven** years from the date of the first presentment except or cheques under disputes.
13. Where the cheque is dishonored by Non-payment, the Presenting Member shall return the physical cheque along with the Cheque Return Advice (CRA) from the ECC which indicates the return reason to the customer within the stipulated time as specified in the Operating Rules.
14. Provide their customers with all the information needed to understand the ECC clearing process and payment processing timelines, *specifically cut-off times for presentment and execution of cheques payments and when their accounts will be credited /debited.*
15. Provide their presenting customers with all the needed information of how the processing of cheques payments occurs within the ECC, and the required customer information in case of disputes.
16. Inform their customers about all charges affecting their accounts upon the usage of the ECC for the cheques payments.
17. Advise the Clearing House immediately of any event which might affect its operational role as a member in the ECC, including any contingency event, known or planned disconnection, or any significant changes to its host system interface, its organization structure, or environment.
18. The Presenting Member shall become liable for any cheques claims that do not comply with the Cheque Standard and Specification issued by NRB. Hence; the NRB and the Clearing House are not to be held liable under any circumstances for any fraudulent cases involving cheques.
19. The Presenting Member shall become liable to ensure that the images are with acceptable quality level, so that the Paying Members can perform the required

- verification and validation procedure. Therefore; the Presenting Members shall perform image quality test before transmitting the cheques image to ECC.
20. The Presenting Member shall become liable for any lost cheque whether scanned or Not and/or returned.
 21. The Presenting Member shall become liable for any wrong data entry for the scanned cheques.
 22. NCHL may add any other roles and responsibilities for Presenting Members with the approval of NRB.

12.2 Paying Member Responsibilities

1. The Paying Member shall make payment of a cheque upon receiving both the image and the MICR Line Data of the cheque, provided that both are in order and meet all the other relevant requirements.
2. Paying Member is responsible for:
 - Any decision of accepting or rejecting the cheque
 - Making decision on payment of non-conforming cheques, which have been flagged by the Presenting Member
 - Making decision on Payment of cheques with unclear images
 - Making decision on Duplicate payments
 - Making decision on Payment of a postdated cheque
 - Making decision on Payment of a stale cheque
 - Making decision on payment of un-replied Cheques of Express clearing session which were Auto Rejected (after cut-off time)
 - Payment of un-replied Regular Cheques which were Auto Accepted
3. Where the Paying member is unable to pay for a Cheque, the Paying member shall return the electronic payment information of the respective cheque with the relevant return reason to Clearing house for the return to the Presenting Member before the respective cutoff times stipulated in the Operating Rules;
4. The Paying Member shall safe keep physical cheques, which it **requested** from the Presenting Member, for at least **seven** year period from the date of the first presentment except for cheque under disputes.
5. The Paying Member shall retain the physical cheque (mentioned in item 4 above) in the member/branch for at least **two** business days before sending to the archive.
6. Upon an official request (i.e. NRB, Court), the Paying Member, in general, should make available the physical cheque (mentioned in item 4 above) within **six** business days.
7. NCHL may add any other roles and responsibilities for Paying Members with the approval of NRB.

12.3 Clearing House Responsibilities

1. Operate the ECC for all members.
2. Maintain the daily operations for all members and offer them consultation in case of disputes.
3. Establish online Helpdesk and Hotline for all the members.

4. Ensure that the payment exchange periods (start and cut-off times) are as per ECC Operating Rules and ECC Rule Book.
5. Ensure that all members are indisciplined with the operating rules as per ECC Operating Rules and ECC Rule Book.
6. Generate daily reports from the ECC.
7. Prepare the NCP, Fees, Charges and Penalties files for all members and send them on time to the settlement system in NRB as per the ECC Rule Book and Operating Rules.
8. Clearing House will be responsible for the correctness of the generated files before sending them to NRB.
9. Store cheque images, data and clearing information.
10. Maintain the archive of all cheque images processed through ECC for a period at least **seven** years and make it available to all members through a dedicated link with the National Archiving System.
11. Monitor and follow up the performance of the members, load distribution, communication link between ECC and the members.
12. Monitor data replication to Disaster recovery (DR) site on daily basis.
13. Establish Continuity of Business site to host members facing technical problem in their premises preventing them to perform their clearing operations.
14. PKI Management and Certification Authority Server Administration.
15. Receiving and Approving Certification Requests, Issuing Certificates and Renewing Certificates.
16. NCHL shall maintain the Data in a secured environment.
17. Monitor ECC in case there is any misuse from the members' side.

NCHL is not to be held liable under any circumstances for any fraudulent cases involving cheques.

12.4 NRB Responsibilities

1. The responsibilities of the Members mentioned above will be also applicable for NRB as a member in ECC
2. Session Extension
3. Session termination
4. Session re-schedule
5. Settlement process of NCP
6. Member termination, suspension, resumption and withdrawal
7. Approval/ modification for clearing session timing
8. Approval of the fees, charges and penalties.

All responsibilities referred to ECC Operating Rule and ECC Rule Book shall be superseded by the latest NRB Circulars and/or approved NCHL Notifications.

13 CHEQUE RETURN PROCESSING

The System returns cheques to the Presenting Member for the following reasons:

1. Rejected cheque from ECC due to a system return reason.
2. Returned by the Paying Member due to a technical or a financial reason.

13.1 System Return Reasons

The table below lists the reasons that will be used by the system to reject a cheque automatically, due to any errors or exceptions identified on the cheque.

Code	Return Reason	Description
901	Destination Unreachable	In the case of the Paying Member having a communication problem
977	Cheque Exceeded Maximum Session Amount	When the cheque amount exceeds the threshold in the session
982	Session Terminated	Session has been terminated
985	Cannot Do Outward	The Presenting Member cannot do outward
986	Cannot Do Inward	The Paying Member cannot do Inward
988	Terminated Member	The Paying Member is terminated
989	No Session Available	Cheque is submitted on a closed session
991	Duplicate Cheque	Cheque is already presented
992	Stale (Outdated) Cheque	Cheque date has exceeded the maximum date age
993	Suspended Member	If the Paying Member or the Presenting Member has been suspended
995	Transaction Time Out	Cheque has been auto replied due to the closed session
998	Already Paid Cheque	When the Presenting Member tries to send a cheque which has been already cleared/paid

999	Maximum Cycle Exceeded	Presenting Member has exceeded the maximum number of presentment times allowed by the ECC
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13.2 Paying Member Return Reasons:

The table below lists the reasons used by the Paying Member to reply for the returned cheques. These technical and financial reasons are defined by the NRB as follows:

Code	Paying Member Return Reason
1	Insufficient Fund
2	Payment stopped by court order
3	Account closed
4	Drawer deceased
5	Endorsement requires banker's confirmation
6	Drawer's signature incomplete
7	Drawer's signature differs
8	Drawer's signature required
9	Alteration in date requires full signature
10	Alteration in amount in figures require full signature
11	Alteration in amount in words require full signature
12	Cheque is mutilated
13	Cheque is post-dated
14	Cheque is staled
15	Amounts in words and figures differ
16	Incorrect Date
17	No advice of draft
18	Clearing stamp required
19	Old clearing stamp to be cancelled

20	Bank's endorsement to be cancelled
21	Cheque not drawn on us
22	Second Signature required
23	Amount in words required
24	Amount in figures required
25	Date Required
26	Beneficiary Name Required
27	Cheque presented with wrong amount
28	Alteration in beneficiary name requires signature
29	Figure and amount not in the same language
30	Account Blocked
31	Image Not Clear
32	Image and Data Mismatch
33	Non-Standard Cheque (Old Design Cheque)
34	Original Cheque is Required

14 FEES AND CHARGES

All members in ECC have to pay fees for their participation and usage of the ECC .NRB will also apply charges on the misuse of ECC. The Clearing House shall reserve the rights to define or modify the fees and charges at any time with 15 days prior notice to the members as per the approval of NRB. *Refer to the Fees and Charges structure in the ECC Operating Rules.*

14.1 Implementation and Setup Fee

Each Member/ branch shall pay a One-Time participation setup fee upon registration to the Clearing House.

14.2 Annual Support Fees

Each Member/ branch shall pay an annual support and maintenance fee to the Clearing House.

14.3 Transaction Processing Fees

Members in ECC shall pay transaction fees on the cheque presentment as follows:

- Regular Clearing Cheque
- Express Clearing Cheque

And any other types of transactions that might be defined in the future and governed by the Operating Rules

NRB may define charges on:

- Last Minute Presentment
- Session Extension
- Returned cheques due to technical reasons and financial reasons

NRB may define Penalties on:

- Express Cheques Transaction Timeout
- Customer Complains; such as Delayed Presentment and Delayed Credit
- Presenting Member Complains; such as Incorrect Return Reason

14.4 Refunding Customers

If a Paying Member does not reply during the stipulated time on the express clearing cheques (before the reply cut-off time for each express session), and the fees for clearing the express cheque have already been collected by the Presenting Member from the customer, in this case the customer must be refunded because he does not receive the service, then the system will calculate the refund amount (which was paid by the customer) automatically. The amount shall be debited from the Paying Member account

and credited to the Presenting Member account, so that the Presenting Member can either refund the customer account or offer the re-presentation service for free of charge to the customer.

15 CONTINUITY OF BUSINESS

Continuity of Business (COB) is a vital element in the ECC system. This section provides the continuity information that concerns all parties in the ECC in the unlikely events of a business disruption including, first-level support (helpdesk), Disaster Recovery site (DR) and Continuity of Business site (COB) in order to maintain a 99.9 % service availability, consistency, and recoverability.

For the sake of protecting the ECC daily clearing process, all members must abide themselves by the terms listed below:

1. Follow the instructions mentioned in the ECC Rule Book and Operating Rules.
2. Ensure that you and your staff are familiar with these procedures in advance of any disruption.
3. Keep a hard copy of all pertinent Business Continuity sections handy for easy access during an emergency.
4. Review this guide periodically to ensure possession the most recent information.
5. Refer to the ECC Rule Book and Operating Rules periodically to ensure that you are operating on the right track.
6. Refer to the ECC User Manuals and follow the guidelines in case of facing any difficulty or uncertainty about how to use a certain function on the system.
7. Contact the first level support team (helpdesk team) at the Clearing House in case of facing any application-level problems in order to get the suitable support and troubleshooting.
8. Contact the Clearing House in the cases of disruption; such as Communication Failure and Line Disconnection cases.

15.1 Helpdesk

A dedicated first-line support team shall be available at the Clearing House during the Clearing House office hours to support the members' users, to troubleshoot and to provide the suitable diagnosis for any problem that might appear at the application level.

The member shall assign a person to contact the helpdesk and report problems through the proper communication channels that will be circulated by the Clearing House.

Moreover; the helpdesk shall have clear prioritization criteria to the members' requests; which mean that the reported problems shall be categorized according to their urgencies and priority levels in order to provide a proper handling to each priority level.

Priority Definition

Urgent A catastrophic problem which may severely impact the ECC operation, or in which the system is down and not functioning and no procedural work around

exists. A prompt response and a quick action must be taken at this case in order to continue the daily clearing work safely.

High A problem where the ECC is functioning but in a severely reduced capacity. The situation is causing significant impact to the ECC business and functions.

Normal A problem with a medium or low impact to the ECC business and functions. At this case the problem is considered as a “Minor” with limited loss or no loss of functionality or impact to the member’s daily clearing process.

15.2 Communication Failure at the Member’s Site

The member shall immediately inform the Clearing House in case of facing any communication failure, connectivity problem or any other disruption situation from their end.

The Clearing House shall evaluate the disruption situation (if it is a communication failure or can be resolved within a short period without having any impact on the continuity of business) and, provide the member with the suitable contingency procedure based on the level of failure.

The Clearing House has the authority to give instructions to the member to move to the Continuity of Business (COB) site and complete their cheque clearing transactions until the member resolves the communication failure and returns to the normal working procedure. In this case; the Clearing House has to inform the NRB with the disruption situation and the contingency procedure that was taken.

15.3 Failure at the ECC Main Site

The Clearing House shall immediately inform NRB and all members of the failure, activate the ECC Disaster Recovery site and start the clearing services accordingly. The members will be connected to the DR site automatically where data replication is maintained in both site (main and DR).

15.4 Clearing House Continuity of Business Site

In addition to the high availability provided in ECC (the main site and the DR site); the Clearing House shall avail a Continuity of Business site (COB site) in order to maintain a reliable solution for the disconnection problems between the members and the main ECC site. The COB site contains workstations and scanners connected to ECC and it is dedicated for emergency cases; it is ready for any member that faces problems in the connection or any other technical or business failure, so that the member’s users can access the ECC and continue their work safely.

The Clearing House has the authority to evaluate the size of the problem and the need of using the COB Site and take the required decisions accordingly.

Only the registered member users can use the COB site and perform the following clearing activities:

- Processing their Outward Clearing by scanning the outward cheques from the COB site.
- Processing the Inward Cheques by replying all pending cheques in the Inward Clearing Cycle in order to avoid auto processing from the system (auto acceptance to the regular and auto rejection to Express cheques)
- Exporting the Clearing Files from ECC COB site in order to credit/debit the customers' accounts on the Member System using the offline exported files; Outward Presented Cheques, Inward Received Cheques, Outward Returned Cheques and Inward Rejected Cheques.

16 Dispute Resolution

16.1 Dispute between Clearing House and Members

1. Clearing House shall not have any duty to determine the legality, validity or enforceability of any transaction under the ECC, or whether any such transaction is contractually void or voidable. To avoid dispute, members shall assume that all ECC transactions, whether executed or to be executed, are legally valid and enforceable.
2. Clearing House shall be entitled to regard all transaction(s) executed under the ECC as legal, valid and enforceable.
3. Clearing House shall not have any duty to any member to modify any ECC instruction executed or to be executed, or settled or to be settled, by reason of any failure/defect, forgery, theft, or any wrongful copying of any software, password, or any combination of them, assigned to or designated by a member or Clearing House.
4. In the event of the dispute between Clearing House and the member(s), which the parties are unable to resolve amicably, the matter shall be referred to a final and binding arbitration, according to NRB Rules and Procedures.

16.2 Dispute between the members

In the event of dispute or differences arising between the members and the parties are unable to resolve amicably, the matter shall be referred to Clearing House that shall be responsible to set up an independent **Arbitration Committee**. The decision of the Arbitration Committee shall be binding on the parties concerned.

16.3 Responsibilities

16.3.1 Insurance:

The Clearing House undertakes no responsibility in respect any failure/defect, forgery, theft, or any wrongful copying of any software, password, or any combination of them, assigned to or designated by a member or Clearing House. It is a responsibility of the each Member to have an insurance coverage against such or any other incidents.

16.3.2 Indemnify

1. Members shall indemnify and hold harmless the Clearing House, its directors, officers, and employees from all liabilities or expenses (including but not limited to reasonable attorney fees and costs of investigation and defense) resulting from: (i) any business loss resulting from breach of the terms of Nepal ECC Operating Rules and Nepal ECC Rule Book (ii) any violation of any statute, ordinance, or regulation; (iii) any act or omission constituting negligence or willful misconduct or breach of fiduciary duty in connection with the Clearing House performance or services. Members hereby represents and warrants that in the event any suits, claims, disputes or such differences are brought directly against the Clearing House with respect to the ECC, as a consequence of breach of the terms and conditions of Nepal ECC Operating Rules and Nepal ECC Rule Book, Members shall at its sole cost assist the Clearing House in defending such suits, claims, disputes or differences. (v) In the event that after the Effective Date, the Clearing House becomes aware of any obligations, representation or warranty of Members as being false or misleading, Members shall be liable to indemnify the Clearing House for any such injury, loss or damage arising out of such misrepresentation. For clarity, Members will only be liable for actions that originate from Members or any third party acting on its behalf and Members will not be liable for issues arising solely and independently from the Clearing House.
2. Members hereby represents and warrants that in the event any suits, claims, disputes or such differences are brought directly against the Clearing House or any third party with respect to the ECC, as a consequence of breach of the terms and conditions of Nepal ECC Operating Rules and Nepal ECC Rule Book, Member shall at its sole cost assist the clearing House in defending such suits, claims, disputes or differences. In the event that after the Effective Date, the Clearing House becomes aware of any obligations, representation or warranty of Member as being false or misleading, Member shall be liable to indemnify the Clearing House for any such injury, loss or damage arising out of such misrepresentation.

16.3.3 Confidentiality

Members shall use all reasonable endeavors to ensure that all information relating to ECC, which is not in the public domain shall be treated as confidential and shall not be disclosed to anyone except with the prior written consent of the NRB and NCHL and except as may be required by Law or by any Government Authority. Nothing in this Article shall however prevent any of the Parties from disclosing any of the information to their agents and representatives or attorneys provided that such disclosure is on a need to know basis and for the purpose of the normal functioning of the normal business activities. All information provided by each Member regarding ECC process shall not be used to secure a commercial advantage over the other.

16.3.4 Impossibility to provide the services

The Clearing House shall promptly notify the NRB and Members in writing of any situation or of the occurrence of any event beyond the control of the Clearing House, which makes it impossible for the Clearing House to carry out its ECC services. The Clearing House shall not be liable for any delay in meeting or for failure to provides its services under the Nepal ECC Operating Rules due to any cause outside its reasonable control.

17 National Archive

Clearing House will maintain the archive for all ECC electronic cheques' information (data) for at least **Seven years**. The data will be archived automatically **within 3** months in the National Archive System. The member can have online access to their archived data for 7 years.