

**THE CENTRAL BANK**

**OF AFGHANISTAN**

**Ref:** 01-15/04

Kabul, 05 January 2005

**Regulation**

**On Defining**

**Operating Rules for the clearing and settlement of interbank payments in Afghanistan**

**1. BASIC PROVISIONS**

**1.1. Objectives**

1.1.1. The purpose of this bi-law is to regulate operating rules for the clearing and settlement of interbank payments in Afghanistan. The Afghanistan clearing and settlement system (ACSS) is operated by the Central Bank of Afghanistan. ACSS services are offered to commercial banks and final users of payment transactions-banks' clients.

1.1.2. ACSS is operated from DAB headquarters in Kabul and back-up sites selected by DAB. These procedures apply to transactions made through all ACSS locations and by agreement are binding, according to laws regulating payment transactions in Afghanistan. These procedures apply to any participant in ACSS operations that sends a payment order directly to DAB, any receiving bank that receives a payment order directly from DAB and any beneficiary.

***1.2 Purpose and Scope of Service***

1.2.1. The purpose of the clearing and settlement operations conducted by the DAB is to provide safe, fast and reliable payment services for bank customers while using a standard form of negotiable instrument, the payment order. The ACSS services will be conducted exclusively using electronic records.

1.2.2. The clearing and settlement arrangement has been designed to serve the commercial banks that are licensed to perform internal payment services by DAB and that have reserve accounts with the DAB and have agreed by letter to observe ACSS Operating Rules as

defined by these Regulations (banks-members of ACSS). Other legal entities that do not meet the requirements to become members of ACSS (other users of ACSS) will use the ACSS services through banks-members of ACSS by concluding appropriate contracts and by signing a letter on observing ACSS procedures as defined under these Regulations.

1.2.3. Settlement will occur, by net debits or credits to reserve account with the DAB of a bank-member of ACSS, according to the schedules and terms established in Rules. Several sessions are scheduled by the DAB to occur within a day in ACSS.

### ***1.3 Participant banks' Identifications***

1.3.1. For purposes of routing items through the ACSS, banks-members of ACSS or other ACSS users which payment orders are sent to, are identified by bank identification numbers assigned by DAB. Such identifiers will be compliant with International Bank Account Numbering Standard (IBAN) and must be included in the payment orders.

## **2. PROCESSING OF PAYMENT ORDERS AND ELECTRONIC FILES**

### ***2.1 Sending bank responsibilities***

Banks are expected to utilize the Net Servers installed in their locations to send payments to other banks. Sending bank must authorize and identify all electronic files in accordance with the format and procedures prescribed in the User Interface Manual.

2.1.1. Banks-members of the ACSS will create files in batches (groups of payment orders) which will be sent to the ACSS. The ACSS will check each transaction for compliance with format requirements. Settlement will be completed only for correct batches.

2.1.2. Batches containing any non-compliant payment order will be rejected back to the sending bank. The sending bank must correct the errors and resubmit them to the next session of the ACSS.

### ***2.2 Authorization of credit to account for payments returned***

2.2.1. Each sending bank- member of the ACSS, by its very act of sending payment orders to the ACSS, authorizes the DAB to debit the account of sending bank- member of the ACSS for the transactions it originates, and to credit its account for the subsequent return of unaccepted payments by a receiving bank- member of the ACSS.

## **2.3 Records**

2.3.1. Sending banks - members of ACSS must retain all pertinent records necessary to reconstruct any file, batch or individual payment for one year beyond the date of original presentment. The member of ACSS is under no obligation to research, provide customer contact, or resolve any adjustment for a particular payment later than this time.

## **2.4 Receiving bank's responsibilities**

2.4.1. Receiving banks - members of ACSS are expected to accept any electronic files made available to them by the ACSS each day, including any late cleared payments as noted in this Regulations. Payments made available to a receiving bank that cannot be electronically delivered to such member on that day are deemed to have been delivered on that day for purposes of settlement and timely return.

Receiving banks must:

a. Settle or Return Payments

Payments remain the property of sending bank until they have been settled for or returned; receiving bank will hold payments until they have credited the accounts of their customers in their books.

b. Report errors

A receiving bank that discovers errors in files, (such as misrouted or missing payment files, improperly charged files, missing detailed data, etc.) must inform the ACSS and the appropriate sending bank prior to 15:00 hours on the day of receipt and hold the payment(s) for instructions to resolve the problems. The sending bank must make an adjusting entry through its account at the DAB.

c. Return misrouted payments

Refused payments are to be electronically returned by sending through the next available ACSS session. Receiving bank must note on each returned payment, the cause for return and the name of the receiving bank. Any payment presented through the ACSS shall be deemed to be returned timely, and the sending bank shall not be held accountable for such payment, if it is returned within 24 hours. Return item notices must be prepared in accordance with ACSS specifications for each payment returned.

d. Retain records

Receiving banks must retain detailed information on electronic files, tapes, or paper listings, and any other associated evidence necessary to reconstruct records for any ACSS transaction for one calendar year beyond the date of receipt. Receiving banks are under no obligation, but may as a courtesy; assist sending banks in resolving inquiries about transactions that occur after the mandatory records retention period has expired.

## **2.5 The DAB Responsibilities**

The DAB is a member of the ACSS and can participate in the ACSS to the same extent as any other member for payments it may receive or originate. In addition, the DAB provides ACSS services and settles accounts in its books for its members. In performing its functions, the DAB will observe the following provisions:

- a. The DAB will reject any file containing any transactions that do not comply with ACSS standards. DAB is under no obligation to correct any defects in the files. Sending members must correct the errors and can resubmit the files at the next session of the ACSS.
- b. Settlement will be completed within one (1) hour after each session, each business day by debiting and crediting reserve accounts maintained by bank-members of ACSS with the DAB. DAB reserves the right to refuse to settle any balance if it learns that a bank-member of ACSS has failed, been suspended, or closed by the Regulator in charge. The net positions determined at these times will be entered to the reserve accounts of the participants, and the funds considered available at that time.
- c. Banks using their reserve accounts during the day for other transactions such as withdrawals of cash must use the RTGS for these purposes (\*\*this item left in to underscore need to address cash withdrawal issues prior to implementation of RTGS\*\*).
- d. Items that are delivered late or returned will be delivered at the next session. Payments performed under the mentioned rules are deemed to be received on the day of delivery. It is the responsibility of the members participants of ACSS to assure that such delivery conforms to rules as defined by these Regulations. Any files received by the DAB after the final session at 15:00 will be returned to the sending members unless prior agreements have been made with the ACSS.
- e. DAB shall not in any way be responsible or liable in the event a member incurs a loss in connection with participation in the ACSS, except in case of the DAB's own negligence or misconduct. All claims because of miswriting, untimely return, failure to return, default by a member, etc. shall be resolved directly between the members. DAB shall, however be accountable, pursuant to the terms and conditions of the Regulations for its own items entered for clearing and settlement in the same manner as any other member.
- f. DAB, with the approval and agreement of the ACSS Association, when established, may set and assess monetary penalties for violations of ACSS Rules.

## **3.0 Contingency Operations**

3.1 ACSS members must undertake all the necessary steps to conduct clearing and settlement operations under special conditions. Contingency plans must be developed and tested periodically by each of the participants individually and together with the DAB.

3.2. In the event of a failure in electrical power at the ACSS or throughout a larger area, the clearing process will be conducted manually or with auxiliary facilities.

3.3. All participants should file duplicate copies of all daily journals, reports, source documents, etc. sufficient to recreate operations at an alternate location physically separate from the main office of business.

3.4. Notification of failures at any point in the clearing arrangement should be announced to other participants or a location as soon as possible after failure is noticed. The announcement should include instructions for alternate operations.

#### ***4.0 Security and Control***

4.1. A general physical security control plan will be set and maintained by the DAB to insure the integrity of transactions and protect valuables.

4.2. Physical security will be implemented to safeguard the following:

- a. Computer systems used for ACSS operations will be located in an enclosed and segregated area of the DAB;
  - ii. Access to the area will be restricted to authorized personnel, and
  - iii. DAB will exercise all necessary internal security measures.

4.3. ACSS participants are expected to provide assurance that their files are properly authorized by an appropriate person entitled by the bank-member of ACSS, and that their staff has been adequately trained to complete the clearing transactions.

4.4. DAB will take reasonable precautions in providing its representatives (such as background investigations of prospective employees, periodic rotation of assignments, procedural audits of operations, and disciplinary actions when necessary) in order to maintain the integrity of clearing center activities.

#### ***5.0 Miscellaneous Activities***

##### **5.1 List of Authorized Personnel**

Participants should maintain on file with the DAB, a current list of authorized personnel who may conduct ACSS business for them.

##### **5.2 List of Holidays**

The DAB will publish prior to the start of each year, and make available to participants, a list of planned holidays to be observed on which it will be closed for business. The list will also include the normal hours of operation for ACSS. (Attachment 1)

### 3. Fees

DAB will charge a fee for the services of ACSS, in accordance with the document defining the fees for services provided by the DAB.

## **6. Adjustment Procedures**

6.1 In the normal course of processing transactions through the ACSS, participants will encounter errors or exceptions to normal procedures. These conditions may be placed in the following categories:

- items within files not correctly listed in value,
- items within files not denoted in Afghani,
- electronic transmittal forms improperly prepared, and
- Files lost or damaged in delivery.

6.2 Any of the events mentioned in paragraph 6.1 may be detected at different points in the processing flow and must be resolved by the discovering participant as soon as possible. Receiving member should send the payments with errors back to ACSS.

6.3 The DAB will inform regularly and in a timely manner the ACSS participants on actions on resolving errors and it will publish in an appropriate manner the achieved solutions as a standard for uniform compliance by participants.

## **7.0 Accounting Instructions**

### 7.1 Structure of Accounts

The DAB maintains one account for each ACSS participant. Each account must always have sufficient funds to accept a net debit entry for ACSS results each day.

### 7.2 Determination of Net Position

Each business day before the settlement time, the ACSS will calculate the net position of participants in the clearing arrangement, record such positions to the appropriate accounts, and inform the participants of the amounts to be entered in their accounts. The net position is derived by the ACSS by subtracting the total amount of items received from a member (debits) from the total amount of items such bank sent (credits) through the ACSS. Receiving banks will be given immediate credit for that portion. Reversals will also be given for items that have been refused for payment and returned to sending members. All members are settled on the books of DAB after the ACSS cut off.

### 7.3 Settlement for Net Position

Participants in the clearing arrangement are expected to maintain sufficient funds in their respective current accounts to accommodate any debit balances arising from daily clearings. Overdrafts are not permitted and must be funded through the usual credit sources available to banks. In certain cases, the DAB may require sending banks to prefund their financial obligations at the clearing center.

### 7.4 Failure to Fund Net Position

In the event that a participant is unable to provide sufficient funds in its reserve account as required covering its obligations in the ACSS, all items received at the time of closure but not yet credited to the accounts of its customers, must be returned. The ACSS will determine the correct sending participant and deliver the items to them and annul whatever entries they had acquired in their accounts. Members should enter into bilateral arrangements among them for remedying these circumstances.

## **8. Final Provisions**

8.1. Amendments and supplements to this Regulation will be effected in the same way as this Regulation is passed.

8.2. Parts of these Regulations are Attachment 1 Time Schedule for ACSS, Attachment 2 Letter of Agreement to the ACSS Rules as defined by this Regulations and Attachment 2a-the one to be signed by the other ACSS participant.

8.3. The DAB should keep the register of banks-ACSS members and register of other ACSS participants.

## **9. Entry into Force**

This Regulation enters into force on the day of its passing.

GOVERNOR

The Central Bank of Afghanistan

## **Attachment 1**

### **Time Schedule for Afghan Clearing and Settlement Service of Central Bank Afghanistan**

#### ***Opening Hour***

The Central Bank of Afghanistan (DAB) accepts eligible file transfers beginning at 0800 each business day. In unusual circumstances, and upon the approval of the DAB, payments may be accepted before this time.

#### ***Closing Hours***

The DAB accepts eligible domestic file transfers until 1500 each business day. In unusual circumstances, and upon the approval of the DAB, payments may be accepted later than this time. In this case, bank should send Clearing House files to the receiving bank within one hour after the closing hour.

#### ***Sessions***

DAB will clear and settle eligible domestic transfers during each business day at the

Following times:

15:00 all payments from the sending members should be ready - first cut -off

15:00 to 15:30 ACSS netting and processing

15:30 to 16:00 final settlement and preparing of account statements

#### ***Business Days***

DAB accepts eligible file transfers five days a week (Sunday through Thursday) except the official bank holidays for Afghanistan:

**Attachment 2**

**LETTER OF AGREEMENT**

**To the Operating Rules of Afghan Clearing and Settlement Service of the Central Bank of Afghanistan**

Dear Sirs:

We agree to the provisions of the Regulations on Defining Operating Rules for the Afghan Clearing and Settlement Service, No: 01-   15   /04 dated  Jan 5,  2005 and all its attachments, as amended from time to time to adjust the needs. This bank has been licensed DAB to operate payment services.

In sending eligible transfers of files through ACSS, we agree to follow the security procedures mentioned in Section 4.0 of the Regulations on Defining Operating Rules of ACSS, and as stated in the uniform standards adopted by the DAB.

We agree also to provide any necessary contingency arrangements as recommended by the DAB, to assure that this bank continues its essential files transfers operations in the event of disruptions to internal facilities.

Date: \_\_\_\_\_

Bank Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Bank Identifier No: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

**LETTER OF AGREEMENT**

**To the Operating Rules of Clearing Center**

**The Central Bank of Afghanistan**

Dear Sirs:

We agree to the provisions of the Regulations on Defining Operating Rules for the Clearing Center, No: 01- 15 /04 dated Jan 05, 2005 and all its attachments, as amended from time to time to adjust the needs.

In sending eligible transfers of files through ACSS, we agree to follow the security procedures mentioned in Section 4.0 of the Regulations on Defining Operating Rules of ACSS, and as stated in the uniform standards adopted by the DAB.

We agree also to provide any necessary contingency arrangements as recommended by the DAB, to assure that this bank continues its essential files transfers operations in the event of disruptions to internal facilities.

In ACSS, we are represented by the bank-member of ACSS \_\_\_\_\_.

Date: \_\_\_\_\_

Bank Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Bank Identifier No: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_