



New Delhi Bankers' Clearing House

**Procedural Guidelines
for
Cheque Truncation System (CTS)
(Version 2.0)**

Manual of Systems & Procedures

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Chapter I

Introduction

1.1 Cheques represent a significant segment of payment instruments in India. In the year 2006-07, more than a billion cheques were processed at the Clearing Houses across the country. The Reserve Bank has been playing the role of the catalyst in ensuring efficiency in the clearance of cheques. During the mid eighties, it initiated the process of cheque clearing using the Magnetic Ink Character Recognition (MICR) technology. The success of this technology spurred initiatives for setting up of many more MICR based Cheque Processing Centres and today there are 64 MICR centres all over India, accounting for more than 83% of all cheque volumes processed and cover over 88% of their value (as at October 2007).

1.2 The present system of MICR cheque clearing system requires the cheques to be physically moved from place to place and the time involved in their processing at various intermediate stages increases the length of the clearing cycle of cheques. This was also due to the fact that the cheques require their presentment at the branch where they were payable. The restraining factor was the Negotiable Instruments Act, 1881 under which the physical instrument had to be presented to the drawee branch for payment.

The law was amended during the year 2002 paving the way for the presentment of electronic images instead of the physical instrument. With suitable amendments (Annexure I) made to the Negotiable Instruments (NI) Act, 1881, The Information Technology (IT) Act, 2000 and The Bankers Book Evidence (BBE) Act, 1891 the legal framework is now in place for the introduction of cheque truncation and e-cheques in India.

1.3 The NI Act defines a truncated cheque to mean ***“a cheque which is truncated during the course of a clearing cycle, either by the Clearing House or by the bank, whether paying or receiving payment, immediately on generation of an electronic image for transmission, substituting the further physical movement of the cheque in writing”*** (cf. Section 6 of the NI Act, 1881).

1.4 Thus cheque truncation involves the stoppage of the physical movement of the cheque and the replacement of physical instrument by the image/s of the instrument and the corresponding data contained in MICR line.

1.5 The Reserve Bank of India (RBI) constituted an industry Working Group on Cheque Truncation under the Chairmanship of its Executive Director, Dr. R.B. Barman, to *inter-alia* suggest an appropriate model for cheque truncation in India. The Working Group submitted its recommendations in July 2003, and suggested a presenting bank based truncation model. As a follow up of its recommendations, RBI initiated steps for the implementation of cheque truncation project on a Pilot basis in the National Capital Region, New Delhi (NCR).

1.6 Jurisdiction

For the present the Cheque Truncation is proposed to be implemented initially in the National Capital Region (NCR) of New Delhi and is subject to the jurisdiction of New Delhi Bankers Clearing House.

1.7 Clearing Timings

The Cheque Truncation System is capable of supporting different types of clearing. Each type of clearing will have a separate clearing window known as clearing session. Initially there will be two presentation clearing sessions and two corresponding return clearing sessions per day. The clearing timings for these sessions are as follows:

Clearing Session	Weekdays	Saturdays
	Timings	
Presentation Clearing Session-I	09.00 to 12.00 hrs	-----
Presentation Clearing Session-II	15.00 to 20.00 hrs	14.00 to 17.00 hrs

Return Clearing Session-I (Return Clearing of Presentation Clearing-I)	16.00 to 17.00 hrs	-----
Return Clearing Session-II (Return Clearing of Presentation Clearing-II)	12.00 to 13.00 hrs (Next day)	12.00 to 13.00 hrs (Next day)

The details of the different clearing sessions shall be worked out by the Standing Committee and communicated to member banks by the Clearing House from time to time.

1.8 Applicability of Guidelines

The term 'cheque' in this guideline shall have the same meaning as given in Section 6 of amended NI Act, 1881* and include all types of clearing instruments including cheques, drafts, pay orders, 'at par' instruments, etc. Suitable provisions have been made in the Negotiable Instruments (Amendment & Miscellaneous Provisions) Act, 2002 and also The Information Technology Act, 2000 for recognition of images as valid instrument for payment by the drawee banks.

(* a "cheque" is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in electronic form)

1.9 These guidelines deal mainly with the operations of image based cheque processing and have to be read with and subject to the Uniform Regulations and Rules for Bankers' Clearing Houses.

Chapter II

Overview of Clearing Procedure under Truncation Environment

2.1 Point of Truncation

The point of truncation is left to the discretion of the presenting bank. However, in accordance with Section 131 of the N.I.Act, the banks must put in a process of proper authorization, with regard to ensuring due diligence on all the instruments presented by it.

2.2 Settlement

Settlement shall be generated on the basis of the existing MICR code line. The amount will have to be captured/ keyed in separately. The specifications of the cheques detailed for MICR clearing have to be adhered to. The existing E13 B Font for the code line structure shall continue to be used.

2.3 Government Cheques

For a limited period Government Cheques will have to be sent along with their images to the drawee banks, with the "Paper to Follow" type.

2.4 Digital Signatures

The use of the Public Key Infrastructure (PKI) ensures data authenticity, integrity and non-repudiation, adding strength to the entire system. The presenting bank is required to affix digital signature on the image & data from the point of truncation itself. The image and data are secured using the PKI throughout the entire cycle covering capture system, the presenting bank, the Clearing House and the drawee bank.

2.5 Use of Dedicated Secure Network

Images accompanied by the MICR line data, duly encrypted & digitally signed, will travel over a dedicated network connecting all the CHIs with the Clearing House.

2.6 Storage and Archiving System

A sound storage and archiving system of images is an integral part of CTS which takes care of disputes, complaints, reconciliation etc. The present legal requirement for preservation of physical paid cheques is eight years as mandated by the Banking Companies Preservation of Records Rules, 1985. So the physical instruments and the images have to be preserved for the statutory period.

2.7 Scanning Standard

The scanning will conform to the prescribed standards which are, for front side, grey scale 100 DPI 8 bit (256 level) in JFIF format with JPEG compression, and front and back bi-tonal (black and white), 200 DPI TIFF image. Compression techniques used are jpeg for grey scale image and CCITT G4 standards for the bi-tonal. The image quality assurance is required at the scanning stage so that the images meet the processing quality standards. The image specifications are as follows :

Sl. No.	Image Type	Minimum DPI	Format	Compression
1	Front Grey Scale	100 DPI	JFIF	JPEG
2	Front Black & White	200 DPI	TIFF	CCITT G4
3	Reverse Black & White	200 DPI	TIFF	CCITT G4

The background of the cheques should be image-friendly (There should be no dark background).

Chapter III

Presentation Clearing – Procedure at the Presenting Branch

3.1 Preliminary Verification

As the payment processing is done on the basis of images, the onus of due diligence shifts to the Presenting Bank, *as provided under explanation II to Section 131 of Negotiable Instruments Act*. The member banks have to enforce KYC (Know Your Customer) norms in letter and spirit. The banks should observe all precautions which a prudent banker does under normal circumstances, e.g., to check the apparent tenor of the instrument, physical feel of the instrument, any tampering visible to the naked eye with reasonable care, etc. For enhanced attention, based on exceptions, the banks may employ suitable risk management techniques like scrutiny of high value transactions, limit based checking by officials, new accounts alerts, etc. The presenting bank takes full responsibility for collecting on behalf of the intended payee and exercises due diligence as per the conditions laid down in the amended Negotiable Instruments Act.

3.2 Sorting of Instruments

"Drawn on Self" or "On-Us" instruments should be settled internally. The CHIs are configured to reject On-Us items. However, certain CHIs handling indirect members and sub-members may be allowed On-Us items.

Apart from segregating "drawn on self" cheques, the banks should also segregate instruments which are being re-presented (primarily for adjusting endorsement at the back of the instrument (Refer to paras 3.9, 4.3), as also the instruments which are required to be sent physically to the drawee banks (Paper to Follow - Refer to para 3.24), as these categories of instruments would require separate process of handling by the bank.

3.3 Crossing

All cheques received for collection over the bank's counters are required to be branded with the bank's special crossing stamp prior to scanning. The suggested dimension and

the position of the Special Crossing Stamp are given in **Annexure II**. Banks should take care so as not to interfere with any material portion of the cheque, and the drawee banks are able to process their inwards without any undue problem on this account.

3.4 Capture of Images and Data

The images of all the instruments in a batch / file must be duly captured along with MICR data using scanners set up for the purpose. The amount needs to be captured/ keyed in to complete the data record. The ideal number of instruments in one capture file should be about 200 for easier balancing.

3.5 Reject Repair and Balancing

The banks should have proper systems and procedures in place to ensure that the rejects of the MICR line are appropriately repaired and the batch file is balanced before the same is uploaded from the capture system to the CHI. Banks are required to pass on the value in the MICR repair tag for any correction / changes / rejects on the MICR band of the cheques in the capture files.

3.6 Endorsement

At the time of scanning the instruments, the reader sorter / scanner will print a single line endorsement on the back of each instrument which shall be the unique identifier for the instrument. It shall consist of Presentment Date of the item (8 digit) in DDMMYYYY format, the Clearing Type (2 digit), Item Sequence Number (14 digit consisting of Sorter ID 6 digit, Run Number 2 digit, Sequence Number 6 digit), MICR Code of the Branch of First Deposit (9 digit) and IFSC Code of the Presenting Branch (11 digit) of the Presenting CHI. It is optional for the bank to use the MICR and IFSC code of the presenting branch or branch where truncation is done; however in case instruments belonging to another bank is scanned for presentation in the clearing (who is participating as an indirect member), the MICR / IFSC code of the Branch of First Deposit (i.e., indirect member) should be used.

3.7 The printing of the endorsement implies that the collecting bank undertakes to credit the payee's account on realisation of the cheque and that the instrument deposited is a genuine one and is being collected for a bonafide customer of the bank.

3.8 As regards the confirmation / certification of endorsements, the attention of the member banks is invited to the provisions of URRBCH providing that the clearing stamp affixed would be considered as the collecting banks' confirmation of all the previous endorsements and that it undertakes to credit the beneficiaries' account on realization and no additional / specific endorsement / certificate of confirmation to this effect on the instrument is considered necessary.

3.9 Represented Cheques

In the case of represented instruments (i.e. after having been returned once), the endorsement will be made in a different position to avoid overlapping. Stickers may be used to cover the previous endorsement to avoid smudging. The capture systems should have control procedure to monitor such representations, as a fraud prevention measure. The first/ original presenting bank has to cancel the earlier stamps by marking "All our Stamps Cancelled".

3.10 Validations

The data captured by the banks' capture system should be validated using the CHM generated by the CHI to avoid rejection at the CHI.

3.11 Government Cheque Validation

The capture system must detect the special case for Government Cheque account numbers as detailed in the Clearing House Interface Specification document. The special cases are:

- 7 digit account number and a 3 digit transaction code
- 6 digit account number and transaction code in the range 20-27 and 49.

3.12 Capture shall ensure appropriate “doctype” i.e., Paper to Follow is attached to such instruments and arrangements are made to deliver it to the drawee bank / branch as per the Clearing House rules.

3.13 Master Table Synchronization

The master table information, such as sort codes, transaction codes, branch codes, bank codes, city codes, calendar, and designated branches, etc., of the capture system should be synchronised with that of Clearing House Master Table. Any changes in the clearing house table shall get automatically updated on the online CHIs, and it shall be the bank’s responsibility to update its capture system immediately. CHI supervisors should monitor whether the CH Table has been updated successfully or not. Any error related to CH Table updates is reflected in the system monitor screen of the CHIs.

It will be the responsibility of the offline CHIs (CHIs which are not connected to CH over network) to ascertain any updation in the Master Tables, before the commencement of any session. Offline CHIs may have to approach the Clearing House for any updates.

3.14 Image Quality Checking

The banks need to perform IQA validations at the capture system. Each image shall have an IQA indicator tag indicating the outcome of the IQA test carried out by the capture system.

The threshold values for different IQA parameters shall be intimated to the banks by the Clearing House from time to time. The banks should take care to synchronize the IQA parameters at the capture system, to avoid excessive rejection at the CHI.

3.15 Handing IQA Failure

Instruments that fail IQA test may be rescanned. Instruments (images) which do not pass the IQA test need to be handled through “Paper to Follow” model, with IQA indicator flag ‘off’. (Refer para 3.24 on Paper to Follow) However, this option should be used only in extreme circumstances when it is not possible to meet the IQA standards by

rescanning and not as a matter of routine. The IQA Fail & IQA Pass report is made by CHI as a daily report. The capture system of the bank may also generate an IQA report for its enhanced control.

The President of the Clearing House retains the right to define threshold limits on items failing IQA, and invoke penal provisions for its violations.

3.16 Use of PKI

The banks are required to apply digital signatures to individual images and MICR data at the point of capture. They should also ensure that the digital signatures used for the processing activity has unexpired life of at least one month.

3.17 Transmission of Image / Data

The capture system will transmit the MICR data and images of the cheques to its Clearing House Interface electronically and/or on the media. Banks may have procedures in place to optimise bandwidth and ensure that the branches upload their presentation in over a period of time rather than sending all the images and data relating to the day's clearing of the branch at the end of the day or at a given point of time.

3.18 Service Bureau

In case the services of a Service Bureau are utilized for capturing images and MICR data by any bank / branch, there would be appropriate controls and agreement between the concerned Service Bureau and the concerned bank/s. The scope of the services undertaken by the Service Bureau would have to be agreed upon between the bank and the Service Bureau by way of a contract. The internal security including the digital signatures is left to the agreement between the Service Bureau and the banks while that used for transmission of the file/s from the CHI to the CH shall follow the prescribed standards as per the Clearing House Interface Specifications document.

3.19 Return Processing

Presenting bank CHI shall receive the return exchange file/s for each return session containing the returns on the presentation lodged by them. As per system design, a return session may not necessarily have a direct one-to-one corresponding relationship to any particular presentation session. An item may be returned as long as its clearing length has not expired, and a session is available for the particular clearing type. The return file shall contain the item detail and return reason code. It shall be the responsibility of the presenting bank to generate the return memo from the information in the return file.

3.20 Post Return Clearing

After completion of the return settlement, the passed / paid instruments are required to be branded "CLEARED" boldly on the face of the instrument. The stamping / branding in the bottom middle portion of the instrument (above the MICR line) should be done in such a way that no material part of the cheque is affected in order to ensure that the material portions of the cheque are appropriately preserved for any future use.

3.21 Storage of Physical Instruments

The presenting banks need to put in place arrangements to physically archive the cleared instruments for ready retrieval, whenever required at a later date. The physical instruments must be stored for the required statutory period, as mentioned in para 2.6.

3.22 Posting of Transaction / Crediting Customers' Account

The banks should pass debit/ credit to their customers on the Value Date of the transaction (the date on which the settlement is posted in the settlement bank's account). However, permitting the customers to utilize the proceeds would be subject to internal rules of the presenting banks.

As mentioned in para 3.19 above, in CTS, the return sessions need not correspond to any particular presentation session. The drawee bank may return an item provided the

clearing length for the item has not expired and there exists an appropriate return session for returning the item. Before releasing the credit to the customer, the presenting bank should ensure that either the clearing length of the item has expired or there is no appropriate return session available to the drawee bank to return it, within the clearing length of the item, (For clarifications on clearing length please refer to section 4.5).

3.23 Extension Handling

The Cheque Truncation System supports extension requests for bank/branch. The clearing length of the item/s, for which extension has been given, increases by extension hours. Such items can be returned in any of the return session, supporting the same clearing type, within the extended period. (Refer para 6.8 for extension handling).

The CHI of the presenting bank shall receive inward extension exchange file/s containing list of items for which extension has been given to the drawee banks, the reason code and the extension hours. CHI in turn will generate extension files for use of the capture system. It is the responsibility of bank's capture system to track those items for further processing/ action.

3.24 Paper to Follow

The banks would be required to send paper along with the scanned images in the following situations:

- (a) Government Cheques (Para 3.11 & 3.12)
- (b) IQA Failure (para 3.15)
- (c) When the instrument has been returned by the drawee bank with reason code 39 (Image not clear, present again with paper) or reason code 40 (Present with document) (Refer to para 6.9 for details)

The physical instruments, along with separate bank wise lists, should be dropped in the respective drawee banks' receptacles at the clearing house, **within half an hour after**

the close of session. (Refer to Annexure-V for details on the Clearing Session timings and exchange of “Paper to Follow” items.)

3.25 A record of instruments transmitted with ‘paper to follow’ model shall be maintained by both the banks, in order to have appropriate control over the movement of paper instruments. As per the provisions of the N.I.Act, the drawee bank shall retain and preserve the physical instrument after making the payment thereof.

3.26 Internal Control

The banks should document the process flow and ensure that the adequate control mechanisms are in place. Special care and adequate physical checks should be taken during rescanning of instruments and representation of instruments.

The banks must have a mechanism to generate internal control reports at the end of the session/ day to effectively reconcile the presentation made it and the credit received by it from the CH. In case of any discrepancy, the same should be sorted out immediately.

The service branches of the banks following distributed outward model may keep the branch clearing control reports for verification of actual credit received from the Clearing House.

Chapter IV

Processing at Clearing House Interface – Outward Clearing

4.1 Clearing House Interface (CHI)

The CTS Clearing House Interface (CHI) provides connectivity between the capture / drawee bank systems of a Bank on the one hand and to the RBI Clearing House (CH) on the other. It provides a gateway for transmission of data and images. It does the required validations to ensure that the data entering the CH from the bank's capture system is free of operational errors.

4.2 Receiving Outward Presentment

CHI will receive the duly balanced outward clearing cxf files (containing MICR data) and cibf files (containing images) from the capture system of the bank.

4.3 Image Quality Analysis and Failure Handling

The incoming images are subjected to IQA validations. The images which fail IQA validations are rejected with an appropriate response file. The bank may rescan the instrument and present under the same UDK (Unique Document Key) or a changed/ different UDK depending upon bank's internal processes/ control procedures. The member banks have to maintain control over such re-presentments.

4.4 Item Processing

The CXF and CIBF files presented by the capture system are validated by the CHI against the file and item level validations indicated in the CHI Specifications, as released by the Clearing House from time to time. The CHI after validations generates response files which contain information related to acceptance or rejection of each file and the items present in each file with appropriate reason codes. Sometimes there may be multiple response files for a CXF and CIBF file. It is the responsibility of the capture system to take these response files and take appropriate actions.

The CHI then sorts the MICR data and their related images into bundles as per drawee bank and bundle collection type and creates exchange files internally and validates these bundles against the session window to which they will be attached at the CH. CHI before attaching the items to the session, signs MICR data as well as image views. It also signs and encrypts the exchange files before transmission to CH.

4.5 Clearing Length

The clearing length of a session is calculated from the close receiving time defined for a presentment session irrespective of when the session is actually closed. The clearing length of the item is dependent on the bundle collection type, and other factor like holidays, extension granted to the drawee bank / branch, general extension granted to a session, extension resulting from blockage and any other activity by Clearing House.

4.6 Establishment of Session

The session information is configured in the Master Tables. The scheduled sessions for the day are displayed on the 'Session Monitor Screen' at the CHI. However, in case of version mismatch of CHT (at CH and CHI), exchange files cannot be uploaded to CH and the same would be rejected. In that case the CHI operator shall update the Clearing House Table of CHI, unbuild the exchange files and then revalidate the items for onward processing.

4.7 Session Attachment

The items are assigned to an appropriate clearing session that is open based on parameters fixed for a session by the CH. These parameters are passed on to the capture system through the CHI. The item inherits 'session date' that is the business date of the session. If there is no appropriate session that is open, the items/ bundles wait at the CHI until such a session opens.

A validation of the item's Presentment Date versus the item's Session Date is performed and items that exceed a prescribed limit (7 working days) shall be rejected by the Clearing House. The Clearing House shall from time to time prescribe this parameter. CHI will build exchange files for the MICR data and the cheque images for onward transmission to Clearing House.

4.8 Transmission of Files to Clearing House

Each exchange file is digitally signed and encrypted before it is transmitted to the CH.

4.9 Banks should plan transmission of their outward presentation by taking into account presentation volume, the bandwidth of network with the Clearing House, and the session window. Invariably, the time demarcation at the CHI shall be in synchronization with the CH in order to avoid the rejection of clearing files by the CH due to closure of a session. However, it may sometimes happen that a bundle/ exchange file, after being transmitted within a session time, gets delayed in transit due to unforeseen circumstances like network congestion, etc., and is not able to reach the CH system before close of the session. In such a situation, the CHI will need to unbuild the exchange file, and reattach to a new session.

It shall be the responsibility of the Presenting Bank to verify and ensure that all the items presented / transmitted by it have been included in the settlement and reconcile the total credits with the presentation made by it.

4.10 Use of PKI

The PKI standards used are in accordance with the appropriate Indian Acts and practices of IDRBT, which is the certifying authority for banks and financial institutions in India. There will be two different certificates – one for encryption and one for signing.

The standards defined for the PKI are as follows:

- hash algorithm SHA-1
- padding algorithm pkcs#1
- RSA asymmetric encryption with 1024 bit key length
- Triple DES (3DES, TDES) symmetric encryption with 168 bit key length
- Certificates in x.509v3 format

It shall be the responsibility of bank to monitor the expiry period of digital certificates used by the CHI. They shall initiate action for renewal of digital certificates at least one month prior to expiry date of digital certificates as indicated in para 3.16.

4.11 Downloading the CRL

CH shall download the Certificate Revocation List from the certifying authority i.e., IDRBT on a regular basis. CH shall in turn update the Working Certificate Store which contains all the certificate related information and distribute among the CHIs.

4.12 Media Based Transmission of Exchange Files

In the event of a network failure or in case of an offline CHI, the application allows for data and image files to be exchanged with the CH using different types of Electronic medium. The same PKI infrastructure that is used during network transmission is used to create the files for transfer using physical media options.

4.13 Regional Holiday and Blockage

The NCR jurisdiction falls under different states, and they have different holiday calender. "Blockage" function in the system has been designed to handle different state holidays, for a 'value date'. The blockage prevents other banks to present any cheques on the branch / bank put under blockage. In addition, it gives extension to all unexpired items drawn on such branches and banks for the blockage period. The branches / banks under blockage can not lodge any fresh presentation during the blockage period. Banks seeking to block their branches or the entire bank may request the CH for doing so. Alternatively, the banks may themselves put their branches in blockage from CHI. The CHI in turn will send these requests to CH for its approval. The information related to blockage is passed on to other CHIs using the CHT updation.

This functionality may also be extended to address other operational situations as deemed necessary by CH.

4.14 Reconciliation of Outward Presentation

After End of Session at the CH, CHI generates an OACK file containing the details of Items that have been taken up for settlement at the CH. It shall be the responsibility of presenting bank to reconcile their entire presentation by collating the information from OACK file and various response files.

Chapter V

Processing at Clearing House Interface - Inward Clearing

5.1 Receipt of Inward Data / Images

The Inward processing deals with accepting inward presentment data and images from the CH and providing data in the form of files for use within the bank's in-clearing (drawee bank) system. The CHI receives digitally signed inward financial data exchange files and image exchange files from the CH.

5.2 Validation

The CHI shall authenticate and load the exchange file data into the system and send an error exchange file to the CH if the inward financial data exchange file or image exchange file failed decryption or authentication. The CHI will send an acknowledgement exchange file to the CH if the inward financial data exchange file or image exchange file gets successfully loaded. The CHI will also validate the digital signatures on the MICR and Image Data.

5.3 Control Mechanism

The Service / Main Branch should verify that all the inward bundles/ items have been received by it to ensure that there has been no data loss in the transmission from Clearing House to the CHI. The CHI supervisor may compare the relevant information available at the 'Clearing House Processing Monitor' and 'Inward Exchange File Screen' for the purpose. The drawee bank would not be able to generate pxf/posting files unless all the inward bundles/ items have been actually received at the CHI.

If any files are lost in transmission the bank may request the Clearing House for retransmission of images and data.

5.4 Generation of Posting File

CHI, for each session, shall generate files for interfacing with the bank's in-clearing or exception processing system.

CHI is capable of creating posting files (both image and data files) for payment processing in one of the following three ways:

- i. Bank wise for the entire bank
- ii, Branch wise within each bank
- iii. Branch and transaction code wise for each branch.

The type of posting file drawee bank requires is configurable at CHI.

5.5 Posting Files for Designated Branches

The drawee bank may designate any particular branch for receiving transactions that do not pertain to any sorted category. Besides drawee bank may also designate any particular branch for different transaction codes. By default, the service branch is considered as a designated branch also for all purposes.

Chapter-VI

Processing at Branches / Bank's In-clearing System

6.1 Transmission of Posting Files

It will be the responsibility of the drawee bank module to fetch the posting files from CHI and do the payment processing.

6.2 Duplication Checking

The CH detects duplicate items based on MICR code line on the data for the configured number of days. The duplicate items are indicated in the posting (pxf) files generated by the drawee bank's CHI, and it is the responsibility of drawee bank module to have processes in place to take necessary caution/control while processing such items. Additionally, CH also generates a report of duplicate items for each CHI after each session, and is available for CHIs to access the same and download, if required.

6.3 Digital Signature Validation

CHI shall verify the digital signature of presenting CHI. Whereas it has been made mandatory for presenting banks to apply digital signatures at the capture point itself, it is left to the drawee banks to decide whether they want to validate the digital signature coming from capture system of the presenting bank.

In case validation of digital signature of presenting bank fails, drawee bank may return such items with appropriate return reason codes.

6.4 Payment Processing

The banks shall do the payment processing based on images of the instruments following all the prudent practices.

6.5 Return Request File

It will be the responsibility of the drawee bank in-clearing system to collate all the return items from different branches and create *Return Request File/s as per specifications provided in CHI Specification document*. The drawee bank in-clearing system shall put such *Return Request File/s* to CHI for onward transmission to the CH.

6.6 Return Processing at CHI

CHI shall receive RRF/s from drawee bank system containing all the outgoing returns along with return reason codes (Annexure-III). CHI shall validate the file for file integrity and data integrity. CHI then processes the data and generates exchange file for the CH. (Refer para 3.19 for details) During return clearing images would not travel. The return clearing is based on the UDK (Unique Document Key). Each exchange file is digitally signed and encrypted before it is transmitted to CH. Physical instruments will have to be returned in case the same have been received by the bank, under “Paper to Follow” type.

6.7 Transmission Discipline

CHI shall transmit the Outward Return Exchange Files within the given return window. As there may be a time lag during transmission of a file from CHI to CH, the drawee bank should ensure that the return exchange files reach the Clearing House within the timeframe before the closure of the return session.

6.8 Extension Request for Returns

A drawee bank can request an extension on the return period for a branch / bank by requesting the Clearing House. The Clearing House, depending upon the situation, may grant extension as per the request. On grant of extension to a bank/branch, the clearing length of all the items drawn on it would increase by extension hours.

Extension can be requested/ granted before the cut off time for seeking extension, which is configured for each session (max. extension hours). Extension requested beyond the configured period can not be accepted.

The CH shall provide an 'extension exchange file' to each CHI listing all of its items affected by the extension, along with extension time and reason. (Refer para 3.23 for details)

6.9 Requests for Paper

In terms of Section 64(2) of the Negotiable Instruments Act, "where an electronic image of a truncated cheque is presented for payment, the drawee bank is entitled to demand any further information regarding the truncated cheque from the bank holding the truncated cheque in case of any reasonable suspicion about the genuineness of the apparent tenor of instrument, and if the suspicion is that of any fraud, forgery, tampering or destruction of the instrument, it is entitled to further demand the presentment of the truncated cheque itself for verification. The cheque so demanded will be retained by the drawee bank if the payment is made accordingly".

However, for operational reasons, the banks requiring physical instruments may return the item through the appropriate return clearing with the return reason code- 39 or 40, as the case may be. The presenting banks will re-present such instruments with document type 'C' (Paper to follow). For details on exchange of instruments please refer to section 3.24.

6.10 Along with the inward data / image files containing the appropriate flags for "paper to follow" instruments, a separate report as a part of Branch-wise Clearing Report having details of such instruments, will be received at the drawee bank CHIs.

The drawee bank would be entitled to lodge return in the Clearing House, if the instrument in the "paper to follow" mode has not been delivered within the stipulated time, as mentioned in para 3.24. In case a "Paper to Follow" item gets returned due to reason - "Paper not Received", the flag would be removed automatically by the system. However, as mentioned in para 6.6, physical instruments will have to be returned in case the same have been received by the bank, under "Paper to Follow" type.

6.11 Internal Control

While handling the inward clearing, the banks should keep into account the feature/ functionality off 'duplicate MICR' checking, as mentioned in detail in para 6.2 above.

The banks would also need to reconcile/ track the receipt of paper in case of 'Paper to Follow' model, as mentioned in detail in para 3.24 earlier.

In addition to the inward instruments drawn on branches of a bank, the reports generated by the Clearing House would contain the summary position of the total number of instruments and the total value thereof. After the processing of inward clearing, branches should verify the inward clearing figures branch-wise.

6.12 Reconciliation of Clearing Differences

In CTS Clearing the images and data will be received together in the same envelope and hence the possibility of a bank being debited without receiving an image shall not normally arise. In the case of a bank being debited with the cheque image of another bank (on account of data entry error or so) the same should be returned to the presenting bank with appropriate return reason code.

In case of a cheque listed for a value different from the actual value of the cheque (on account of data entry error), the cheque should be passed, if otherwise in order, and debited to the customer's account for the actual value of the cheque and difference between the actual amount and listed amount should be sorted out with the presenting bank. An instrument shall not be rejected only for the reason of wrong encoding/ listing of the amount.

Chapter VII

Special Processing at Clearing House

7.1 Session Extension

Under exceptional circumstances, the clearing house may use the 'session extension' feature resulting in extension of the clearing length for that session, Under exceptional circumstances, the value date may also be changed i.e., the day on which banks' account with settlement bank will be operated. Such extensions shall be passed on to the CHIs along with the posting file and no separate extension files will be generated.

7.2 Regional Holiday

Regional holiday shall be handled using blockage facility. (Covered in detail in para 4.13)

7.3 Return by CH

Under special circumstances, the Clearing House may return items to the presenting bank before the final settlement for the session is generated. Such returns are called "pre-settlement returns". There shall be specific return reason code reserved for marking such returns.

7.4 Bank Exclusion

Under exceptional circumstances, the Clearing House may exclude a bank from settlement. The bank exclusion may be of three types - All, Debit Only, Credit Only. In 'exclude All', all items presented by and drawn on the bank (for which exclusion is being done) are excluded from the settlement and returned. In 'Debit Only exclusion', all the items drawn on the bank (for which exclusion is being done) will be excluded from the settlement and returned. In 'Credit Only exclusion', all the items presented by the bank (for which exclusion is being done) will be excluded from the settlement and returned.

Exclusion shall generate RF (Return files) for all the presenting banks with reason code 'bank excluded by CH'.

7.5 Different Status of CHI / Bank

Suspended: CH shall change the status of a bank from 'in clearing' to 'suspended' under exceptional circumstances like moratorium or unwinding, etc. In such a scenario, the suspended bank shall not be able to participate in any clearing. But banks may return and seek extension on items presented by the suspended bank in the suspended period.

Not in Clearing: CH shall put a bank in 'not clearing' mode when a bank does not participate in clearing. Once set as 'not clearing' the bank cannot make or receive any presentations during the 'not clearing' period. Other banks also can not return and seek extension on items presented on/by the bank.

7.6 Unwinding

The CH shall perform unwinding on a bank under rule 11 of URRBCH. The banks will receive the item details from the CH, listing the items presented by the presenting banks on the (drawee) bank, which has been unwound under rule 11. The bank's account will be debited in the settlement bank's books for these items.

Annexure I

Legal status for Cheque Truncation derives from the amendments that were made to the Negotiable Instruments Act, 1881. The following are the relevant clauses of the amended NI Act -

Section 6

'6. "Cheque" - A "cheque" is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form.

Explanation I. - For the purposes of this section, the expression -

(a) "a cheque in the electronic form" means a cheque which contains the exact mirror image of a paper cheque, and is generated, written and signed in a secure system ensuring the minimum safety standards with the use of digital signature (with or without biometrics signature) and asymmetric crypto system;

(b) "a truncated cheque" means a cheque which is truncated during the course of a clearing cycle, either by the clearing house or by the bank whether paying or receiving payment, immediately on generation of an electronic image for transmission, substituting the further physical movement of the cheque in writing.

Explanation II - For the purposes of this section, the expression "clearing house" means the clearing house managed by the Reserve Bank of India or a clearing house recognised as such by the Reserve Bank of India.'

Section 64

Amendment of section 64 - Section 64 of the principal Act shall be re-numbered as sub-section (1) thereof, and after sub-section (1) as so re-numbered, the following sub-section shall be inserted, namely:-

"(2) Notwithstanding anything contained in section 6, where an electronic image of a truncated cheque is presented for payment, the drawee bank is entitled to demand any further information regarding the truncated cheque from the bank holding the truncated cheque in case of any reasonable suspicion about the genuineness of the apparent tenor of instrument, and if the suspicion is that of any fraud, forgery, tampering or destruction of the instrument, it is entitled to further demand the presentment of the truncated cheque itself for verification:

Provided that the truncated cheque so demanded by the drawee bank shall be retained by it, if the payment is made accordingly."

Section 81

Amendment of section 81 - Section 81 of the principal Act shall be re-numbered as sub-section (1) thereof, and after sub-section (1) as so re-numbered, the following sub-sections shall be inserted, namely:—

“(2) Where the cheque is an electronic image of a truncated cheque, even after the payment the banker who received the payment shall be entitled to retain the truncated cheque.

(3) A certificate issued on the foot of the printout of the electronic image of a truncated cheque by the banker who paid the instrument, shall be *prima facie* proof of such payment.”.

Section 89

Amendment of section 89 - Section 89 of the principal Act shall be re-numbered as sub-section (1) thereof, and after sub-section (1) as so re-numbered, the following sub-sections shall be inserted, namely:-

“(2) Where the cheque is an electronic image of a truncated cheque, any difference in apparent tenor of such electronic image and the truncated cheque shall be a material alteration and it shall be the duty of the bank or the clearing house, as the case may be, to ensure the exactness of the apparent tenor of electronic image of the truncated cheque while truncating and transmitting the image.

(3) Any bank or a clearing house which receives a transmitted electronic image of a truncated cheque, shall verify from the party who transmitted the image to it, that the image so transmitted to it and received by it, is exactly the same.”.

Section 131

Amendment of section 131 - In section 131 of the principal Act, *Explanation* shall be re-numbered as *Explanation I* thereof, and after *Explanation I* as so re-numbered, the following *Explanation* shall be inserted, namely:—

“*Explanation II.* - It shall be the duty of the banker who receives payment based on an electronic image of a truncated cheque held with him, to verify the *prima facie* genuineness of the cheque to be truncated and any fraud, forgery or tampering apparent on the face of the instrument that can be verified with due diligence and ordinary care.”.

All the other related laws including the Bankers' Book Evidence Act and the IT Act have been amended along with the Negotiable Instruments Act to support the cheque truncation process viz. enabling the banker to pay or reject the images of the cheques in lieu of the physical paper.

Special Crossing Stamp

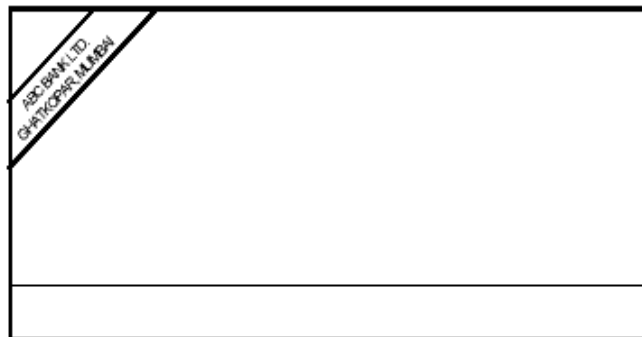
(i) Dimension of Special Crossing Stamp

Two parallel lines of length up to 2 inches at a distance of $\frac{1}{4}$ inch in between them. The name of the bank and branch to be incorporated in the enclosed space.

(ii) Position of Special Crossing Stamp

Preferably at the top left hand corner with a slanting of 60 degrees to the base.

(iii) Suggested specimen



(iv) Additional Safeguard

The crossing stamp should be affixed in such a manner that to the extent possible it does not deface any material information such as the name of the payee, 'A/C payee' crossing, etc., made by the customer.

Code No.

Reason for Return

(01-03) Funds

- 01 Funds insufficient
- 02 Exceeds arrangement
- 03 Effects not cleared, present again.

(04) Reference to Drawer

- 04 Refer to drawer
- 05 Kindly contact Drawer/ Drawee Bank and please present again

(10-19) Signature

- 10 Drawer's signature incomplete
- 11 Drawer's signature illegible
- 12 Drawer's signature differs
- 13 Drawer's signature required
- 14 Drawer's signature not as per mandate
- 15 Drawer's signature to operate account not received
- 16 Drawer's authority to operate account not received
- 17 Alteration require drawer's authentication

(20-29) Stop Payment

- 20 Payment stopped by drawer
- 21 Payment stopped by attachment order
- 22 Payment stopped by court order
- 23 Withdrawal stopped owing to death of account holder
- 24 Withdrawal stopped owing to lunacy of account holder
- 25 Withdrawal stopped owing to insolvency of account holder

(30-49) Instrument

- 30 Instrument post dated
- 31 Instrument out dated / stale

- 32 Instrument undated / without proper date
- 33 *Instrument mutilated; requires Bank's guarantee*
- 34 Cheque irregularly drawn / **amount in words and figures differ**
- 35 *Clearing House stamp / date required*
- 36 *Wrongly delivered / Not drawn on us*
- 37 Present in proper zone
- 38 *Instrument contains extraneous matter*
- 39 Image not clear, present again with paper
- 40 Present with document
- 41 Item listed twice
- 42 Paper not received

(50-59) Account

- 50 Account closed
- 51 Account transferred to another branch
- 52 No such account
- 53 Title of account required
- 54 Title of account wrong / incomplete
- 55 Account blocked (situation covered in 21-25)

(60-69) Crossing / Endorsement

- 60 Crossed to two banks
- 61 Crossing stamp not cancelled
- 62 Clearing stamp not cancelled
- 63 Instrument specially crossed to another bank
- 64 Amount in protective crossing incorrect
- 65 Amount in protective crossing required/ illegible
- 66 Payee's endorsement required
- 67 Payee's endorsement irregular / requires collecting bank's confirmation
- 68 Endorsement by mark / thumb impression requires attestation by Magistrate with seal.

(70-79) RBI / Government

- 69 Advice not received

- 70 Amount / Name differs on advice
- 71 Drawee bank's funds with sponsor bank insufficient
- 72 Payee's separate discharge to bank required
- 73 Not payable till 1st proximo
- 74 Pay order / cheque requires counter signature
- 75 Required information not legible/ correct

(80-89) Miscellaneous

- 80 Bank's certificate ambiguous / incomplete / required
 - 81 Draft lost by issuing office / confirmation required from issuing office
 - 82 Bank/ Branch blocked
 - 83 Digital Certificate Validation failure
-
- 92 Bank Excluded

Rescheduling of items

Different cases of handling items not attached to session are as under -

Session is closed when item reaches the CHI from capture system

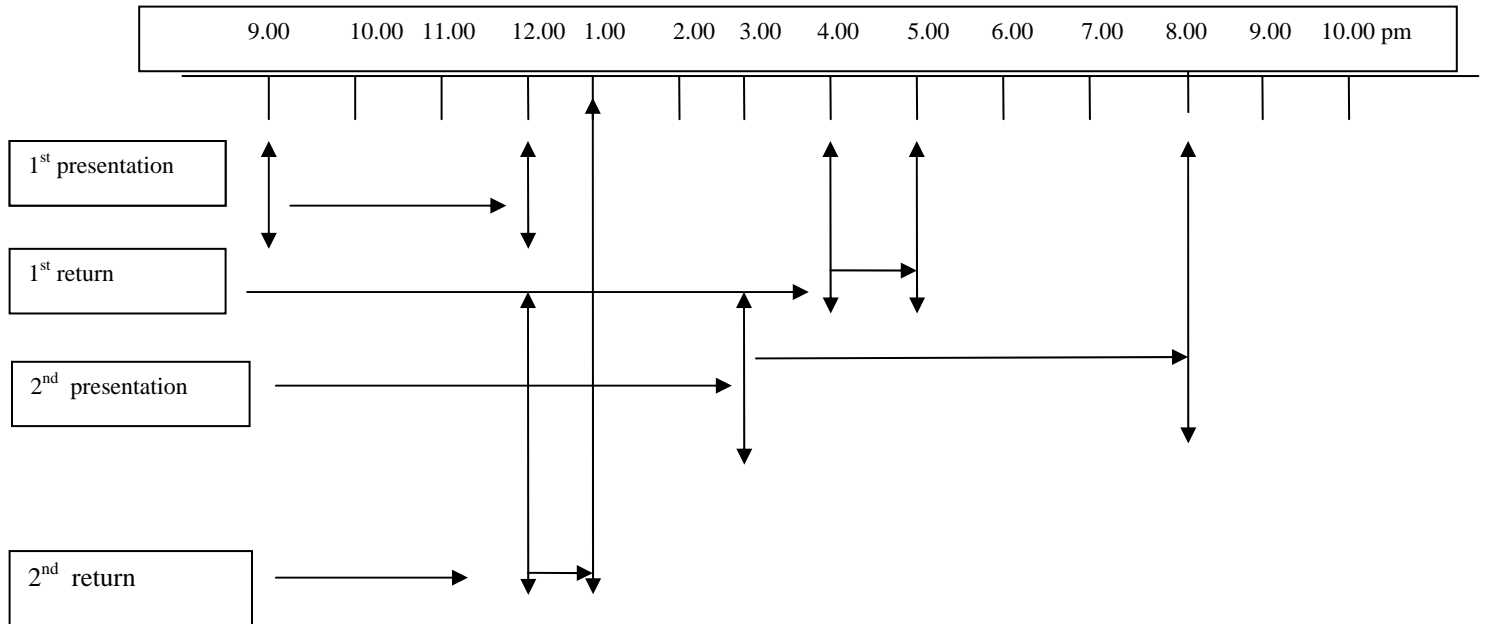
Transaction with one Clearing Type came to the Presenting Bank CHI from the capture system. No Session was open for that Clearing Type. The transaction shall have the following status on CHI "Awaiting Session". The transaction shall reside in the CHI and will automatically get attached to next available clearing session with same Clearing Type. In case the bank wants to present the item/s in another session (with a different clearing type) and if the item satisfies requirement of that Clearing Type, the operator shall have to delete the item manually. Once the item is deleted at the CHI, an Auto Response File gets generated and shall be available to Capture for Pull. The Capture system of the bank shall then have to import the Response File and Re-Scan the instrument, change the endorsement and re-submit the transaction with the other Clearing Type.

Session is closed when item reaches the CH from CHI

CH shall reject the bundle and send it back to Presenting Bank CHI. In such a situation, the CHI will need to unbuild the exchange file, and reattach to a new session. The bank may take appropriate action as explained in para above.

Annexure V

Time-line drawing of the Clearing cycle for the CTS clearing in New Delhi Bankers Clearing House



Weekdays

1st Presentation : 9.00 am to 12.00 noon 1st Return : 4.00 pm to 5.00 pm
 2nd Presentation : 3.00 pm to 8.00 pm 2nd return : 12.00 noon to 1.00 pm (next day)

Saturdays

Only 2nd Return and 2nd presentation clearings would be held -

2nd Return : 12.00 noon to 1.00 pm
 2nd Presentation : 2.00 pm to 5.00 pm

Note: Paper to Follow documents to be dropped in the Clearing House -

Cut off time : 1st Presentation : 12.30 pm
 2nd Presentation : 8.30 pm

Droppings in the boxes to be regulated by access control