

Bangladesh Bank

Head Office, Dhaka
Payment Systems Division

PSD Circular No-01/2010

Date: 4 Magh 1416
January 17, 2010

**Managing Director/Chief Executive Officers
All scheduled banks in Bangladesh**

Dear Sir,

**Bangladesh Automated Cheque Processing System
(BACPS) Operating Rules and Procedures.**

With reference to the Para 6 of the PSD Circular No. 02/2009 Dated: 16 February, 2009, the approved BACPS Operating Rules and Procedures is published in the website of Bangladesh Bank. The addresses of the website are:

www.bb.org.bd
www.bangladesh-bank.org

All Scheduled banks of the country that will participate in the Bangladesh Automated Clearing House (BACH) are hereby advised to download the Bangladesh Automated Cheque Processing System (BACPS) Operating Rules and Procedures for their use. They are also requested to execute and sign the Bangladesh Automated Cheque Processing System Participant Agreement and Indemnity (Annexure-1) and send to Department of Currency Management and Payment systems, Bangladesh Bank within 28 February, 2010.

Please acknowledge receipt.

**Enclosure: BACPS Participant Agreement
and Indemnity (Annexure -1).**

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Bangladesh Automated Cheque Processing System (BACPS)

Operating Rules & Procedures



Payment Systems Division
Department of Currency Management and Payment Systems
Bangladesh Bank

11 January, 2010

FOREWORD

A modern national payment system is the backbone for a country's monetary and financial infrastructure and an advanced payment system plays a critical role in the country's current and future economic development. Several years ago, Bangladesh Bank in partnership with the U.K. Department for International Development (DFID) embarked on a project to modernize Bangladesh's national payments system. The project is multifaceted and its primary objective was to increase and improve the delivery of workers' remittances. The effort is known as the Remittance and Payments Partnership (RPP). Over the past two years significant progress has been made in achieving the goals of the initiative. The RPP project has two major payment system components consisting of the creation of an inter-bank electronic funds transfer system which has been named the Bangladesh Electronic Funds Transfer Network (BEFTN) and the automation of the existing paper cheque clearing system which is known as the Bangladesh Automated Cheque Processing System (BACPS).

Automation of the cheque clearing system is a Herculean effort that relies on the introduction and use of standards, systems, procedures and rules that provides the foundation for moving from a manual paper sorting and clearing operation to one that employs the latest in technology to truncate, exchange and settle cheques in a purely electronic manner. The achievement of the cheque clearing automation goal requires that Bangladesh Bank, the Government and every bank in the country must work in concert to achieve success. Failure by any of the parties to meet their responsibilities and obligations in a timely manner could result in significant delays in moving the country forward.

The first step required for improving cheque clearing was the establishment of internationally accepted physical cheque and image standards that facilitate the automation of the cheque clearing process. The introduction of a Magnetic Ink Character Recognition (MICR) line on all cheques which provides the mechanism for capturing cheque information electronically along with an image friendly design were essential ingredients for providing the foundation for automated processing, truncation and electronic clearing of cheque images.

The second step in the cheque clearing improvement process is the installation by Bangladesh Bank of a state-of-the-art centralized electronic cheque clearing system. The new electronic cheque clearing system will interface with the image based cheque processing solutions that all banks in the country will install. The implementation and cohesive integration of these systems will introduce a safer, faster and more efficient mechanism for clearing cheques within Bangladesh.

The final step in the process is the creation of a sound legal basis for the introduction of cheque truncation and the electronic exchange and settlement of cheque images. The BACPS Rules and Operating Procedures that are contained in this document in conjunction with the recently enacted Bangladesh Payments and Settlement Systems Regulations – 2009 establish the legal foundation needed to support BACPS. The BACPS rules define the roles and responsibilities of all of the parties. Each bank will execute a contractual agreement that will bind the bank to comply and adhere to the BACPS Rules completing the legal underpinning of the system.

I would like to take this opportunity to thank DFID, the RPP Advisory Team, and especially George Thomas, the RPP Regulatory Advisor for their contributions in the development of the BACPS Rules & Procedures.



Chowdhury Mohidul Haque
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Bangladesh Bank, RPP Project
Dhaka
11 January 2010.

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: List of Acronyms:

- **ACE** : Archive Electronic Cheque Envelope
- **AICS** : Active Image Clearing and Settlement System
- **BACH** : Bangladesh Automated Clearing House
- **BACPS**: Bangladesh Automated Cheque Processing System
- **BCV** : Batch Control Voucher
- **CD** : Compact Disc
- **CE** : Cheque Envelope
- **CH** : Clearing House
- **CHM** : Clearing House Module
- **DIN** : Document Identification Number
- **DVD** : Digital Versatile/Video Disc
- **ECE** : Electronic Cheque Envelope
- **ECP** : Electronic Cheque Presentment
- **ICE** : Inward Electronic Cheque Envelope
- **IQA** : Image Quality Analysis
- **IRE** : Inward Return Electronic Cheque Envelope
- **KYC** : Know Your Customer
- **MICR** : Magnetic Ink Character Recognition
- **OACK** : Outward Acknowledgement
- **OCE** : Outward Cheque Envelope
- **ORE** : Outward Return Electronic Cheque Envelope
- **PBM** : Participating Bank Module
- **PKI** : Public Key Infrastructure

PART I

BACPS Operating Rules

CHAPTER 1

INTRODUCTION

These Rules govern paper-based payment Items that are eligible for cheque truncation and electronic cheque presentment using the Bangladesh Automated Cheque Processing System (BACPS). The purpose of these rules is to support the use of imaging and the transmission of electronic information between Banks, and to create new options for storage and retrieval of Images and associated information.

While these Rules make functional distinctions, it is recognized that one entity may play several roles in the context of BACPS. For example, the Presenting Bank and the Sending Point may be one and the same entity or the Receiving Point and Paying Bank may be one and the same entity. Similarly, the Capturing Bank and the Presenting Bank may be one and the same.

The detailed format requirements for the creation of BACPS Cheque Envelopes under Chapter 5 of these Rules and may be found in the BACPS Active Image Clearing and Settlement System (AICS) Functional Specification. The specifications for submitting Cheque Envelopes into BACPS can be found in the Participating Bank Module (PBM) Functional Specifications.

All payment items to be eligible for BACPS processing must meet the requirements contained in the Cheque Design Standards Specifications for Image and MICR Encoded Cheques.

SCOPE

These Rules apply to all paper-based payment items that are eligible for BACPS, set out in Chapter 3, section 8.

DEFINITIONS

In these Rules,

1. "Account" means an account with reserve and/or clearing balances on the books of the Bangladesh Bank.
2. "Applicable BACPS rules" means the rules and agreements designated in these Rules as applicable to designated BACPS transactions.
3. "Approved Payment Item" means a payment item that meets the requirements of BACPS- Eligible Item.
4. "Archive" means a repository used to store and index Images and associated information, including MICR line information, item sequence number, and full audit trail information, for necessary retention and accessibility.
5. "BACH" means the overall system and facility that supports the Exchange and settlement of payment items between Participating Banks and the Bangladesh Bank.
6. "BACPS" means a facility that clears cheques and approved payment items for Bank companies.
7. "BACPS-Eligible Item" means an electronic copy of a paper-based Payment Item that the

Presenting bank certifies is a copy of the original instrument acceptable for Exchange using MICR and Image technologies and is listed as one of the Items or instruments in Chapter 3, section 8 of these Rules.

8. "BACPS Participating Bank Module" means the software and equipment that manages the transmission and receipt of BACPS Cheque Envelopes, acknowledges receipt of BACPS Cheque Envelopes, and interfaces with the Banking Companies' host systems.
9. "BACPS Cheque Envelope" means an electronic file that is exchanged between a Sending and a Receiving Point, which contains electronic information representing BACPS-eligible Items, Returned BACPS Items, and the relevant audit trail information.
10. "Bank": means a Bank company established under the Bank Companies Act, 1991.
11. "Business Day" means a Banking day including all days except weekly holidays and all approved Bank holidays.
12. "Bureau Service" means BACPS cheque processing service offered by the Bangladesh Bank to process the Outward Clearings on behalf of the commercial banks.
13. "Capturing Bank" means a Bank or the Bangladesh Bank that creates or purports to create an Image of a BACPS-eligible Item on its own behalf or on behalf of another Bank.
14. "Cheque": as it is defined in section 6 of Negotiable Instruments Act, 1881.
15. "Cheque Truncation" means the process by which the physical movement of a cheque within a Banking company, between banking companies is stopped and replaced by the exchange, or storage, of Images and corresponding electronic information.
16. "Cheque Image" means a digital representation of the front and back of a cheque.
17. "Clearing" means the exchange of payment instructions between payment system participants, and includes without limitation, the processes associated with clearing, sorting, editing, netting and prioritizing such instructions or orders in whatever form these take.
18. "Convenience Amount" means the amount that appears on a cheque that is normally written in numeric values.
19. "Correspondent Bank" means bank acting on behalf of a participating Bank. That means it will send and received approved payment items to and from Bangladesh Bank on behalf of the participating bank(s).
20. "Counterfeit Item" means an Item that appears to be original or genuine, but has been fraudulently made and, for the purpose of these Rules, shall be considered an Item with a Forged or Unauthorized Signature.
21. "Electronic Cheque": is an electronic version of a paper cheque, including date, payee name, payment amount, and signature.

22. "Electronic Cheque Presentment (ECP)" means the process by which BACPS-eligible Items, Returned BACPS Items and Redirected Returned BACPS Items are exchanged through the transmission and receipt of Images and corresponding electronic information.
23. "Exchange" means the delivery and receipt of Payment Items.
24. "Financial Institution": as defined in clause (b) of section 2 of the Financial Institutions Act, 1993.
25. "Forged or Unauthorized Signature" means (i) a signature on the face of an Item that is not the signature of the person (the drawer) that it purports to be, or (ii) a signature that is written on or applied to an Item without the drawer's authority.
26. "Force Majeure" means any event beyond the control of a Banking company that could not be avoided by the exercise of such standard of care as is reasonable in the circumstances, including acts of God (earthquakes, natural floods, storms), fire, explosion, war, insurrection, riot, disaster, and civil disorder.
27. "High Value Items" means Item amounting taka 5.00 (Five) lacks and above.
28. "Item" means an instruction for the payment of money via an approved payment instrument (negotiable instrument) that is handled by the Bangladesh Bank for clearing and settlement under these rules.
29. "Legal Amount" means the amount of a cheque that is normally written in words.
30. "Magnetic Ink Character Recognition (MICR) means the machine recognition of numeric data printed with magnetically charged ink.
31. "Material Alteration" means an unauthorized change to one or more of the completed details of an originally authorized Item, and includes those material alterations identified in the Negotiable Instruments Act, 1881 which are alterations: (i) to the date, (ii) to the sum payable, (iii) of the time of payment, (iv) of the place of payment, or (v) of the addition of a place of payment without the acceptor's assent where a bill has been accepted generally, as well as any alteration of the Paying Bank or of the payee name.
32. "Participating Bank" means a Bank who is a participant in the BACH.
33. "Paying Bank" means the Bank upon which a Cheque or other item is drawn.
34. "Presenting Bank" means the Bank presenting a Cheque or other items for collection.
35. "Public Key Infrastructure" means a set of cryptographic techniques in which two different keys (private and public keys) are used for encrypting and decrypting data. The private key is kept secret by its holder while the public key is made available to communicating entities.

36. "Returned BACPS Item" means the corresponding payment information of a BACPS-eligible Item that is returned to the Presenting Bank in accordance with and for any reason permitted by these Rules.
37. "Sending Point/Receiving Point" A bank will have one single point of connection with BACH which will be termed as sending/receiving point. The PBM will be located at this point.
38. "Settlement Account" means the Account at the Bangladesh Bank that the Participating Bank maintains for the purpose of settlement.
39. "Settlement Date" means the date for settlement of an item as provided in these Rules.
40. "Service Branch" is a branch which will act as a sending and receiving point, for each individual bank there will be only one service branch for each bank.
41. "Truncation" means a settlement process in which the physical exchange of a paper based payment instrument is substituted by the exchange of images and data in electronic format. Cheque truncation involves stopping the physical movement of cheques and the replacement of physical instrument by images of the instrument and corresponding data contained in the item MICR line.
42. "Truncation Point" is a point from which physical movement of an instrument is stopped, here the image and data will be captured and transmitted to the service branch. A bank may have multiple truncation points.
43. "Unqualified Item" refers to an item which does not meet the criteria of a BACPS-eligible Item.
44. "Unusable Image" means an Image that does not meet the requirements of the Image Usability Standard.

CHAPTER 2

ROLES AND RESPONSIBILITIES OF BANGLADESH BANK AND PARTICIPATING BANKS

GENERAL

1. The BACPS Rules govern the clearing and settlement of approved paper based payment items to be processed through the Bangladesh Automated Clearing House (BACH).
 - a. The BACPS Rules are issued pursuant to Regulations 7 of the Bangladesh Bank Payments and Settlement Systems Regulation, 2009. These rules are binding on a presenting Bank that sends items to the Bangladesh Bank, a Paying Bank that receives items from the Bangladesh Bank, and on an account holder that has agreed to settle for items under these rules.
 - b. Any BACPS approved payment item that is sent to the Bangladesh Bank for clearing and settlement is subject to the provisions of these Rules. The Bangladesh Bank processes such items as a BACPS operator and does not collect, present, or return such items as a “collecting” or “returning” Bank, except in its performance of its responsibilities for the Government, and as banker to the bank and for its own payments.

CLASSES OF PAYMENT ITEMS – APPROVED PAYMENT ITEMS

2. Paper-based payment items that are specified in the BACPS rules and that conform to the following requirements may be exchanged for the purpose of clearing and settlement provided:
 - a. they are drawn on a member Bank; and,
 - b. they are payable on demand; and,
 - c. they are identified in accordance with BACPS formats and the rules, and,
 - d. they conform to the requirements set out in the rules, including those relating to value and value date.

Paper-based payment items that do not conform to the requirements listed above but are specified in the rules and conform to the requirements set out in the rules may also be exchanged for the purpose of clearing and settlement.

Government payment items - Paper-based payment items drawn on Government of the Peoples Republic of Bangladesh and payable at Bangladesh Bank or any pre-specified Schedule Bank.

SENDING APPROVED PAYMENT ITEMS

3. A Participating Bank that maintains or uses a Settlement Account at the Bangladesh Bank may send a cheque or equivalent approved payment item to the Bangladesh Bank.

An item must be in the media the Bangladesh Bank prescribes and in the format prescribed by the applicable BACPS rules.

SECURITY PROCEDURES

4. The security procedures the Bangladesh Bank offers to verify the authenticity of the source of an item are described as follows:

All Outward Cheque Envelopes will be digitally signed and encrypted by the Presenting Bank before transmission to BACPS and all inward Cheque Envelopes will be digitally signed and encrypted by BACPS before being transmitted to the Paying Bank.

Each Participating Bank shall prevent any disclosure of any aspects of the security procedures offered by the Bangladesh Bank. The Participating Bank shall notify the Bangladesh Bank immediately if the confidentiality of these security procedures is compromised, and shall act to prevent the security procedure from being further compromised.

PRESENTING BANK'S RESPONSIBILITY

5. By presenting an approved BACPS-Eligible Item for payment to the Bangladesh Bank, the Participating Bank:

- a. agrees to comply with the applicable BACPS rules and agrees that those rules govern the relationships among all of the participants.
- b. certifies that the front and back images of the BACPS-Eligible Item is a copy of the original negotiable instrument;
- c. it shall be the duty of the presenting bank to verify the prima facie genuineness of the cheque that can be verified with due diligence and ordinary care. The presenting bank shall be responsible for detecting the following: genuineness of the cheque leaf, material alteration of payee name, amount or date. In such cases where genuineness can not be verified or material alteration is detected; the presenting bank should not submit such cheque(s) to the BACPS;
- d. agrees within seven calendar days to make the original negotiable instrument available for inspection during normal business hours, if requested by the Paying Bank.
- e. upon realization of the proceeds the bank shall pass the same to their customer account on the date of settlement subject to completion of the return session or internal rules of the bank;
- f. if requested by the participating bank, failure to present the original negotiable instrument will result in non-payment of the instrument. The original instrument will remain with the Paying Bank after the instrument has been made available by the Presenting Bank;
- g. authorizes the Bangladesh Bank holding the Bank's Settlement Account to credit the amount for cheques presented to the Bank's Settlement Account on the Settlement Date, and
- h. agrees to indemnify the Bangladesh Bank processing or settling for the item for any loss or expense (including attorneys fees and expenses of litigation) incurred by the Bangladesh Bank as a result of the Presenting Bank's negligence or non compliance with any of the clauses of the BACPS Operating Rules and Procedures with respect to the presented item .

The agreements, authorizations and indemnity do not limit any other agreement, authorization or indemnity, not inconsistent with these Rules, made by a Bank, its Correspondent Bank, or the Bangladesh Bank.

PROCESSING OF ITEMS

6. The Bangladesh Bank clears items in accordance with the applicable BACPS rules. The Bangladesh Bank may reject, or may impose conditions to its clearing of, any approved payment item for any reason. The Bangladesh Bank will not act on instructions other than information required by format specifications in applicable BACPS rules. Except as expressly provided in these Rules, the Bangladesh Bank does not have or assume any responsibility for a Participating Bank's compliance with applicable BACPS rules.

All items, except for local demand drafts and foreign taka demand drafts, sent to be processed through the BACPS must contain the Paying Bank's MICR encoded routing number as well as other information as required in the BACPS operating rules. It is the presenting Bank's responsibility to enter the correct routing number in the MICR data field for local/foreign taka demand drafts. The Bangladesh Bank may process an item on the basis of a routing number of a Participating Bank appearing in any form on the approved payment item when received.

The Bangladesh Bank is not responsible for any loss or delay resulting from acting on the number, whether or not the number is consistent with any other designation of the Paying Bank on the item, if the Bangladesh Bank does not know of the inconsistency in designation.

DELIVERY OF ITEMS

7. The Bangladesh Bank will send approved payment items in electronic format to the Paying Bank. In emergency circumstances, the Bangladesh Bank may send items by alternate methods as arranged with the Paying Bank. Approved payment items are considered received by a Participating Bank in accordance with applicable BACPS Operating rules. A Paying Bank should promptly advise the Bangladesh Bank if it does not receive approved payment items by the expected time.

RESPONSIBILITIES FOR USE OF A CORRESPONDENT BANK

8. A Participating Bank may with prior approval from Bangladesh Bank designate another Participating Bank (Correspondent Bank) as sending or receiving point on its behalf to send or receive approved payment items in electronic format to and from the Bangladesh Bank. It is the Participating Bank's responsibility to ensure that the Correspondent Bank complies with the Participating Bank's obligations under these Rules. The responsibilities of a Correspondent Bank relationship include the following:
 - a) By receiving items from or sending items to the Bangladesh Bank at a receiving or sending point that is owned or operated by an entity other than the Participating Bank itself, a Participating Bank designates the entity that operates the sending or receiving point as its Correspondent Bank for accessing the BACPS items, authorizes such Correspondent Bank to meet the security procedures required to access the Bangladesh Bank's systems, authorizes such Correspondent Bank to act on behalf of the Participating Bank, and authorizes Bangladesh Bank to act on the instructions of such Correspondent Bank with respect to the handling of items sent to or received from the Bangladesh Bank by the Correspondent Bank on behalf of the Participating Bank.
 - b) The Correspondent Bank's access to BACPS is governed by the Bangladesh Bank BACPS Operating Rules, as amended from time to time
 - c) The Participating Bank authorizes the Bangladesh Bank to act upon items, information, and instructions sent to the Bangladesh Bank by the Correspondent Bank that the

Correspondent Bank identifies as having been authorized by the Participating Bank.

- d) The Participating Bank agrees that:
- (i) its Correspondent Bank will be granted credentials authorizing such Correspondent Bank to access the Bangladesh Bank's systems for the purposes of the BACPS service;
 - (ii) its Correspondent Bank will use those credentials to act on behalf of the Participating Bank, and
 - (iii) its Correspondent Bank will use the same credentials to access the BACPS on behalf of other Bank companies (if any) that use the same Correspondent Bank to access the Bangladesh Bank's electronic systems. It is the responsibility of the Participating Bank and its Correspondent Bank to establish controls sufficient to assure that the Correspondent Bank properly segregates the items, information, and instructions of a Participating Bank from any items, information, or instructions of other Participating Bank companies. The Bangladesh Bank is not required to take, and will not take, any measures to assure that the Participating Bank's work is properly identified or segregated by the Correspondent Bank.
- e) The Participating Bank agrees to be bound by the Correspondent Bank's acts or omissions with respect to items that are handled by the Bangladesh Bank pursuant to these Rules.
- f) The Participating Bank authorizes the Bangladesh Bank to settle for items sent to or received from the Bangladesh Bank by the Correspondent Bank, and to obtain from the Participating Bank payment as provided in these Rules for any fees owed to the Bangladesh Bank in connection with items sent to the Bangladesh Bank or received from the Bangladesh Bank by the Correspondent Bank.
- g) The Participating Bank agrees that the Bangladesh Bank may send items to or receive items from the Participating Bank by transmitting such items to and from the Correspondent Bank.
- h) The Bangladesh Bank may rely on the Correspondent Bank appointment until it is revoked in writing and the Bangladesh Bank has had a reasonable amount of time to respond to such revocation.
- i) Any obligations regarding settlement of items that exist at the time of any termination of the Correspondent Bank appointment shall survive the termination of the Correspondent Bank appointment.
- j) The Participating Bank agrees to indemnify, defend and hold the Bangladesh Bank harmless against any claim, loss, cost, or expense resulting from (i) the acts or omissions of the Correspondent Bank; or (ii) the Bangladesh Bank's acts or omissions in carrying out the instructions of such Correspondent Bank within the scope of the Correspondent Bank appointment; or (iii) the Correspondent Bank access arrangement including but not limited to attorney's fees and expenses of litigation, except for any claim, loss, cost, or expense arising solely out of the Bangladesh Bank's failure to exercise ordinary care or to act in good faith.

TIME SCHEDULES, SETTLEMENT DATES AND EXTENSION OF TIME LIMITS

9. The BACPS processing schedule will establish deadlines for the Bangladesh Bank to receive

approved payment items for settlement. The processing schedule will be published from time to time and will operate on normal Banking days.

The Bangladesh Bank processes items in accordance with its processing schedules. If, because of circumstances beyond the Bangladesh Bank's control, it is delayed beyond the applicable time limit in acting on an item, the time for acting is extended for the time necessary to complete the action, provided the Bangladesh Bank exercises such diligence as the circumstances require.

DESIGNATION OF SETTLEMENT ACCOUNT

10. Prior to presenting an approved payment item to (or receiving an approved payment item from) the Bangladesh Bank, a Participating Bank must designate a Settlement Account on the Bangladesh Bank's books, and identify the transactions to be settled through the Account. The Bangladesh Bank may in its discretion, recover the unpaid balance of the Participating Bank's obligation with respect to an item from the Participating Bank, respectively, without prior notice or demand.

The Bangladesh Bank may charge against a Participating Bank's designated Settlement Account the amount of the Bank's BACPS transactions, unless the Bangladesh Bank and the Participating Bank agree to other arrangements for settlement.

By designating a Settlement Account, a Bank authorizes the Bangladesh Bank to debit the designated Account on the Settlement Date the amount of items sent by the Bank to the Bangladesh Bank and to debit and credit to the designated Settlement Account the amount of other transactions (including fees, unless otherwise agreed) with respect to BACPS Items.

The Bank agrees to maintain to its credit in the designated Settlement Account, consistent with paragraph 10 of these Rules, a balance of Actually and Finally Collected Funds sufficient to cover charges under these Rules and all other charges to its Account.

By designating a Settlement Account, and in consideration of the processing and settlement by the Bangladesh Bank of items sent to and/or received by the Bank and other Participating Bank companies, the Participating Bank agrees to the applicable BACPS Operating rules, as amended from time to time, for the benefit of all parties.

A settlement designation supersedes all prior inconsistent designations with respect to items. The Participating Bank may terminate a settlement designation by written notice to the Bangladesh Bank and the Bangladesh Bank may terminate a settlement designation by written notice to the Bank.

SETTLEMENT

11. On the Settlement Date, the Bangladesh Bank debits and credits the Participating Banks Designated Settlement Accounts in the amount of presented approved payment items. Settlement for these items must be made by the Paying Bank at the time provided in processing schedules, and is available for withdrawal or other use by the Participating Bank at that time, subject to the provisions of these Rules. Settlement among participating banks will occur on a net basis and will be final when posted.

SECURITY INTEREST

12. To secure any obligation, now existing or arising in the future, in connection with an approved payment item by a Participating Bank to the Bangladesh Bank, the Bank grants to the Bangladesh Bank all the Bank's right, title, and interest in property, whether now owned or hereafter acquired, in the possession or control of, or maintained with, the Bangladesh Bank including but not limited to the Bank's deposit Account items in the process of collection and their proceeds, and any investment property (including securities, security entitlements, and security Accounts), but excluding any investment property which the Bank may not encumber under applicable law.

This security interest is in addition to any other security interest granted to the Bangladesh Bank by the Bank under regulation or agreement. The Bangladesh Bank may take any action authorized by law to recover the amount owed to it by the Bank, including but not limited to the exercise of setoff without demand or notice and even if the obligations are contingent or un-matured, the realization on any available collateral, and the exercise of any rights it may have as a creditor under applicable law.

REFUSAL TO SETTLE

13. If the Bangladesh Bank judges, in its discretion, that there may not be sufficient funds in the Account at the settlement time on the Settlement Date to cover an approved payment item, the Bangladesh Bank may cease processing the item and may refuse to settle for it. The Bangladesh Bank may also cease processing and refuse to settle for an item if they receive notice of the suspension or closing of the Participating Bank prior to the time settlement is final under these Rules. If the Bangladesh Bank ceases processing or refuses to settle for an item, they will notify the Participating Bank to which the item has been sent as soon as possible.

AVAILABILITY OF CREDIT

14. Credit given for a payment item by the Bangladesh Bank is available for use and may qualify as reserve on the Settlement Date.

The Bangladesh Bank may refuse to permit the use of credit given for an approved payment item if it judges that there may not be sufficient funds in the Participating Bank's Settlement Account to cover chargeback or return of the item.

PAYING BANK'S RESPONSIBILITY:

15. A Paying Bank, by maintaining or using an Account with the Bangladesh Bank for settlement of items or by accepting an item from the Bangladesh Bank:
- a. agrees to comply with the applicable BACPS rules and agrees that those rules govern the relationships among the Participating Banks;
 - b. agrees to process the item in accordance with these Rules;
 - c. authorizes the Bangladesh Bank to charge the amount of a payment item to the Paying Bank's Settlement Account on the Settlement Date, and
 - d. agrees to indemnify the Bangladesh Bank for any loss or expense (including attorneys' fees and expenses of litigation) incurred as a result of a breach of the foregoing agreements or of

any action taken by the Bangladesh Bank in accordance with these Rules.

- e. The agreements, authorization and indemnity do not limit any other agreement, authorization or indemnity not inconsistent with these Rules, made by a Paying Bank to a Presenting Bank, the Bangladesh Bank or another person.

RETURN OF ITEMS AND FUNDS

16. A Paying Bank may return an approved payment item to the Bangladesh Bank in accordance with the applicable BACPS rules and by the deadline set forth in the BACPS processing schedule. The Paying Bank is accountable for the amount of the payment item if the returned item is not received by that deadline.

The Bangladesh Bank processes a returned approved payment item it receives from a Paying Bank and sends it or makes it available to the Participating Bank in accordance with the provisions of these Rules governing the processing of items.

DISPUTED RETURNS

17. If a Paying Bank disputes the propriety of a returned approved payment item one time in accordance with applicable BACPS rules, the Bangladesh Bank will provisionally settle for the disputed return.

If the Paying Bank disputes the presenting Bank's claim in accordance with applicable BACPS rules, the Bangladesh Bank will reverse the provisional settlement for the disputed return.

ADVICES OF CREDITS AND DEBITS; REPORTING OF ERRORS

18. The Bangladesh Bank provides advices of payments to an Account holder for items for which the Account holder has agreed to settle. An advice of credit indicates that credit has been given or advice of debit indicates that a debit has been taken from the Account, subject to the provisions of these Rules. Any accounting errors must be immediately reported to the Bangladesh Bank.

RECORDS

19. Each Participating Bank must keep original paper items for six (6) years to permit it to resolve questions that arise concerning the handling of items. The Bangladesh Bank keeps records of items processed for twelve (12) years after the Settlement Date.

BANGLADESH BANK LIABILITY

20. The liability of Bangladesh Bank is limited by the following:
 - a. The Bangladesh Bank is responsible or liable only to a Participating Bank, only for its own failure to exercise ordinary care, or for its own or its employees' willful misconduct;
 - b. The Bangladesh Bank does not act as the agent or subagent of another Bank or person and is not liable for the insolvency, neglect, misconduct, mistake or default of

another Bank or person;

i. The Bangladesh Bank does not make any warranty with respect to an item it processes or settles for under these Rules, and

ii. No person may make a claim against Bangladesh Bank for loss resulting from the Bangladesh Bank's clearing of or settling for an item after one year from the Settlement Date of the item. If a Bank does not send written objection to an advice of debit to Bangladesh Bank within thirty (30) calendar days after receipt of the advice, it is deemed to approve the debit.

MEASURE OF DAMAGES

21. The measure of damages for the Bangladesh Bank's failure to exercise ordinary care, or for its own or its employees' willful misconduct, for a cheque (including a returned item), is limited to the amount of the item reduced by an amount that could not have been realized by the use of ordinary care. Where there is willful misconduct with respect to a cheque, the measure of damages includes other damages that are attributable directly and immediately to the willful misconduct, but does not include damages that are attributable to the consequences of such misconduct, even if such consequences were foreseeable at the time of such misconduct.

AS OF ADJUSTMENTS

22. The Bangladesh Bank, in its discretion, may satisfy its obligation to pay compensation in the form of interest by:

- a. providing an as of adjustment to a Participating Bank in an amount equal to the amount on which interest is to be calculated multiplied by the number of days for which interest is to be calculated on the basis of the rate to be determined by the Bangladesh Bank; or
- b. paying compensation in the form of interest to a Participating Bank.

RIGHT TO AMEND

23. The Bangladesh Bank reserves the right to amend these rules from time to time.

CHAPTER 3

GENERAL REQUIREMENTS

GENERAL

1. Each BACPS-eligible Item shall be Exchanged, Cleared and Settled in accordance with these Rules.
2. All items, except for demand drafts, foreign taka demand drafts and government cheques must contain, at a minimum, a MICR encoded routing number in order to be eligible for BACPS.
3. An Image of each BACPS-eligible Item shall be captured prior to Truncation in accordance with these Rules.
4. Each Bank shall maintain an Archive of data and images for each BACPS-eligible Item for which it is the Presenting Bank or the Paying Bank;
The requirement to maintain an Archive may be satisfied where:
 - a. The Bangladesh Bank maintains the Archive.
 - b. The bank maintains its own archive (Optional)
5. Each Presenting Bank shall retain original paper Items (source documents) for a period of six years commencing as of the date of capture.
6. Each Presenting Bank may destroy source documents following the expiration date of the source document retention period in 5.
7. Where a Bank uses a Correspondent Bank to perform a particular function, the Bank shall ensure that the Correspondent Bank will comply with the requirements applicable to that Bank as set out in these Rules. Each Bank shall remain responsible and liable for the functions performed by its Correspondent Bank.

ITEMS AND INSTRUMENTS ELIGIBLE FOR BACPS

8. The following MICR encoded payment Items and instruments are eligible for Exchange in accordance with these Rules:
 - a. Taka denominated Cheques drawn by a customer on an account maintained by that customer at the domestic branch of a Bank, where the decision to honour or dishonour rests with the Paying Bank, and where proof of signing authority resides with the Paying Bank:
 - i. Savings Bank Account Cheque
 - ii. Current Account Cheque
 - iii. Banker's Cheque
 - iv. Cash Credit Account Cheque
 - v. Dividend Warrant
 - vi. Demand Draft
 - vii. Gift Cheque
 - viii. Interest Warrant
 - ix. Refund Warrant
 - x. Pay Order
 - xi. Govt. Cheque
 - xii. Credit Card Cheque
 - xiii. Foreign Taka Demand Draft
 - xiv. Fractional Dividend Warrant

CHAPTER 4

REQUIREMENTS FOR IMAGE CAPTURE

GENERAL

1. Each Capturing Bank shall capture Images in accordance with the, BACPS Image Usability Standard and the BACPS Active Image Clearing Specifications (AICS).

IMAGE CAPTURE

2. Two (2) Image segments shall be captured for all BACPS-eligible Items:
 - a. Black and White Image of the front
 - b. Black and White Image of the back

UNUSABLE IMAGES

3. Where a Capturing Bank is unable to capture a usable Image of a BACPS-eligible Item in accordance with Image Usability Standard, the Bank shall enface the Item with a stamp indicating that the Item can not be imaged and cannot be exchanged pursuant to BACPS Rules.

IMAGE USABILITY STANDARDS

4. An Image is considered usable if it meets the following standards;
 - a. **Legible:** The Image of the field is legible if it can be read or deciphered by a human viewer.
 - b. **Viewable:** The Image of the field is viewable if there is perceived content in the field and the content can be viewed without obstruction.
 - c. **Usable Image:** Image usability is of key importance for allowing a Paying Bank to process an item on the basis of an Image. A Usable Image is a clearly represented digital picture of an item. An Image is usable when all of the following criteria are met:
 - i. the date field must be legible on the image of the item.
 - i. the MICR line must be Legible on the Image of the item;
 - ii. the account number in the MICR line is Legible on the Image of the item;
 - iii. the payer information must be Legible on the Image of the item;
 - iv. the Convenience Amount must be Legible on the Image of the item;
 - v. the Legal Amount must be Legible on the Image of the item;
 - vi. the payer's signature must be Legible on the Image of the item;
 - vii. the payee name, if present on the item, and required for stop payment processing, is Viewable on the Image , and
 - viii. the payee endorsement(s), if present on the item, is Viewable on the Image of the item.

d. Reason for Return and Return Process:

- i. If an Image of an item is not usable according to the above definition of a usable Image, the item may be returned within the time frames outlined in the BACPS Procedures (See: Clearing Sessions).
- ii. The Presenting Bank has the option to re-scan the source document and transmit the Image as a new item to the Paying Bank.

e. Poor Source Documents:

If an Image of an item is not usable due to the quality of the source document, the Collecting Bank may:

- i. Return the physical item to its customer. (The physical item and not the Image would have to be returned as the Image is not usable.)
- ii. Forward the source document itself to the Paying Bank for payment (i.e., put it on collection).

PIGGY-BACK ITEMS

- 5. A piggy-back situation occurs when a BACPS-eligible Item is Image-captured with another Item or instrument with the appearance of forming one Item. Where a piggy-back situation occurs, the Capturing Bank shall correct the situation by separately re-capturing the two Items or the Item and the instrument, as the case may be.

LIABILITY OF CAPTURING BANK – USABILITY

- 6. Each Capturing Bank shall be responsible and liable to the Paying Bank for the usability of each Image that it captures up to the end of one consecutive Exchange Cycle commencing on the Date of Presentment at which point the Paying Bank assumes responsibility and liability for the usability of the Image.

LIABILITY OF CAPTURING BANK – PIGGY-BACK

- 7. Where a Capturing Bank receives a Returned BACPS Item as a result of a piggy-back situation (refer to Chapter 4, section 12) and is unable to locate the original Items for re-capture, the Capturing Bank shall be responsible and liable for any loss.

CHAPTER 5

CREATION AND EXCHANGE OF BACPS CHEQUE ENVELOPES

BACPS CHEQUE ENVELOPE CREATION

1. Each BACPS Cheque Envelope shall be created in accordance with the BACPS Active Image Clearing Specifications (AICS). Specifications for Electronic Exchange of Cheques and Image Data Standards are given in Annexure-2

BACPS CHEQUE ENVELOPE TRANSMISSION

2. Each BACPS Cheque Envelope shall be transmitted and received in accordance with the times set out in Part II (Operating Procedure).

CLASSIFICATION OF BACPS-ELIGIBLE ITEMS

3. The following collection types shall be used for the classification of BACPS-eligible Items during the BACPS Cheque Envelope creation process:
 - a. **'01'** : Normal
 - b. **'05'** : On-Ups (possible future option)
 - c. **'11'** : High Valued Item (Collection type set by Presenting Bank only)
 - d. **'21'** : Normal Return
 - e. **'31'** : High Valued Return

BACPS-ELIGIBLE ITEM IDENTIFICATION

4. Each Bank that creates or transmits a BACPS Cheque Envelope shall identify each BACPS-eligible Item by populating the appropriate identification fields in the BACPS Cheque Envelope as set out in the AICS. The High Value collection type can only be indicated when the item meets the value threshold and is destined for a branch within the geographic area designated for High Value items by Bangladesh Bank. Any High Value item that is presented to a branch outside of the approved geographic area may be returned with the appropriate return reason code.
 - a. for any transit item, a Sending Point shall not logically repair information contained in any field of the MICR line other than the Bank routing number field and must enter the amount field.
 - b. a sending point may enter account number which doesn't exist in pre-printed MICR line for Government cheques only.
 - c. where any other field of the MICR line is not valid, the Sending Point shall classify the BACPS-eligible Item as Unqualified during the BACPS Cheque Envelope creation process by indicating the appropriate code in the Cheque Detail Record correction indicator field.

RESPONSIBILITIES OF SENDING POINT

5. Each Sending Point shall create and Exchange BACPS Cheque Envelopes via BACPS;

RESPONSIBILITIES OF RECEIVING POINT

6. Each Receiving Point:

- f. shall receive BACPS Cheque Envelopes delivered to it via BACPS and
- g. for BACPS-eligible Items Exchanged and Cleared in collection type “High-Value”, shall verify the contents of the BACPS Cheque Envelope and if necessary return the item in accordance with the return deadlines established in the BACPS rules.

CHAPTER 6

PRESENTMENT, RETURN AND EXCEPTION PROCESSING

INTRODUCTION

1. This Part contains the rules applicable to presentment, return and exception processing for BACPS Cheque Envelope. Nothing in this Part precludes a Paying Bank or a Presenting Bank from exercising its rights and seeking recourse outside of the Rules. Before taking such actions, however, it is recommended that consideration be given to exercising any options available under the Bangladesh Arbitration Procedures.

SCOPE

2. The return procedures, timeframes and responsibilities set out in this Part shall apply to all Participating Banks and shall limit the degree to which they can seek recourse from other Bank Companies pursuant to this Part.

PRESENTMENT

3. A BACPS-eligible Item is presented to the Paying Bank when a Cheque Envelope containing the BACPS-eligible Item is accessible by the Paying Bank on the Participating Bank Module (PBM).

RETURN BY PAYING BANK

4. Where payment of a BACPS-eligible Item is refused, the Paying Bank may initiate a return for any reason with the appropriate return reason codes contained in Annexure-2 and in accordance with the timeframes and procedures in the BACPS Operating Procedures.

TIME LIMITATION

5. Each Returned BACPS Item shall be returned to the Presenting Bank as soon as possible but no later than the deadlines contained in the BACPS Operating Procedures. Returns that are presented beyond the established deadlines will be automatically rejected by BACPS. (See: Clearing Sessions).
6. The Presenting Bank shall ensure that the Returned BACPS Item is accessible as soon as possible.
7. Where the Presenting Bank uses a Correspondent Bank the Correspondent Bank shall ensure that an Image of each BACPS-eligible Item and all relevant Returned BACPS Item information is accessible by the Presenting Banks as soon as possible.

ITEMS WITH FORGED OR UNAUTHORIZED SIGNATURE AND FORGED ENDORSEMENT

8. For greater certainty, where an Item contains a "Forged or Unauthorized Signature" and either a "Forged Endorsement" or the intended Payee(s) was not paid, the Item shall be returned in accordance with section 5.

RE-PRESENTED ITEMS AND RIGHTS OF PAYING BANK

9. A Returned BACPS Item that has been returned for any reason by the Paying Bank shall not be Exchanged by the Presenting Bank a fourth time,

METHOD AND ROUTING OF RETURN

10. Where a BACPS-eligible Item is presented in an Exchange using a BACPS Cheque Envelope, the corresponding Returned BACPS Item shall be returned using the same process and shall be returned using the applicable return reason code(s) in accordance with the BACPS Operating Procedure and AICS.

IMAGES IN A BACPS RETURN CHEQUE ENVELOPE

11. Where a Returned BACPS Item is returned within the time limitation set out in the BACPS Operating Procedures, no Image segments shall be included in the BACPS Cheque Envelope.

BACPS-ELIGIBLE ITEMS WITH INCOMPLETE/MISSING ENDORSEMENTS

12. Where the Endorsement on a BACPS-eligible Item is missing or incomplete the item can be returned for the reason "Incomplete or Missing Endorsement" using the return reason code in Annexure 2.

FORGED ENDORSEMENTS OR MATERIAL ALTERATIONS

13. Where a Returned BACPS Item is being returned for the reason "Forged Endorsement" or "Material Alteration", the Paying Bank shall return the same in accordance with the procedures for return reason codes of the Annexure 2.

MISDIRECTED RETURNED BACPS ITEMS

14. Each Misdirected Returned BACPS Item shall be forwarded by the recipient to the Presenting Bank using the return reason code specified in Annexure 2.

PIGGY-BACK ITEMS

15. Where a Capturing Bank finds a piggy-back situation, as described in Chapter 4, section 5, after an Exchange has occurred, the Capturing Bank shall notify the Paying Bank about the error via fax, email or registered mail and request that the Paying Bank, or its Clearing Correspondent Bank, initiate a return in accordance with the return reason code in Annex 2.

INCORRECT AMOUNT IN BACPS CHEQUE ENVELOPE

16. Where a BACPS-eligible Item with an incorrect amount is detected in a BACPS Cheque Envelope by the Sending Point, the Sending Point shall notify the Paying Bank about the error via fax, email or registered mail and request that the Paying Bank, or its Correspondent Bank, initiate a return using the return reason code in Annexure 2.
17. An Item is deemed to have an incorrect amount when the amount in the BACPS Cheque Envelope differs from the amount written in figures on the face of the Item. The Bank that initially populates the BACPS Cheque Envelope with the amount, or that exchanges a BACPS Cheque Envelope populated by any third party, shall be responsible for the difference

provided the error is detected within ninety (90) days after the Item was presented to the Paying Bank.

WORDS AND FIGURES DIFFER

18. Where the amount expressed in words on the face of an Item differs from the amount written in figures, the Item shall be returned for the reason "Amount in figure and word differs" within the timeframe stipulated in section 5.

STALE DATED ITEMS

19. Each BACPS-eligible Item dated more than six months prior to presentment for payment may be returned unpaid for the reason "Cheque out of date".

RE-PRESENTMENT

20. Where a Presenting Bank receives a return for the reason "Insufficient fund", the Presenting Bank, or its Correspondent Bank, may represent the Returned BACPS Item within thirty (30) calendar days following the receipt of the return.
21. If representing a Returned BACPS Item, the Presenting Bank shall create a BACPS Cheque Envelope in accordance with AICS Functional Specifications.
22. A Returned BACPS Item that is eligible for re-presentation may only be represented twice
23. A Returned BACPS Item that is represented may not be subsequently returned for the reason "Unusable Image".

GENUINNESS OF CHEQUE

24. The presenting bank shall verify the prima facie genuineness of the cheque to be truncated and attempt to detect any fraud, forgery or tampering apparent on the face of the instrument that can be verified with due diligence and ordinary care.
25. The presenting bank shall be responsible for detecting the following: genuineness of the cheque leaf, material alteration of payee name, amount or date. In such cases where genuineness can not be verified or material alteration is detected; the presenting bank should not submit such cheque(s) to the BACPS.

PART II

BACPS Operating Procedures

CHAPTER 1

INTRODUCTION

These operational procedures are intended for the use of operational staff within Commercial Banks engaged in the preparation and submission of Outward payment items to the Clearing House and in the receipt and verification of Inward items from the Clearing House.

The document makes reference to additional documents which are technically based and contain specific system detail. These procedures deal mainly with the operational issues for image based Cheque Processing and have to be read with and subject to the Bangladesh Payments and Settlement Systems Regulation 2009 and the BACPS Operating Rules.

JURISDICTION

The cheque image and truncation process will be implemented initially in the Dhaka Clearing Area as a pilot and will gradually be expanded to include all of the clearing operations in Bangladesh. This document deals principally with the operational procedures for banks utilizing an automated image based cheque solution and has to be read with and are subject to the and the Bangladesh Payments and Settlement Systems Regulation 2009 and the BACPS Operating Rules.

Additionally a section is included in this document detailing the procedures to be followed by Commercial Banks making use of the Bangladesh Bank's initiated temporary Bureau Service.

CLEARING SESSIONS

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 presentment cutoff and settlement times for these sessions are:

Clearing Window	Cut Offs		
	Presentment	Return	Settlement
Regular Clearing	13:00 hrs	18:00 hrs	18:01 hrs
High Value Clearing	12:00 hrs	14:00 hrs	14:01 hrs

Clearing sessions may be reviewed and communicated to member banks by the Clearing House (BACH) authority from time to time.

CHAPTER 2

OVERVIEW OF CLEARING PROCEDURE UNDER IMAGING AND TRUNCATION ENVIRONMENT

SENDING/RECEIVING POINT

A bank may have multiple points of truncation but will have one single point of connection with BACPS which will be termed as sending/receiving point. The PBM will be located at this point.

SETTLEMENT

Settlement shall be made on the basis of the electronic cheque data including the amount that accompanies the image and that is contained in cheque return data. The specifications that qualify cheques for image based clearing must be strictly adhered to.

DIGITAL SIGNATURES

The use of the Public Key Infrastructure (PKI) will ensure data authenticity, integrity and non-repudiation, adding strength to the entire system. The PBM of the presenting bank will affix digital signature on each file from the sending point. The image and data must be secured using the PKI throughout the entire transmission cycle between the presenting bank, the clearing house and the paying bank. It is the responsibility of the presenting and paying banks to ensure that the movement of electronic files from their host capturing systems to the PBM is secured with the highest levels. Access to the bank's PBM must be limited to authorized personnel only.

USE OF SECURE NETWORK

All electronic files duly validated, encrypted & digitally signed, will travel over a secure communication link connecting each bank with the Clearing House. All acknowledgement messages will be transmitted via the same links.

STORAGE AND ARCHIVING SYSTEM

A sound storage and archiving system of images is an integral part of BACPS which ensures that all relevant data is immediately available to resolve disputes, complaints, reconciliation issues etc. The physical instrument (truncated items) must be sequentially preserved for six (6) years by the presenting bank.

The contents of the national archive shall be available online to the presenting and paying Banks for 12 years. Any item processed by BACPS will be made available to the parties of the transaction via the archive. Images in the central archive will be available for viewing after the close of the current business day.

SCANNING STANDARD

The scanning will conform to the prescribed standards which are bi-tonal (black and white), 200 DPI to 300 DPI TIFF image. The image quality assurance is required at the scanning stage so that the images meet the processing quality standards. The image specifications are on the next page:

Side No.	Image Type	Minimum DPI	Format	compression
1.	Front Black & White	200-300 DPI	TIFF	CCITT G4
2.	Reverse Black & White	200-300 DPI	TIFF	CCITT G4

The background of the cheques should be image-friendly; there should be no dark background.

CHAPTER 3

PRESENTMENT FOR CLEARING PROCEDURE AT THE PRESENTING BANK

PRESENTING BANKS DUE DILIGENCE REQUIREMENTS

As settlement will be done on the basis of image and data, conducting due diligence is the responsibility of the presenting bank to verify the prima facie genuineness of the cheque to be truncated and attempt to detect any fraud, forgery or tampering apparent on the face of the instrument that can be verified with due diligence and ordinary care.

The member Banks must enforce KYC (Know Your Customer) norms in letter and spirit. The banks should observe all precautions which a prudent banker takes 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 Operating Procedure.

SORTING OF INSTRUMENT

Instruments that are “on-us self” or “on us” should be settled internally. Apart from segregating “on-us” cheques from the items transmitted to the BACPS, the bank should also segregate instruments which are being re-presented (primarily for adjusting endorsement at the back of the instrument) as well as any of the instruments which are torn and would require separate process of handling by the bank.

STAMPING

Crossing will be allowed at the top left corner of the instrument without hampering the material part of the cheques. All cheques received for collection over the bank’s counters are required to be branded on the rear (Bank/Branch of first deposit) of the cheque with the banks stamp prior to scanning. The suggested dimension and the position of the stamp are given in back side of all payment instruments. The beneficiary name and account number will have to be recorded on the back side of the cheque (Payee area). The banks should take care so that the stamping may not interfere with any material portion of the cheque.

CAPTURE OF IMAGES AND DATA

The images of all instruments in a batch must be duly captured along with MICR data using scanners setup for the purpose. The amount and necessary elements of MICR line needs to be captured /keyed in to complete the data record. The ideal number of instruments in one batch should be no more than 100 items; however smaller batches will improve the speed of balancing and the bank should determine the ideal batch size for its own processing.

REJECT REPAIR AND BALANCING

The solutions adopted by the banks should have the capability of completing the routing number on any item experiencing a MICR line misread.

All batches of items sent to the BACPS should be in a reconciled state i.e. the total of the debit items matches the total shown on the Batch Control Voucher.

DIN (DOCUMENT IDENTIFICATION NUMBER) 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 (6 digit) in DDMMYY format, Item Sequence/Running Number (8 digit), Routing Number of the Branch of First Deposit (9 digit).

The application of the endorsement stamp and the printing of the DIN imply that the collecting bank undertakes to credit the payee's account on realization of the cheque and that the instrument deposited is a genuine one and is being collected for a bona fide customer of the bank.

RE-PRESENTED CHEQUES

Any item that is eligible for re-presentment may only be presented three times, the original presentment and a maximum of two re-presentments. In the case of represented instruments the endorsement will be made in a different position to avoid overlapping.

All unpaid items that are represented will be processed electronically and must be passed to the BACPS in separate batches from normal outward clearing items. The capture systems should have control procedures to monitor such representations. All unpaid items must have an assigned return reason code (Annexure-2).

If an item fails to clear after reaching the maximum number of re-presentments (i.e. being re-presented two times) the cheque is to be marked as a cancelled cheque and is to be returned to the depositing customer.

VALIDATION

The data elements captured by the banks capture system will be validated by the presenting bank's PBM before transmission to BACPS. .

MASTER TABLE SYNCHRONIZATION

The master table information, such as routing number, transaction codes, calendar, and designated branches, etc., of the capture system should be synchronized with that of Clearing House Master Table. Master table synchronization is an automated function between the Clearing House and the bank's PBM. Any change in the clearing house table will be automatically updated on the online PBMs, and it shall be the bank's responsibility to update its capture system immediately. PBM supervisors should monitor whether the Clearing House Table has been updated successfully or not. Any error related to Clearing House Table updates is reflected in the system monitor screen of the PBM.

IMAGE QUALITY CHECKING

The bank needs to perform IQA validation at the capture system. Each image shall have an IQA indicator tag; this is a flag on the item record in the electronic envelope indicating the outcome of the IQA test carried out by the capture system.

The threshold values for different IQA parameters are given in Active Image Clearing and Settlement System Functional Specification dated 4 February, 2009. The bank should take care to synchronize the IQA parameters at the capture system, to avoid excessive rejection at the PBM.

HANDLING IQA FAILURE

The member bank must ensure that its equipment meets the requirements of the IQA standards. When items fail IQA standards, it will be the responsibility of the bank to ensure that the hardware is repaired or collaborated to achieve the highest levels of performance. IQA failure is a hardware performance issue and must be rectified without creating a burden on other BACPS participants.

PRESENTING BANKS SUBMITTING ELECTRONIC DATA AND IMAGES

The operational steps of cheque processing are noted as follows:

1. A cheque deposit is accepted by the presenting bank.
2. The cheque and optionally a deposit slip are passed for in house processing.
3. The bank manually endorses the rear of the cheque in the designated area with the Bank stamp.
4. All transactions [one or more cheques and optionally credit items] are processed via the banks chosen automated solution.
5. All cheques are retained at the presenting banks location of choice.
6. The front and rear images of the cheque and the MICR code line data are captured within groupings referred to as batches.
7. At the point of cheque processing and scanning the rear of each document the bank's capture device will put an endorsement line on the rear of the cheque (Please see Chapter 3: for details)
8. All batches must be presented to the BACPS in a reconciled state i.e. the batch must contain a batch total to which all cheques are balanced. Code line correction must have been carried out to ensure that the routing number and transaction code are present and amount entry made to assign an amount electronically to each cheque.
9. Batches must be packaged into an electronic files referred to as a Cheque Envelope [CE] in accordance with the already published standard for presentation to the BACPS.
10. The presenting bank system will pass the CE, in this case referred to as an OCE (Outward CE), to a software application known as the Participant Bank Module [PBM] embedded within its own system for preliminary validation and transmission.
11. The PBM will validate the structure of the OCE and the contents of records within the OCE.
12. The PBM will reject, prior to transmission to the BACPS, any files failing validation.
13. Files passing validation will be encrypted and assigned a Digital Signature by the PBM indicating the identity of the presenting bank.
14. Files will be passed from the PBM application via the banks own chosen communication link to the BACPS.

FREQUENCY OF SUBMISSION

It is recommended that banks submit OCE files to the BACPS approximately every 30 minutes, unless the recommended maximum item count within a file of 100 items is reached sooner.

It is also recommended that banks submit files on a more frequent basis close to the published Cutoff Times to ensure receipt within the current clearing session.

ALTERNATIVE DELIVERY MEDIA

The PBM contains facility to write files to alternative media such as a CD or DVD. Files delivered by a bank to the BACH on this media will be accepted subject to the same acceptance criteria as files received via a communications link.

PRESENTING BANKS SUBMITTING ITEMS TO THE BUREAU SERVICE

The operational steps for cheque processing at Bangladesh Bank Bureau Service will be as under:

1. A cheque deposit is accepted by the presenting bank.
2. The cheque and optionally a deposit slip are passed for in house processing.
3. The bank manually endorses the rear of the cheque in the designated area with the Bank stamp.
4. The transactions are grouped into batches of no more than 50 documents.
5. A Batch Control Voucher (BCV) is prepared to the published standard.
6. The BCV must be MICR printed with the presenting bank branch routing number, the total value of the cheques in the batch and the total number of documents presented in the particular batch.
7. The batches are to be presented with all items facing the same way, all staples, pins or paper clips removed and are to be delivered by secure messenger to the BACH premise.
8. Before submission to BACH the items will be listed as per form DF-01 (see Annexure -3).
9. On receipt at the BACH the batch will be checked for conformance with the submission standards; any batch not conforming will be returned unprocessed to the presenting bank.
10. The bureau service will carry out processing of batches delivered by banks as if it were the bank itself i.e. images and data will be captured and electronic output files generated and sent to the BACPS.
11. Appropriate reports of items processed will be generated and sent to the presenting bank.
12. Generated files will be passed to the BACPS via an internal communications link.
13. On completion of processing the physical items will be made available for collection by the presenting bank.

ELECTRONIC FILES ACCEPTED BY THE BACPS

Files received at the BACPS will initially be validated by a version of the PBM titled the Clearing House Module (CHM). This module will carry out structure and content validation and where no failure is detected and the digital signature is verified the file will be accepted and decrypted.

Accepted files are passed to the BACPS where they are repackaged to extract items for distribution to any paying bank whose cheques are included in the file. When a file has been accepted an acknowledgement message is sent to the presenting bank via the communications link to confirm acceptance.

ELECTRONIC FILES NOT ACCEPTED BY THE BACPS

When electronic files are received by the BACPS they undergo processing similar to that carried out at the PBM stage i.e. they are subjected to validation, confirmation of the digital signature assigned and decrypted. If an item fails validation for any reason the file will be rejected and an acknowledgment shall be issued and sent to the presenting bank via the communications link.

INTERNAL CONTROL

The banks should document the process flow and ensure that adequate control mechanisms are in place. Special care and adequate quality controls should be in place 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 and the credit received by it from Clearing House. 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 4

PROCESSING AT PARTICIPATING BANK MODULE: OUTWARD CLEARING

PARTICIPATING BANK MODULE (PBM)

The BACPS Participating Bank Module (PBM) provides cheque envelope validation and provides an interface for sending and receiving cheque envelopes from and to BACPS.

DUPLICATION CHECKING

Any duplicate cheque envelope that is detected is rejected in its entirety by the Clearing House. A cheque envelope is considered a duplicate if the content of the following envelope header record fields match a previously processed cheque envelope that does not have its resend indicator set to 'Y' (Please ref 2.2.3of AICS spec):

- Destination Routing Number
- Origin Routing Number
- File Creation Date
- File Creation Time
- File ID Modifier

All duplicate items detected during Clearing House processing will be rejected.

RECEIVING OUTWARD PRESENTMENT

The PBM will receive the duly balanced outward clearing files containing cheque image and electronic data from the capture system of the bank.

IMAGE QUALITY ANALYSIS AND FAILURE HANDLING

All outward images are subjected to IQA validations. Any image failing IQA validation will result in the rejection of the cheque envelope by the presenting bank PBM with an appropriate response file. The bank may rescan and resubmit as many times as is necessary to meet the IQA requirements.

ITEM PROCESSING

The outward cheque envelopes presented by the capture system are validated by the PBM against the validation indicated in the PBM Specifications. The PBM 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.

SESSION ATTACHMENT

The items are assigned to an appropriate clearing sessions that is open based on parameters fixed for a session by the Clearing House. These parameters are passed on to the capture system through the PBM. The item inherits 'session date' that is the business date of the session and session type (i.e. Regular and High value). If there is no appropriate session that is open, the items/bundles wait at

the PBM until such a session opens.

USE OF PKI

Until a Digital Signature Authority prescribed in the ICT Act 2006 is established, Bangladesh Bank will privately issue the digital certificates to provide security and confidentiality for all of the payments systems it operates.

RECONCILIATION OF OUTWARD PRESENTATION

After End of Session at the Clearing House, PBM generates an Outward Acknowledgement File (OACK) containing the details of items those have been accepted for settlement at the Clearing House. It shall be the responsibility of presenting bank to reconcile their entire presentation by collating the information from the OACK files.

CHAPTER 5

PROCESSING AT PARTICIPATING BANK MODULE: INWARD CLEARING

RECEIPT OF INWARD DATA/IMAGES

The inward processing deals with accepting inward presentment data and images from the Clearing House and providing data in the form of files for use within the (paying) bank's in-clearing system. The PBM will receive digitally signed inward electronic data and image exchange files from the Clearing House.

VALIDATION

The PBM shall authenticate and load the exchange file data into the system. The PBM will send an acknowledgement exchange file to the Clearing House if the inward data exchange file or image exchange file is accepted.

CONTROL MECHANISM

The receiving point should verify that all the inward bundles/items have been received by it to ensure that there is no data loss in the transmission from clearing house to the PBM. The PBM supervisor shall compare the relevant information available from the 'clearing house processing monitor' and 'inward exchange file screen' for this purpose. The paying bank will not be able to generate posting files unless all the inward bundles/items have been actually received at the PBM.

If any file is lost in transmission the bank may request the Clearing House for retransmission of images/data.

GENERATION OF POSTING FILE

The PBM, for each session, can generate posting files that may be used for interfacing with the banks accounting system.

PBM is capable of creating posting files for payment processing for inward and outward clearing. The posting file may be sorted by the banks in any manner they desire for posting purposes (e.g. by bank, by branch, or by branch and transaction code).

CHAPTER 6

PROCESSING AT BRANCHES/BANK'S IN-CLEARING SYSTEM

TRANSMISSION OF POSTING FILES

It will be the responsibility of the paying bank to retrieve the posting files from PBM. The paying bank must ensure that the data is formatted for proper processing by its accounting systems.

DIGITAL CERTIFICATE VALIDATION

PBM shall verify the digital certificate of CHM.

PAYMENT PROCESSING

The paying bank shall do the payment processing based on image and electronic data of the instruments following all the prudent practices including signature verification, account balance verification, verification of endorsements etc.

RETURNED CHEQUES

Items that fail paying bank approval and are therefore not to be honoured and are required to be returned to the BACPS in electronic format as defined in the AICS specification within the stipulated return period. For return items the image is not to be included in the return item file.

Returned items are to be marked with the appropriate return reason code from the list published by Bangladesh Bank which is attached at Annexure 2.

Return item files [return cheque envelopes] are to be transmitted to the BACPS via the paying bank PBM where the files will be validated, encrypted and digital signed and sent to the Clearing House provided they meet the necessary validation criteria.

Invalid files will be rejected by the PBM for correction by the paying bank.

Return item files received by the BACPS will be validated and an acknowledgment shall be issued to the generating bank indicating their acceptance or rejection.

Return items accepted by the BACPS will be passed to the presenting bank and an appropriate posting made to the settlement system.

Any item not received by the BACPS within the stipulated return period will be deemed to have been accepted by the paying bank.

Any return item not received by the BACPS within the stipulated time period will be treated as an honoured item and accordingly the settlement files will be prepared and posted. If the paying bank detects such item which misses the return cutoff then the paying bank will have to contact the presenting bank and they may resolve the issue outside BACH framework.

REQUESTS FOR PAPER

As per Regulations 7 (iii) of Bangladesh Payment and Settlement Systems Regulations, 2009 and the BACPS Operating Rules, the paying bank may, request a physical instrument from the presenting bank; if it believes that the item is not genuine or has questions about its validity.

INTERNAL CONTROL

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.

RECONCILIATION OF CLEARING DIFFERENCES

In BACPS clearing, the image and data will be received in separate files that are linked and hence the possibility of a bank being debited without receiving an image shall not arise. In the case of a bank receiving cheques of another bank (due to a data entry error or so) the item should immediately be returned to the BACPS with appropriate return reason code.

In case of a cheque listed for a value different from the actual value of the cheque (due to a data entry error), the cheque should also be returned with the incorrect amount return reason code.

CHAPTER 7

SPECIFICATIONS FOR ELECTRONIC EXCHANGE OF CHEQUES

The following section describes the types of Electronic Cheque Envelopes (ECE). The specifications are incorporated into the BACPS Rules and reflected in the Active Image Clearing Specifications.

The Electronic Cheque Envelopes (ECE) currently identified are as follows:

- Outward Electronic Cheque Envelope (OCE)
- Outward Return Electronic Cheque Envelope (ORE)
- Inward Electronic Cheque Envelope (ICE)
- Inward Return Electronic Cheque Envelope (IRE)
- Archive Electronic Cheque Envelope (ACE)

ELECTRONIC CHEQUE ENVELOPE

The Electronic Cheque Envelope encapsulates outward clearing items, inward clearing items, return items and acknowledgments. The specifications for all electronic cheques envelopes are contained in the AICS.

OUTWARD ELECTRONIC CHEQUE ENVELOPE

The Outward Cheque Envelope is generated by the presenting bank in accordance with AICS. It encapsulates the outward clearing items for that bank that are to be distributed as Inward Clearing to the issuing banks for each item.

OUTWARD RETURN ELECTRONIC CHEQUE ENVELOPE

The Return Cheque Envelope (RCE) is generated by the paying bank in accordance with AICS. It has the same fundamental structure and format as the OCE; however, the RCE contains only return cheque information and does not contain the image of the cheque, which are on-us cheques that the paying bank is returning as unpaid to their original presenting banks.

INWARD ELECTRONIC CHEQUE ENVELOPE

Inward Electronic Cheque Envelopes are generated in accordance with AICS. They have the same structure and format as Outward Electronic Cheque Envelopes; however, Inward Electronic Cheque Envelopes are Bank-specific and only contain Cheque Detail Records for a single Bank, the paying Bank for those cheques.

INWARD RETURN ELECTRONIC CHEQUE ENVELOPE

Inward Return Electronic Cheque Envelopes are generated in accordance with AICS. They have the same structure and format as the Outward Return Electronic Cheque Envelopes; however, Inward Return Electronic Cheque Envelopes are presenting Bank-specific and only contain return data records for cheques they presented and are now being returned. No Image is returned.

ARCHIVE ELECTRONIC CHEQUE ENVELOPE

The Archive Electronic Cheque Envelope is generated by member Banks. It has the same structure and format as Outward Electronic Cheque Envelopes; however, the Archive Electronic Cheque Envelope only contains Cheque Detail Records for cheques issued by that Bank, on us cheques. The

items presented in Archive Electronic Cheque Envelopes are intended solely for archive and will not contribute in any way to the clearing and settlement process.

Annexure-1

BACPS PARTICIPANT AGREEMENT AND INDEMNITY (On Tk. 150 Judicial Stamp)

BANGLADESH AUTOMATED CHEQUE PROCESSING SYSTEM PARTICIPANT AGREEMENT AND INDEMNITY

In consideration of the undersigned being admitted as a Participating Banking company of the Bangladesh Automated Cheque Processing System ("BACPS") acting as a facility to operate an electronic cheque clearing system of the Bangladesh Bank providing settlement and other services, and of the mutual indemnification of the undersigned by each other Participating Banking company of BACPS, the undersigned, which intends to act as a Participating Banking company of BACPS, hereby agrees with the Bangladesh Bank, and with each other Participating Banking company:

1. to comply with and be subject to the BACPS Operating Rules, (collectively referred to as the "BACPS Rules") including descriptive requirements, as in effect from time to time;
2. to make all payments required by the BACPS Rules, and
3. to indemnify and hold harmless the Bangladesh Bank and each other Participating Banking company from any and all costs, charges, claims, demands, expenses (including costs of investigation and attorneys' fees and expenses of litigation), losses, liabilities, damages, judgments, fines, penalties, interest, and amounts paid in settlement (each referred to herein as a "cost") arising from any failure on the part of the undersigned to exercise ordinary care or to comply with any of the provisions of the BACPS Rules, except for amounts paid in settlement of such costs unless the undersigned shall have received 10 days' prior written notice of the proposed settlement thereof;

This agreement shall be governed by and construed in accordance with the laws of the People's Republic of Bangladesh. The undersigned and the Bangladesh Bank submit to the exclusive jurisdiction of the courts of the People's Republic of Bangladesh.

This agreement shall take effect to the benefit of the Bangladesh Bank and shall be binding on the undersigned and its successors and assigns, except no Participating Banking Company may transfer or assign its rights or obligations hereunder except as expressly provided in the BACPS Rules.

Date (Participating Banking Company)

By: _____ Title: _____

(Signature)

Accepted this _____ day of _____, _____ Bangladesh
Bank:

By: _____ Title: _____

(Signature)

Annexure-2: Return Reason Codes

CODE	REASON	RE-PRESENTABLE (R) NON RE-PRESENTABLE (N)
01	Insufficient fund	R
02	Amount in figure and word differs	N
03	Stale Cheque	N
04	Post dated Cheque	R
05	Drawers signature differs	N
06	Payment stopped by drawer	N
07	Item represented too often	N
08	Incomplete or missing endorsement	R
09	Forged endorsement	N
10	Material alteration – payee name	N
11	Material alteration - amount	N
12	Material alteration - date	N
13	Material alteration – multiple fields	N
14	Forged or unauthorized signature	N
15	Missing signature	R
16	Missing corporate stamp	R
17	Incorrect amount	R
18	Item sent to the wrong bank	R
19	Image does not meet usability standards	R
20	Piggyback image	R
21	IQA failure	R
22	Account unavailable (closed, frozen, invalid etc)	N
23	Present with the physical document	R
24	Item missing advice	R
25	Duplicate item – previously paid	N
26	Incorrect Payee	N
27	High value item presented to an ineligible branch	N

