

**REPORT OF
THE WORKING GROUP ON
PREPARING GUIDELINES FOR A CCESS TO PAYMENT SYSTEMS**

[Public comments invited upto October 20, 2007]



**RESERVE BANK OF INDIA
CENTRAL OFFICE, MUMBAI**

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1. INTRODUCTION

Background

1.1 At present there are 1064 clearing houses in the country and they have been functioning as per the model Uniform Regulations and Rules for Clearing Houses (URRBCH). The URRBCH is not statutory, but the banks within a particular jurisdiction join together to constitute a clearing house and unanimously adopt a resolution to adhere to the URRBCH. The URRBCH has several provisions including the criteria for membership and a provision for the member to sponsor a bank as sub-member. Electronic Clearing Service (ECS) – an electronic payment system for direct credit / direct debit to bank accounts which is operational at 64 centres is also localized in character and rides on the clearing house infrastructure. The members of the local clearing houses at these 64 centres are also members of ECS system.

1.2 Apart from these localized clearing house system, there are a few all India electronic payment systems where membership entitles the participant to operate on an all-India basis. Three main payment systems are Real-Time Gross Settlement (RTGS) system, National Electronic Funds Transfer (NEFT) System and Negotiated Dealing System (NDS). Membership to these payment systems is based on the provisions in the Procedural Guidelines / Regulations of these payment systems.

1.3 In view of the rapidly evolving payment systems and emerging systemic risks due to probable failure of financially weak members it has become necessary to put in place appropriate eligibility criteria. Usually, prescription of appropriate access criteria to the payment systems would substantially reduce risks to the system. Therefore, Governor, Reserve Bank of India, in his Annual Policy Statement for the year 2007-08 had proposed preparation of comprehensive guidelines setting out minimum eligibility criteria to become members of the clearing houses/payment systems.

1.4 Accordingly a Working Group was constituted with members as under to prepare the draft Guidelines:

S/Shri.

R.Gandhi, Regional Director, Hyderabad	Chairman
G.Srinivasan, CGM, RPCD	Member
A.N.Rao, Regional Director, Mumbai	Member
G.Padmanabhan, CGM-in-Charge, DIT, CO	Member
N.S.Vishwanathan, CGM-I-C, UBD, CO	Member
Dr. N. Krishna Mohan, Director IDRBT	Member
B.Srinivas, Regional Director, Ahmedabad	Member
A.P.Hota, CGM, DPSS	Member-Secretary

(Shri Kaza Sudhakar, CGM, Customer Services Department joined the Working Group as a Special Invitee)

Methodology and approach adopted by the group:

1.5 The Group had three sittings at Mumbai. The Group had also discussions with the senior officials of State Bank of India that manages over 650 clearing houses in the country and two cooperative institutions viz. Maharashtra State Cooperative Bank Ltd and Mumbai District Central Cooperative Bank Ltd. Both these cooperative banks are important constituents of Brihanmumbai Bankers' Clearing House servicing nearly 100 urban cooperative banks as their sub-members. The Group also had extensive interaction on some of the existing practices with the Clearing House Division of the Department of Payment and Settlement System.

1.6 The Group places on record contribution made by Shri K.N.Krishnamurthy, General Manager, Smt. Mitali Gupta Shaikh, Asst. General Manager and Shri Sudhanidhi Chakrapani, Manager in providing secretarial support.

2. MEMBERSHIP CRITERIA – CURRENT STATUS

Membership of Paper based Clearing Houses

2.1 At present there are 59 MICR based cheque processing centres in the country in addition to the 1005 non-MICR clearing houses which manage the processing of the paper based instruments. Of the total cheques processed in the country, over 82% by volume and 88% by value are accounted for by the 59 MICR centres.

2.2 The URRBCH prescribes that a bank should be licensed for being admitted to the clearing house. This requirement is applied on the following lines:

- a. Public sector banks, Private sector banks opened after January 2004 and foreign banks are eligible for membership based on application.
 - b. Applications of other banks need to be cleared by the concerned regulatory department
 - c. The co-operative banks need the recommendation of the State Co-operative Bank, while the State Cooperative bank would get automatic membership
- After the URRBCH came into vogue and got adopted by the different clearing houses in the country, the member banks were permitted to continue their membership of the clearing house .

In addition to the license, the member banks should also maintain a settlement account with the concerned settlement bank and be covered by the DICGC.

2.3 URRBCH also provides for an annual review of the membership of the banks based on the analysis of the clearing data (volume of presentation, Returns versus Presentations / Drawings, settlement account analysis etc.) as well as inputs, if any, on the financial position of a member bank received from the concerned regulatory department of Reserve Bank of India. A member can be re-categorised as a sub-member as a result of such a review provided he satisfies the rules for becoming a sub-member. Membership position of all banks would be reviewed by the President once a year and selectively as and when required.

2.4 The existing provisions do not cover the risk sensitivity of the banks participating in the clearing operations. It is, however, important to observe that, in our country, there have not been major failures on account of non-existence of such provisions. A few, which occurred

were more on account of certain imprudent credit decisions taken by the banks, rather than any major lacuna in clearing and settlement mechanism.

2.5 The members who facilitate the settlement for sub-members normally impose certain restrictions like maintaining the stipulated balances, or presentations on them with in the stipulated balance, etc. The member banks may also provide incentives to their sub-members like intra-day credit facilities with or without collateral. Pricing criteria for access to payment systems is another determinant for deciding the size of those who have direct access to the system. In case the charges (i.e. fixed, variable or annual) are very high it may not be economical for banks/ financial institutions who handle smaller volumes of transactions to directly access the concerned payment systems and these entities may find it more profitable to access the systems through larger entities that have direct access.

Membership to Electronic Payment Systems

2.6 The membership criteria to electronic payment systems like RTGS, NEFT, NDS and ECS are not uniform. Membership to ECS system is based on membership to paper based clearing. Therefore access to ECS system is localized in character and is not based on risk perception. RTGS, NEFT and NDS are all India payment systems. RTGS is open for scheduled banks, non-banks like primary dealers, clearing organizations and all India financial institutions. The number of RTGS members at present is only 97 banks and 10 primary dealers. Approval has been granted for membership to two all India financial institutions – DICGC and EXIM Bank – but they are yet to participate in RTGS. Access to NEFT system is dependent on RTGS membership. NEFT membership is open only to RTGS member banks.

3. PROBLEMS AND ISSUES

3.1 Risks in the various clearing/payment systems

Settlement risk

The settlement risk refers to the risk arising on account of the participating member not being able to meet the net clearing obligations. In the existing cheque clearing system and NEFT there is no specific exposure limit prescribed either by the clearing house or the settlement bank to the individual participants for claims on them nor does any net-debit-cap exist. As a result the net debit for a member is a variable figure and in exigencies could prove to be beyond the ability of the individual member to meet, if its liquidity management system is poor or there are any strains faced by that entity in its operations due to some other risks faced by it, like credit risk. In the past, the major risk of settlements faced by banks has been only due to certain imprudent credit decisions relating to the operations in the financial market by themselves or their constituents and the customer obligations/presentations have in the past not posed such a grave threat to the settlement mechanism. No doubt a Committee (Chairman: *R.Gandhi*) in the past had examined the issue of providing or creating a settlement guarantee fund mechanism, but such a fund could not fructify till now. In these circumstances, the Group is of the view that tightening the entry norms would be a practical approach.

Systemic risk

Systemic risk arises on account of the impact of failure to meet the obligations of one participant in the system on other participants. This would be substantial, if the affected participant were to have large transactions with all the system wide participants and is likely to be marginal in the case of smaller participants with small number of transactions. In the Indian context, such instances have so far not been faced by banking sector. However, occurrence of such an event cannot be totally ruled out in future. The Group was of the view that the practice of a large number of cooperative banks becoming sub-members through a single bank has systemic implications. Any deterioration in the financial performance of such a sponsor bank would have adverse impact on the sub-members sponsored by it. Therefore, from systemic angle, it would be advisable to limit the number of sub-member banks a sponsor bank can handle. Simultaneously, it has to be ensured that the limit so stipulated does not affect the sub-members adversely and increase the cost of operation to an abnormally high level.

3.1.3 Operational risk

Operational risk is still an evolving concept in Indian banks and is yet to be fully evaluated by the system. Although guidelines have been issued by Reserve Bank of India, much headway has not been made by banks. To start with, Reserve Bank of India has advised the scheduled Commercial banks to adopt the basic Indicator approach for measuring the impact of operational risk. It would be advisable for banks to put in place systems to measure the impact of operational risk in clearing operations area, particularly in the large value segments namely, securities dealing and settlements, derivative segment as also forex segments and RTGS to ensure that the risks are adequately identified, measured, monitored and provided for. Operational risk could also arise on account of computer systems and their non-availability. Banks have been advised to ensure that adequate redundancy is created to ensure their continued participation in the clearing and settlement operations.

3.1.4 Legal risk

Legal risks arise on account of inadequacies in the statutory provisions or the deficiencies in the legal framework. The provisions of IT Act have been reviewed with the continued dependence of banks on IT infrastructure for their business needs. However, the regulations and rules covering clearing and funds transfer operations have not been put on sound legal footing. The Payment Systems Bill is still to be put on statutory footing and there is no specific law covering the netting that is being carried out in the various clearing and settlement systems. The soundness of the practices has also not been subjected to adequate testing by way of court judgments and the risk carried by banks cannot be appropriately quantified as at present. However, banks may be cautioned to ensure compliance with the existing provisions of IT Act, as well as other legal provisions like Anti money laundering legislation, etc. They should also take steps to measure the impact of non-compliance of such statutory requirements and as on date no published or unpublished data is available to assess the extent of risk to which banks are exposed to in this regard.

3.2 Other issues

“Big” and “small”

The size of a participant in a payment system used to be a determining factor for providing direct access. The issue that always receives much attention in this regard is whether a big institution can fail and create problems/risks to the other participating institutions. In fact the core principles enunciated by BIS clearly states that the concept "Too big to fail" is no longer relevant. BIS has suggested that the settlement system should take into account the possible failure of two largest players, as a measure of risk.

Strong banks and weak banks

The financial health of the banks also has a bearing on the extent to which they impact payment systems. Typically, the banks with weak financial health such as low capital, low profitability, and frequent liquidity problems pose a risk to smooth functioning of the payment systems. It is observed that several co-operative banks and Regional Rural Banks, which are known to be weak, are having direct access to some major clearing houses.

3.2.3 Commercial banks and Cooperative banks

It is a generally accepted principle that better regulated entities pose lesser risk to the payment systems. Commercial banks in India (other than Regional Rural Banks) are relatively large and the prudential regulations applied to them are relatively more stringent than applicable for other types of banks. Further, the legislative framework that govern the regulation and supervision of Commercial and cooperative banks is not uniform, the latter being subject to dual control.

3.2.4 Licensed and unlicensed banks

The URRBCH was adopted by the Clearing houses in the country in 1986. Although as per URRBCH the banks are required to be licensed for being eligible for membership, the clearing houses ignored this provision at that time and the then unlicensed banks continued as members. Further, the legal provisions permit an unlicensed bank to continue its business till such time the Reserve Bank of India has refused it a license in writing. As on date, there are no commercial banks, which are part of the clearing

system without a license, but there are a large number of cooperative banks, including several state cooperative banks and district central cooperative banks which do not have a valid licence. At the same time their applications for a license have also not been refused by the Reserve Bank in writing. It is in these circumstances that these banks have been continuing as a part of the payment system.

3.2.5 Scheduled banks and non-scheduled banks

Presently, scheduled status has been prescribed as the eligibility criteria for access to RTGS and NEFT, whereas it is not compulsory for access to cheque clearing system. Notifying a bank as a scheduled bank entails certain benefits to it, in addition to certain obligations on its functioning. While such scheduled status may be a comforting factor in some respect for those dealing with such an institution, it is the financial strength of an institution which is of critical importance in the context of risk management.

3.2.6 Foreign banks and Indian banks

The present guidelines provide for membership of foreign banks to all clearing houses irrespective of its international size or risk management capability, while prescribing restrictions on the domestic commercial and cooperative banks, other than PSBs and State Cooperative banks. The Group is of the view, that in keeping with the basic move towards providing a level playing field, the differential treatment given to foreign banks needs a review.

3.2.7 Metro/Urban and Rural centres

At present there are no separate criteria for entry norms at metro/urban centres vis-à-vis other centres. But an analysis of the cheque clearing data reveals that MICR Clearing centres (59 centres as on 31st May 2007) account for 82% by volume of instruments and 88% by value of transactions of the total cheques that get cleared through all the clearing houses in the country. The present approach of uniform access criteria for clearing houses at all centres needs a review without losing sight of its impact on customer service particularly at smaller centres.

3.2.8 Members and sub-members

A member of a clearing house maintains a separate settlement a/c with the bank managing the clearing house. A sub-member maintains a settlement a/c with a member and the transactions of the sub-member get reflected in the member's settlement a/c. At large centres with a large number of banks participating in clearing, the clearing house may not be in a position to monitor the operations of every member closely. Thus if a weak member were to participate as a sub-member of another member, the operations are likely to be more closely monitored and the risk would be isolated at the level of the member itself. But a member sponsoring too many sub-members would also result in concentration of risk. Therefore, there has to be an appropriate balance.

4. RECOMMENDATIONS

A. Access Criteria for Membership to Clearing Houses for Cheque Clearing

4.1 Payment services are fundamental to economic activity. Entities, who offer payment services to their constituents, need access to Payment systems. In order to ensure the safety, security and integrity of payment services, access to payment system should ordinarily be restricted to entities regulated by the central bank

4.2 Section 49A of BR Act empowers Central Government to notify institutions to accept deposits withdrawable by cheques. Post Office Savings Bank falls under such specific notification issued by Central Government. Such notified institutions are providing chequeable accounts to their constituents. In order to facilitate better customer service such notified institutions should also have access to the clearing system.

4.3 Ordinarily, only licensed entities are allowed to access Payment System as members of the clearing houses. The BR Act permits certain entities, whose applications for license have not yet been refused in writing by the Reserve Bank, to continue to do banking business including payment services. However, such banks do pose risks to the financial system and may need closer monitoring. Therefore, the Group recommends that such unlicensed banks may be permitted access to payment systems only as sub-members. However, exemption may be made for the unlicensed State Co-operative banks/District Central Cooperative banks because of their special position in the co-operative banking sector.

4.4 The clearing operations at the clearing houses at MICR centres are typically large both in terms of volume of instruments and value of transactions. Thus, the systemic risk posed to the system by such operations is greater in the MICR centres, than from the clearing services rendered at non-MICR centres, which are comparatively smaller centres. Therefore, there is a need to apply more stringent access norms at the MICR centres for membership to clearing houses. It is imperative that only financially sound entities are permitted as members at these MICR centres.

4.4.1 Therefore, The Group recommends that the membership to clearing houses at the MICR centres be confined to licensed banks meeting the following financial criteria:

- (i) CRAR 9%
- (ii) Net NPA of less than 10 %
- (iii) No default in maintenance of CRR and SLR during the past one year; and
- (iv) Net profit in at least one of the preceding two years.

Further, All members would be required to abide by the guidelines issued by the clearing houses on the technical specifications and infrastructure requirements

Provided that:

- a. State cooperative banks may be permitted to be members without reference to the above criteria in view of their special status in the system.
- b. District Central Cooperative Banks (DCCBs) having networth of Rs.10 crore and a record of maintaining CRR and SLR without default for last one year may be extended direct membership of clearing house at MICR centres
- c. DCCBs not satisfying the criteria at (b) above may also be permitted membership of the clearing houses at MICR centres where the State Cooperative bank is not a member of that clearing house
- d. RRBs may also be permitted to be members of the clearing houses at the MICR centres, keeping in view their special status in the system, subject to their having positive net-worth and not defaulting in maintenance of CRR and SLR during the past one year.

4.4.2 Application of these criteria on the banks category-wise is furnished in the Annex.

4.5 Entities which are presently members of Clearing Houses at the MICR centres, but ineligible to be member as per the proposed access criteria in paragraph 4.4 would have to conform to the prescribed norms within one year failing which membership would be downgraded to that of a sub-member. Such banks should, however, be barred with immediate effect, (subject to the minimum time required for alternate arrangements), from sponsoring any sub-members.

4.6 At present there is no limit on the number of banks which a member can sponsor as sub-members. There are instances of some banks sponsoring as many as 50 sub-members. This creates concentration of risk, thus paving way for systemic risk, in case of a crisis. Therefore, the Group is of the view that there is a need to limit the number of sub-members a member can sponsor. The Group recommends that a member can ordinarily sponsor a maximum of only 10 banks as sub-members. Reserve Bank may permit exceptions based on its evaluation of risk management practices of the sponsoring member.

4.7 At present the cooperative banks are permitted to maintain their SLR assets in the form of term deposits with higher cooperative institutions viz. DCCBs and State Cooperative banks. Since the DCCBs and State Cooperative banks have been sponsoring a large number of banks as sub-members at several MICR centres and implementation of the recommendation made at paragraph 4.6 may force many urban co-operative banks to change sponsorship arrangements from State Co-operative banks and District Central co-operative banks to other banks, leaving such banks with an increased liquidity requirement. The Group recommends that appropriate exception may be provided in maintenance of SLR assets in terms of section 24A of the BR Act (AACS).

4.8 Entities which are presently conforming to the prescribed norms but face a slippage at a later date will be downgraded to a sub-member. Its membership will be reconsidered after one year.

4.9 In order to facilitate better functioning of the clearing houses it is suggested that the types of sub-members could be widened as follows:

Sub-Membership in the clearing houses at MICR centres can be one of the two types:

- Sub-membership Type-1 : where the sub member submits the cheques or receives the cheques through its member and the accounting thereof is also done through the member
- Sub-Membership Type-2 : Where the sub-member submits the cheques or receives the cheques directly to/ from the clearing house, but accounting is done only through the member

4.10 The continuance of the membership will be primarily based on the continuing ability of the member to meet its clearing obligations in time. All the current provisions in URRBCH relating to continuance/ termination of membership will continue.

4.11 For the MICR Clearing centres, the Uniform Regulations and Rules for Clearing Houses (URRBCH) may be modified and released for adoption by the clearing houses at MICR centres under the name “Regulations and Rules for MICR based Clearing Houses”

4.12 The existing arrangements for access to clearing houses at centres other than the MICR centres may continue, subject to the conditions indicated at paragraphs 4.1, 4.2 and 4.3 above.

B RTGS Membership

4.13 RTGS is a systemically important payment system primarily aimed at large value transactions. Smooth operation of RTGS requires technological infrastructure of sophisticated nature with adequate contingency capability. Best value for RTGS membership is achieved only if the participant has adequate number of time critical transactions and organizes liquidity for the same. Presently direct access to RTGS (viz. membership type A, B, D and E) is open only to scheduled banks, primary dealers and clearing organizations. There is also an enabling provision for Reserve Bank to permit other institutions for grant of direct access. The Group deliberated on the need for opening of the RTGS membership to a larger group of banks and “other institutions”. Considering that a large number of co-operative banks with wide network of branches and good financial standing are ineligible for direct access, it was felt that customers of such entities should also be able to avail RTGS services. Besides, the State Co-operative Banks which

provide financial services to a bulk of the banks in co-operative sector, a special status may be granted to State-Cooperative banks. Keeping these factors in view, the Group has recommended the following eligibility criteria for direct access to RTGS system through membership Type A:

- a) CRAR 9%
- b) Net NPA of less than 10 %
- c) Minimum net-worth of Rs.50 crore
- d) No default in maintenance of CRR and SLR during the past one year; and
- e) Net profit in at least one of the preceding two years.

Criteria of INFINET membership and technological infrastructure would continue as additional requirements.

Provided that:

- a. The State Co-operative banks and all District Central Cooperative banks, may be permitted Type A membership to RTGS subject to their having a minimum net-worth of Rs.50 crore and not having any default in CRR and SLR maintenance during the past one year.
- b. The RRBs may also be granted RTGS membership Type A subject to their not defaulting in maintenance of CRR and SLR during the past one year and having a minimum net-worth of Rs.50 crore

C. NEFT Membership

4.14 NEFT membership may continue to be linked with RTGS. The list of NEFT members would be a sub-set of the list of RTGS members except that Post Office Savings Bank (POSB) can also be a member of NEFT system. NEFT membership to POSB would be required for setting up of a nation-wide remittance system which may include the branches of Post Office Savings Bank. Non-bank entities (other than POSB) will not be a part of NEFT system.

D. Membership of INFINET

4.15 INFINET is only a carrier and not a payment system. As such the group viewed that the only criterion for being a member of INFINET would be:

- A licensed bank or a financial institution (including primary dealer) or research/ training / information technology organization fully owned by Reserve Bank or banks or a bank
- possession of the requisite infrastructure for participation

Annex

Criteria for access to payment systems

SI	Category of banks	Whether to have access to Clearing Houses for Cheque Clearing at 59 large centres (share : 82 % of volume and 88 % of value)	RTGS/NEFT
1	Scheduled commercial banks (excluding RRBs and Local Area Banks)	Membership subject to <ul style="list-style-type: none"> • CRAR 9% • Net NPA of less than 10 % • No default in maintenance of CRR and SLR during the past one year; and • Net profit in at least one of the preceding two years. 	Type-A Membership of RTGS and NEFT subject to <ul style="list-style-type: none"> • CRAR 9% • Net NPA of less than 10 % • No default in maintenance of CRR and SLR during the past one year • Net profit in at least one of the preceding two years. • Minimum net-worth of Rs.50 crore
2	State Co-operative Banks	Member	Type A Member of RTGS and NEFT, subject to <ul style="list-style-type: none"> • No default in maintenance of CRR and SLR during the past one year • Minimum net-worth of Rs.50 crore
3	District Central Co-op. Banks	Membership at the clearing house where the concerned State Co-op bank is a member if <ul style="list-style-type: none"> • Minimum net-worth of Rs 10 Crore. • No default in maintenance of CRR and SLR during the past one year Membership at all other centres	Type A membership of RTGS and NEFT subject to <ul style="list-style-type: none"> • No default in maintenance of CRR and SLR during the past one year • Minimum networth of Rs.50 crore

4	Regional Rural Banks	<p>Membership subject to</p> <ul style="list-style-type: none"> • positive net-worth • No default in maintenance of CRR and SLR during the past one year 	<p>Type A Membership if RTGS and NEFT subject to</p> <ul style="list-style-type: none"> • No default in maintenance of CRR and SLR during the past one year • Minimum net-worth of Rs.50 crore
5	Local Area Banks	<p>Membership subject to</p> <ul style="list-style-type: none"> • CRAR 9% • Net NPA of less than 10 % • No default in maintenance of CRR and SLR during the past one year • Net profit in at least one of the preceding two years. • 	<p>Type-A Membership of RTGS and NEFT subject to</p> <ul style="list-style-type: none"> • CRAR 9% • Net NPA of less than 10 % • No default in maintenance of CRR and SLR during the past one year • Net profit in at least one of the preceding two years. • Minimum net-worth of Rs.50 crore
6	Scheduled Urban co-operative banks	<p>Membership subject to</p> <ul style="list-style-type: none"> • CRAR 9% • Net NPA of less than 10 % • No default in maintenance of CRR and SLR during the past one year • Net profit in at least one of the preceding two years. 	<p>Type-A Member of RTGS and NEFT subject to</p> <ul style="list-style-type: none"> • CRAR 9% • Net NPA of less than 10 % • No default in maintenance of CRR and SLR during the past one year • Net profit in at least one of the preceding two years. • Minimum net-worth of Rs.50 crore
7	Non-Scheduled Urban co-operative Banks	<p>Membership subject to</p> <ul style="list-style-type: none"> • CRAR 9% • Net NPA of less than 10 % • No default in maintenance of CRR and SLR during the past one year • Net profit in at least one of the preceding two years. 	<p>Type-A Member of RTGS and NEFT subject to</p> <ul style="list-style-type: none"> • CRAR 9% • Net NPA of less than 10 % • No default in maintenance of CRR and SLR during the past one year • Net profit in at least one of the preceding two years. • Minimum net-worth of Rs.50 crore
8	Banks in category 1, and 3-7 not complying with the requirements	Sub-membership through a member	No access

9	Unlicensed banks (other than unlicensed state Co-operative banks and District central co-op banks)	Sub- membership through a member	No access
10	Post Office Savings Bank	Member (only to GPO or Head Post Office with POSB Branch)	Access to NEFT

Notes

- I. Entities which are presently members of Clearing House at the MICR centres , but ineligible to be member as per the proposed access criteria would have to conform to the prescribed norms within one year failing which membership would be downgraded from member to sub-member. Such banks should, however, be barred with immediate effect, (subject to the minimum time required for alternate arrangements), from sponsoring any other entity as a sub-member.
- II. Entities which are presently conforming to the prescribed norms but face a slippage at a later date will be down graded to sub-membership immediately. Up-gradation will be considered after one year.
- III. Entities not regulated by Reserve Bank other than specifically indicated above in the matrix of access criteria shall not have any access to any payment system. Any such existing member of a clearinghouse, whether in a MICR centre or otherwise, shall be immediately debarred.
- IV. Sub-Membership in the clearing house at MICR centres can be one of the two types as per the arrangement that the sub-member would have with its Member and the clearing house:
 - a. Sub-membership Type-1 : where the sub member submits the cheques or receives the cheques through its member and the accounting thereof is also done through the member
 - b. Sub-Membership Type-2 : Where the sub- member submits the cheques or receives the cheques directly to / from the clearing house, but accounting is done only through the member ; and
- V. To contain the risk of members having too many sub members, no member can ordinarily have more than 10 sub-members. Reserve Bank may permit exceptions based on its evaluation of risk management practices of the members.
- VI. For the MICR Clearing centres , the Uniform Regulations and Rules for Clearing Houses (URRBCH) would be modified and released for adoption by the clearing houses at MICR centres under the name “ Regulations and Rules for MICR based Clearing Houses”

- VII. Entities not eligible to have direct access to payment systems either as member or sub-member would have to exit from payment systems all centres (MICR Clearing centres and other centres) with immediate effect.
- VIII. Existing arrangements would continue for clearing houses at centres other than the MICR Clearing centers subject to Note III above which states that any entity not regulated by RBI other than specifically indicated above in the matrix of access criteria shall be immediately debarred from membership to payment systems.

Glossary

URRBCH	: Uniform Rules and Regulations for Bankers Clearing Houses
RTGS	: Real Time Gross Settlement System
NEFT	: National Electronic Funds Transfer
MICR	: Magnetic Ink Character Recognition
DICGC	: Deposit and Credit Guarantee Corporation
NDS	: Negotiated Dealing System
CRAR	: Capital Risk Asset Ratio
NPA	: Non-performing Asset
CRR	: Cash Reserve Ration
SLR	: Statutory Liquidity Ratio
DCCB	: District Central Cooperative Banks
RRB	: Regional Rural banks
Type A member:	RBI, All Scheduled banks, including Scheduled Co-operative Banks
Type B member:	Primary dealers
Type C member:	Scheduled Banks and Primary Dealers, participating in Call money Operations, availing of RTGS services through either a Type 'A' member or RBI
Type D member:	Clearing Houses and Clearing Agencies
Type E member:	Non-scheduled banks and other financial institutions
INFINET	: Indian Financial Network
POSB	: Post office savings bank