



In accordance with Chapter IX, Payment Clearing, and Settlement, Articles 89 and 90, paragraphs 3 and 1 respectively of the Provisional Order Setting Forth The Law of Da Afghanistan Bank issued the following:

**Regulation**  
**On domestic payment operations in Afghanistan**  
**March 2010**



**Islamic Republic of Afghanistan  
Da Afghanistan Bank**

**Article Seven: Domestic payment operations in Afghanistan:  
Part 1. – General Provisions.**

**§7.1.1. Authority**

This Regulation on domestic payment operations is pursuant to the authority granted to DAB by Article 87 of the Decree Law of Da Afghanistan Bank. The Law of Da Afghanistan Bank establishes the DAB as the regulator of domestic and international payment systems. DAB exercises its regulatory authority over the payments system through this and other regulations of the DAB.

**§7.1.2. Scope and Jurisdiction**

This Regulation regulates domestic payment operations within the jurisdiction of Afghanistan, and the use of payment systems operated by the Da Afghanistan Bank (hereinafter: DAB).

**§7.1.3. Definitions**

Terms used in this regulation have the following meaning:

- a) **Account for Performing Payment Operations** is a transaction account within the perimeter of the IPS operated by DAB or other cooperative association; it records the opening and closing balance of the account, and each transaction; similar accounts that may be held in banks (i.e. outside the perimeter of the system) are distinguished separately - e.g. current accounts, deposit accounts, loan accounts, etc.
- b) **Bank** means a person engaging in the business of receiving money deposits or other repayable funds from the public for the purpose of making credits or investments for his own account (per the Law of Banking Article 1).
- c) **Beneficiary (or Payee) Bank** is the bank that receives funds to the order of the creditor.
- d) **Business Account** of a bank is a bank's own account held in the system operated by DAB; balances in the bank's business account are claims of the bank against the DAB. A bank's Business Account must be a DAB Settlement Account.

- e) **DAB Liquidity Facility** is a standing credit facility that can be drawn upon by account holders (banks) at the DAB. In some cases the facility can be used automatically at the initiative of the account holder (e.g. intra-day use of the mandatory reserves for intra-day liquidity), and in other cases the DAB retains discretion. Credit extended to the banks for liquidity purposes is in all cases secured, as separately regulated in the Regulation on Liquidity Maintenance and Measurement.
- f) **Clearing** is a set of procedures whereby participants present and exchange data and / or documents relating to funds or securities transfers to other participants at a single location; in a net settlement system these procedures will typically include calculation of participants' bilateral and / or multilateral net positions which are delivered to the settlement agent to accomplish final settlement.
- g) **Credit Risk** refers to the risk that a participant may fail to meet its obligations to the funds or securities transfer system when due, or at any time in the future.
- h) **Credit Transfer** describes a payment instrument having the attribute that the participant initiating the transfer places funds at the disposal of a beneficiary participant.
- i) **Current Account** is an account used to make payments in the name of a payment operations party which is held in the systems operated by a bank outside of the IPS; if it is in credit, the balance of this account represents a claim of the party against the bank; if the bank permits a debit balance in this account, it represents a claim of the banks on customer (i.e. it is an extension of credit to the customer).
- j) **Customer or Client** is a physical person or legal entity having an account with a bank, including a bank, which has an account with the DAB or with another bank.
- k) **Debit Transfer** describes a payment instrument with the attribute that the participant initiating the transfer is the beneficiary of that transfer; a debit instrument may be based on the authorization of the paying party for a specific amount, or may be based on an authorization of the paying party for variable amounts (such as is the case with the a direct debit scheme).
- l) **Domestic Currency** of Afghanistan is the Afghani.
- m) **FIFO** is the acronym for 'first in first out', and indicates that items in a queue will be processed in the order in which they arrive into the queue.
- n) **Final Settlement** is the settlement of obligations between participants by irrevocable transfer across their accounts at a predetermined settlement institution.

- o) **Finality (or Settlement) in DAB Money** describes final settlement where the irrevocable transfer of credit is across accounts held on the books of DAB.
- p) **Funds Transfer** is the transfer of funds from one account to another; a funds transfer may be between accounts of different or the same natural or legal persons, constituting a payment or a re-distribution of liquidity respectively.
- q) **Gridlock and Gridlock Release** describe methods used to manipulate the sequence in which transfers are processed (e.g. chaining or offsetting of transfers) in order to increase the number or the value of transfers that may be settled with available liquidity.
- r) **IPS Account** is an account for performing payment operations that belongs to a payment operations party; it is held in the payments system operated by the DAB or other cooperative association; it is either intermediated by a payment operations participant, or is owned by a participant (e.g. in the case of a bank's business account); the balance on the account of a party at any point in time represents a claim of the party against the intermediating participant; the DAB operates accounts as an agency service for participants, and to facilitate the performance of payment operations on behalf of the DAB's own clients.
- s) **Inter-bank Payment System (IPS)** is the inter-bank payments system (clearing and account processing service) operated by the DAB or other cooperative association; the IPS is provided to participants by the DAB as an optional cost based agency service. It processes both high and low value payments, and may provide RTGS intra-day finality in DAB money for these payments; it is a credit transfer system – debit transfers introduced to the IPS are converted to credit transfers for inter-bank settlement purposes by placing these items on a participants settlement queue pending authorization by the participant. The IPS and the Interbank Payment System exist and function within a single integrated information technology platform that includes a wide area data communications network connecting Participants to the DAB.
- t) **Inter-bank Payment** is a payment between paying and beneficiary banks, where the banks may be principals in the underlying obligations (i.e. party to the underlying transaction), or may be intermediating payments on behalf of their customers.
- u) **Inter-bank Settlement** is the final settlement of inter-bank obligations of banks arising from inter-bank payments.
- v) **Intra-bank Payment** is payment between customers of the same bank.
- w) **Intra-day Finality** in DAB Money describes the mechanism operated by the DAB where real time settlement in DAB money is either

accomplished, or is guaranteed by the irrevocable assignment of liquidity in accounts held at the DAB in real time.

- x) **Liquidity** in an account refers to unencumbered funds that are at the immediate disposal of the beneficial owner of the account at a point in time.
- y) **Liquidity Risk** refers to the risk that a participant may be unable to settle a debit position at the time due because it does not have enough liquid assets; such a liquidity problem does not necessarily imply insolvency, as the participant might be able to settle the required obligations at some unspecified later time.
- z) **Net (or Net Net) Settlement** refers to the final settlement of inter-bank liabilities arising from a clearing process.
- aa) **Net Credit / Debit Position** of a participant in a netting system is the sum of all the transfers received by that participant at a point in time from another participant, less the transfers that it has sent to the same participant. If the sum is positive, the participant is in a net credit position vis-à-vis the other participant. If the sum is negative, the participant is in a net debit position.
- bb) **Net Net Settlement Position** of a participant in a netting system is the sum of all of the transfers the participant has received at a point in time, less the transfers that it has made to all other participants; it is also equal to the sum of the participants net credit positions less its net debit positions – if the sum is negative the participant is in a net net debit position and vice versa; in a net settlement system the net net settlement positions of all participants sum to zero.
- cc) **Net Settlement** is a settlement process in which participants in a payments system settle only their net settlement positions, or net net settlement position resulting from a clearing process.
- dd) **Net Settlement Positions** are the net credit / debit positions between every bi-lateral combination of participants at the point in time when net settlement is performed.
- ee) **Operational Risk** refers to the risk that hardware or software problems, human error or malicious attack will cause a system to break down or malfunctions giving rise to financial exposures and possible losses.
- ff) **Originating Bank** is a participant bank that initiates a (credit transfer or debit transfer) payment order into a payment system.
- gg) **Originator** is the party initiating a (credit transfer or debit transfer) payment order(s), usually via an intermediating bank.

- hh) **Originator's Account** is the (IPS or otherwise) account of the originator, held with a bank
- ii) **Paying (or Payer) Bank** is the bank that transfers funds to the order of the creditor.
- jj) **Payment Initiation** is the submission of validated and authorized payments into the payment system in accordance with the operating procedures of the payment system.
- kk) **Payment** is the satisfaction and discharge of an obligation, by the debtor's irrevocable provision of an unconditional claim on a third party acceptable to the creditor (examples are banknotes, and deposits held at banks or at the DAB).
- ll) **Payment Operations** describe the use of payments systems to make payments, and to settle inter-bank liabilities arising during this process.
- mm) **Payment Operations Parties (Parties)** to a payment are the legal or natural persons between whom an obligation is discharged by means of that payment; in this regulation, the term is specifically used to describe legal entities or natural persons who use the payment system to make a payment through the intermediation of a participant; in the Inter-bank Payments System the intermediating participants assume the obligations of the parties.
- nn) **Payment Order (or Payment Instruction)** describes an order or message requesting the transfer of funds (in the form of a claim on a third party) to the order of the creditor; the order may relate either to a credit transfer or a debit transfer; the instruction may be oral or in physical or electronic media in accordance with prior agreement.
- oo) **Payment System** comprises a defined group of participants, and a set of instruments and procedures used to ensure the circulation of money within a defined catchment area; modern payment systems typically make extensive use of information technology (IT).
- pp) **Payment System Operator** is the legal entity charged with providing regulated operational and technical services to the payment system.
- qq) **Payment System Participants** (participants) are financial institutions authorized to perform payment operations within a payment system in accordance with the regulatory framework and operating procedures for that payments system.
- rr) **Payment System Regulator** is the DAB, as the authority assigned the responsibility under law to regulate the payment system.
- ss) **Queues (and Queuing)** describe a risk management arrangement whereby transfer orders are held pending sufficient cover in the settlement account.

- tt) **RTGS is the acronym for Real Time Gross Settlement** and is a gross settlement process in which each transaction is processed and settled individually, in a continuous real time operation; settlement takes place at the same time as or before the payment order is passed to the transferee.
- uu) **Receiving or Recipient Bank** is participant bank that is last to receive a payment order in a payments system – in a credit transfer this is the payee’s bank, and in a debit transfer this is the payer’s bank.
- vv) **Receiving Account** is the destination account to which a payment order is directed; in a credit transfer it is the beneficiary account, in a debit transfer it is the paying account.
- ww) **Settlement Account** is an account operated by the settlement institution, which is used to facilitate final settlement. Business Accounts must be Settlement Accounts.
- xx) **Settlement Agent** is the institution initiating the final settlement of a clearing on behalf of all the participants.
- yy) **Settlement Institution** is the intermediating institution between participants. Final settlement is accomplished by transfers (account postings) made across the books of the settlement institution.
- zz) **Systemic Risk** refers to the risk that the failure of one participant in an inter-bank funds or securities transfer system to meet obligations will cause other participants to be unable to meet their obligations when due.
- aaa) **Transfer** is the act that creates or transmits an interest in a security, a financial instrument, or money.

#### **§7.1.4.Currency**

The Afghani is legal tender in Afghanistan.

Payments through the IPS operated by the DAB are denominated in Afghani or US dollars.

Payments may be carried out in other currencies in accordance with applicable law.

#### **§7.1.5.Responsibilities of the DAB in Payment Operations**

The DAB is the operator, settlement agent and settlement institution of the IPS. The DAB is also a participant in the IPS.

The DAB acts as lender of last resort (per Article 86 of the Law of Da Afghanistan Bank) by providing collateralized liquidity facilities to the participants in the IPS also in accordance with the Regulation on Standing Facilities.

The DAB performs the following functions:

- a) provides the regulatory framework and regulatory oversight of all payment systems in Afghanistan;
- b) opens and closes payment operations accounts of parties and participants in the IPS, and keeps registers of accounts in accordance with separate regulation
- c) processes inter-bank payments and carries out inter-bank settlement;
- d) records funds transfers in IPS accounts and updates the balances accordingly;
- e) performs payment operations on behalf of its clients (banks, Government of Afghanistan, international financial institutions and donor organizations) and maintains their payment operations (IPS) accounts accordingly;
- f) meets its financial obligations to its creditors on the due date;
- g) resolves any discrepancies, errors, omissions and exceptions in a timely manner, and has adequate systems to identify such events;
- h) implements, operates and maintains information technology systems necessary to support the IPS , as well as banking / payment services for its own clients;
- i) monitors the liquidity of participants, and provides intra-day and overnight liquidity facilities to participants under regulated conditions;
- j) carries out central distribution of cash in the banking system;
- k) determines fees and tariffs that participants are obliged to pay for using the IPS;
- l) provides statistics on payment traffic;
- m) participates in international, and multi-national, committees and organizations relating to payment systems;
- n) engages with banks in cooperative development and improvement of the payments system, and provision of new payment services
- o) performs other activities as regulated.



### **§7.1.6.Responsibilities of Banks in Payment Operations**

Banks have the following responsibilities in payment operations:

- a) Banks open and maintain customer accounts in their own books and back-office systems, maintain accurate transaction records, and produce financial statements in accordance with relevant legal authority, standards and practices.
- b) Banks perform cash and cashless payments for their customers.
- c) Banks submit intra-bank payments to the DAB only in the case where at least one of the accounts affected by the payment happens to be in the IPS operated by the DAB.
- d) Banks must meet their financial obligations on the due date.
- e) Banks perform vault activities to support cash payment operations.
- f) Banks resolve any discrepancies, errors, omissions and exceptions in a timely manner, and have adequate systems to identify such events
- g) Participants in the IPS are obliged to observe the regulations and operating procedures of these systems.

### **§7.1.7.Bi-lateral Agency Arrangements (future consideration)**

For the time being transactions are settled on a gross basis.

A bank may establish a bi-lateral agency agreement with another bank to perform payment operations on its behalf, subject to the oversight of the DAB.

In the case where a bank establishes such an arrangement with a participant in order to gain access to the IPS, the participant remains fully responsible for any action or omission introduced into the IPS arising from this agency arrangement whether caused by the principal or the agent bank.

The banking obligations between the principal bank and its customer are unaffected.

### **§7.1.8. Multilateral Schemes and Third Party Agency Arrangements (future consideration)**

Banks may establish multilateral schemes (such as a direct debit / credit scheme), and may delegate responsibilities for payment operations to a third party agent (such as a clearing house or technical service provider or plastic card processing centre, etc.).

The DAB retains oversight responsibility for all such schemes and agencies; the DAB is primarily concerned that their establishment and operation have a sound legal basis (in contract or otherwise), and comply with standards and best practices for the mitigation of risks inherent in payment systems.

Where appropriate, the DAB may be directly involved in such schemes and arrangements (e.g. as operator, settlement agent, settlement institution, participant, etc.).

### **§7.1.9. Other Domestic Payment Systems**

The Post Office may provide payment services as regulated in this regulation and post office regulations, but does not take deposits or open accounts for customers, nor does it have a settlement account at the DAB. If the Post Office is being used for these type of services it should be through the agency of a bank regulated by DAB.

## **Part 2. – The IPS**

### **§7.2.1. Participation in the IPS**

The IPS exists and functions within a single integrated information technology platform that includes a wide area data communications network connecting participants to the DAB.

Banks and the DAB are the main participants in the IPS. Other regulated financial institutions may be admitted as participants at the discretion of the DAB. Participation by banks is not mandatory in the IPS. However:

**§7.2.1.1.** the IPS is the only inter-bank payments system that provides settlement in DAB Money

**§7.2.1.2.** a bank wishing to make use of IPS agency service must either be a participant in the IPS (and operate business and settlement accounts accordingly), or must engage participant to act as its agent.

**§7.2.1.3.** The following are the participation criteria for the IPS:

- a) be duly licensed by the DAB to perform payment operations
- b) be in good standing with banking license and supervision authorities
- c) maintain a settlement account and supporting business account in the DAB
- d) meet minimum technical, operational and management standards set by the DAB
- e) Timely pay IPS membership fees and tariffs established by the DAB, if approved by DAB

### **§7.2.2. Payment Operations Accounts (IPS )**

Payments between participants and parties with accounts in the IPS are posted through payment operations accounts, organized in sections under a single chart of accounts.

The DAB opens payment operations accounts for participants (business accounts and settlement accounts), and for parties (IPS Accounts).

Accounts held in the back-office systems of banks (e.g. current accounts) may also be used for inter-bank payment operations; this is accomplished by routing such

payments through the business accounts of the respective participants, and placing the obligation on the participants to ensure the correct posting of these payments into the paying and beneficiary accounts.

### **§7.2.3.Business Account of a Participant (if used)**

A bank may have no more than one business account held at the DAB per authorized currency (currently Afghani or USD).

The business account is used to accomplish final settlement in DAB money for inter-bank payments by means of real time gross settlement process.

At the moment there is no business (transaction) account at DAB, but business (transaction) account(s) may be opened at a later date for daily transactions prior to proceeding to the settlement account.

### **§7.2.4.Settlement Account of a Participant**

The DAB opens a single settlement account for participants per authorized currency (currently Afghani or USD).

This account is used to provide intra-day finality in DAB Money for payments processed in RTGS mode. This is accomplished by recording in the settlement account the specific amount of liquidity at any moment in time that is irrevocably assigned (blocked) in the business account of the participant pending end of day final settlement.

### **§7.2.5.Settlement Account Queue**

The settlement account features a queuing mechanism, which allows for the temporary holding of outstanding payments pending the availability of liquidity in the settlement account.

### **§7.2.6.Initiation of IPS Customer Payments**

A party instructs and authorizes the intermediating participant to make payments from the relevant IPS Account by submitting credit transfer payment orders to the participant, or by authorizing an originator to initiate debit transfers against the IPS account.

Following the customer's instructions / authorization, participants perform formal and logical controls on the payment order as regulated by the operating procedures, and submit the payment into the IPS by means of a terminal connection to the central processing platform of the IPS.

Payments may be submitted by other means and using other media (e.g. bulk direct debit file, bulk credit transfer submissions, etc.) as provided for in the operating procedures.

#### **§7.2.7.Payment Authorization**

In the case of credit transfer payments initiated in the IPS by a participant, the participant is obliged to obtain and keep a record of the ordering customers authorization for that payment (i.e. a copy of the payment order). The submission of the payment message into the system is deemed to constitute the intermediating participant's authorization to make the payment, and to make use of the participant's liquidity for inter-bank settlement.

In the case of credit transfer payments initiated by a party with on-line access to an IPS account, the submission of the payment message into the system in accordance with the operating procedures is deemed to constitute the party's authorization of the payment. Such payments still require the authorization of the intermediating participant. The participant's authorization is obtained by leaving these payments in the RTGS queue of the participant until duly authorized by on-line notification by the participant. The participant may, at its own discretion and risk, avail of automatic authorization for certain categories of payments (i.e. small value payments) in the interests of efficiency.

In the case of debit transfers, the payments are initiated by the originator and then put into uniform payment instructions at DAB. Such payments still require the authorization of the intermediating participant. The participant's authorization is obtained by leaving these payments in the RTGS queue of the participant until duly authorized by on-line notification by the participant. The participant may, at its own discretion and risk, avail of automatic authorization for certain categories of payments (i.e. small value payments) in the interests of efficiency.

#### **§7.2.8.Liquidity and Cover Check**

Individual payments are made in real time (RTGS mode) against available liquidity in the relevant payment operations accounts, i.e. the IPS account of the paying party and, in the case of inter-bank payments the settlement account of the paying bank.

The second cover check (against liquidity in the settlement account of the paying bank) is not performed until the first cover check (against liquidity in the IPS account of the paying party) is successfully completed.

Payments for which there is insufficient liquidity cover during the course of the day are sorted in queues by order of priority and submission time (FIFO), and are settled once liquidity is secured.

Banks are obliged to monitor their settlement account queue and provide sufficient liquidity in their settlement account to settle all payments in the queue during the settlement day.

Intra-bank payments initiated into the IPS by participants are settled immediately to the limit of available liquidity cover in the debited IPS Account, and do not have any impact on liquidity in the settlement or business account of the participant.

#### **§7.2.9.Gridlock Release**

The DAB as operator of the system may implement technical and operational interventions to identify and resolve gridlock across settlement account queues.

#### **§7.2.10.End of Day Deletion of Queued Payments**

**§7.2.10.1.** Payments that remain outstanding on the account of the paying party's account queue before cut-off time are rejected from the queue, and notifications are sent:

- a) in the case of a credit transfer the notification is sent to the party
- b) in the case of a debit transfer each of the party's, the originating participant and the originating customer (in the case that their account is in the IPS) are notified.

**§7.2.10.2.** Payments that remain outstanding on a settlement account queue of a participant at the end of a working day are rejected from the queue, and notifications are sent:

- a) in the case of a credit transfer the notification is sent to the originating participant, and to the originating customer account holder (where this account is in the IPS )
- b) in the case of a debit transfer the notification is sent to the default participant, the originating bank participant and the originating customer account holder (where this account is in the IPS).

**§7.2.10.3.** The DAB will monitor inter-bank payments that fail to settle (i.e. remain on the queue of the settlement account until the end of the day) and may impose sanctions against habitual or large-scale offenders.

#### **§7.2.11.Finality in the IPS**

Funds are immediately and irrevocably at the disposal of the beneficial owner of a payment operations account in the IPS once a credit has been posted into that account, i.e. in real time.

The RTGS workflow of both credit and debit transfer payments processed in the IPS ensures that the paying party's IPS account and the paying participant's settlement account are irrevocably debited at the same time as or before the beneficiary participant's settlement account and the beneficiary party's IPS account are credited.

The debit transfer workflow places the debit item on the settlement account queue of the participant pending authorization by the participant, effectively converting the IPS debit transfer into an inter-bank credit transfer for inter-bank settlement purposes.

#### **§7.2.12.Liquidity Facilities Provided by the DAB**

Banks may use mandatory reserve deposits held at the DAB to provide intra-day liquidity for the settlement account via the business account, in accordance with the Regulation on Reserve Requirement for Monetary Policy Purposes.

Banks may also obtain collateralized credit from the DAB in accordance with the Regulation on Liquidity Management and Measurement.

#### **§7.2.13.Account Statements / Confirmations**

Account changes deriving from settled payments are issued at the end of day in statement form.

Statement consists of an opening balance, individual transaction amounts, transaction references and end of day balance.

If the DAB does not receive a written notification of disagreement from or on behalf of a participant regarding the content of statement within 24 hours from statement issuance, DAB will consider that the participant agrees with the content of statement.

#### **§7.2.14. Bank Accounting for IPS Operations**

Participants record transactions and / or balances held in accounts for which they are the intermediating participant in their financial statements, by mirroring relevant transactions and / or balances in their own systems.

Banks are responsible for the timely and accurate exchange of data between the IPS and their back-office system, and the proper representation of assets and liabilities in their financial statements.

#### **§7.2.15.Bank Records of Payment Authorization and Processing**

Banks, including the DAB, are required to maintain auditable records (payment orders / proof of authorization, account statements, etc.) permanently until further notice.

#### **§7.2.16. The Working Day of the IPS**

The IPS is available to participants during working days.

‘Working days’ are set out in the Operating Procedures of the IPS, and include all days of the week except Friday, and bank holidays set as non working days.

#### **§7.2.17. The Operational Day of the IPS**

The operational day of the IPS are full day Saturday-Wednesday and half-day Thursday according to season and Ramadan. Operating processes are set in phases and consist of the key system functioning elements:

- a) System start up;

- b) Acceptance of bank liquidity transfer orders;
- c) Acceptance of payment orders;
- d) End of acceptance of inter-bank payment transactions, closing of settlement cycle;
- e) Acceptance of bank orders for liquidity provision for queued orders;
- f) End of liquidity provision for queued orders;
- g) End of day;
- h) Issuance of statements and advices next business day.

For all other types of messages that do not represent payment transfers, the DAB remains accessible until the end of working day.

The DAB may extend operating hours in special or unpredicted circumstances.

If extension of the IPS working hours are caused by one or more participants, they may be held liable for expenses incurred during by the extension of working hours.

#### **§7.2.18. Errors, Exception and Omissions in the IPS**

**§7.2.18.1.** It is possible that (any of yhr) parties and participants, including the DAB in its various capacities, may introduce errors, exceptions and omissions into the IPS.

These may be rectified by submission of a free format message for transaction correction or return notice at any time until:

- a) The settlement account of the beneficiary participant has been credited (in the case of inter-bank payments); or
- b) The customer account has been credited (in the case of intra-bank payments processed through the IPS).

**§7.2.18.2.** Subsequent to these events (which constitute irrevocable settlement) resolution is accomplished by direct negotiation between the affected parties and participants (ultimately by directive from the DAB Board of Management), culminating with initiation of a new (correcting) payment.

**§7.2.18.3.** Participants are obliged to rectify omissions immediately as they are made aware of the omission. Participants are required to:

- a) maintain a control account for recording incorrect or ambiguous payments pending resolution
- b) keep a file of any errors, exceptions and omissions that have been discovered or notified, including copies of all primary documents, and

- a record of any correspondence and conversations related to the problem
- c) notify the DAB and the counterparty participant immediately, and provide copies of such documentation as may be necessary to resolve the problem
- d) pursue resolution immediately
- e) record the resolution of the error or omission in the file

**§7.2.18.4.** DAB, as operator and settlement agent of the IPS is similarly obliged to keep documentation and resolve any errors or omissions identified or notified.

**§7.2.18.5.** Errors and omissions introduced by a party (including account holders that may have online access to their account) are resolved directly between the party and the intermediating participant. The intermediating participant is fully responsible for errors that may be introduced into the IPS by their customer with respect to any inter-bank liabilities arising.

**§7.2.18.6.** Authorization of a payment for inter-bank settlement by a participant is deemed to be the ‘initiation event’ from the regulatory perspective of the IPS, and the participant carries full and immediate liability for any duly authorized payments submitted to the IPS.

#### **§7.2.19. Tariffs in the IPS**

The IPS operated by DAB is potentially operated as cost based service. The DAB determines the central processing tariff to meet the fixed, variable and ongoing investment costs of operating the IPS .

The central processing tariff reflects the real economic cost of processing each transaction, in accordance with established international practice for cost based institutions.

The tariff is published and revised from time to time by the DAB.

Banks are obliged to publish the tariffs that they charge to their customers in accordance with their business model. The DAB has regulatory oversight over the tariffs charged by banks, and may intervene with direct regulation over these tariffs in the event that they are considered to be excessive, or there is evidence of restrictive practices amongst the banks.

#### **§7.2.20. Account Blocking for Bank Supervision Reasons**

The DAB can block participant’s payment operations accounts under circumstances set out in DAB laws and regulations.

The account can be blocked for all payments, for all receipts, or both payments and receipts.



Participant is advised immediately after the account blocking takes place.

Account blocking prevents any debit or credit orders being settled against that account. In case that a participant wants to make payment to the account blocked for receipts, it will be advised about the blockade and his order will be returned.

### **Part 3. Payment by Current and Other Bank Accounts**

#### **§7.3.1.Current Accounts and Other (Deposit, Loan) Accounts in Banks**

Banks may open current accounts and other (i.e. loan and deposit) accounts within their own back-office systems, for both legal entities and physical persons.

The mutual rights and obligations of a bank and a customer are regulated by an agreement on opening and maintaining the account with the bank, and this agreement between the customer and the bank is subject to the oversight of the DAB.

#### **§7.3.2.Payments Through Accounts Held in Banks**

Banks may make intra-bank and inter-bank payments out of such accounts on the instruction of the customer, whether or not there is cover in the account; making a payment without liquidity cover in the account is an extension of credit to the customer.

Inter-bank payments may be processed through the IPS by routing through the business accounts of the respective participants. participants are obliged to ensure the correct posting of these payments into the paying and beneficiary accounts in their own books and back-office systems. Remittance advice details, and/or other notification mechanisms are used by the receiving bank to determine the correct destination account.

High value transactions must be transacted through accounts held in banks.

#### **§7.3.3.Due Care, and Secrecy of Accounts in Banks**

Banks and their customers are obliged to exercise due care in the handling of transactions through these accounts, including taking reasonable measures to prevent fraud, and mitigate errors, exceptions and omissions.

Banks are obliged to exercise due care in the interpretation of ambiguous payment orders.

A bank is bound by secrecy and may disclose information on the account only to the customer, unless otherwise prescribed in law, at the order of the court or other competent authority, or pursuant to the express authorization of the customer to the bank.

#### **§7.3.4.Transaction Posting, and Obligation on the Bank for Timely Action**

In the case of an intra-bank payment, a bank is obliged to credit a correctly specified beneficiary account no later than the end of the same day that the bank debited the paying account in its own books.

In the case of inter-bank payments banks have the following obligations for timely action with regard to:

- a) Originating credit transfers: to initiate the inter-bank credit transfer on foot of liquidity in the customer account no later than the end of the same working day that it received the instruction and authorization of the customer.
- b) Receiving credit transfers: to post the credit into the beneficiary account no later than the end of the day following the bank's receipt of funds (i.e. receipt of credit into a participant's settlement account if the IPS is used) DAB reference T + 1. If the beneficiary bank does not credit the funds in T+1, the bank should pay interest (at the rate of their savings account) to their customer for the period credit was not provided to the customer. In addition, the beneficiary bank must pay a fine of 1.5% of the amount to DAB.
- c) Originating debit transfers: to post credit into the beneficiary (originators) account by the end of the same working day as the bank's receipt of funds (e.g. receipt of credit into a participant's settlement account if the IPS is used).
- d) Receiving debit transfers: to initiate payment to the originator by the end of the same working day that the debit is successfully posted in the paying account.

Banks are obliged to maintain sufficiently sophisticated systems and procedures to comply with these parameters.

#### **§7.3.5.Errors, Exception and Omissions in Bank Systems**

Banks are obliged to record transaction errors and exceptions and actively pursue resolution:

- a) maintain a control account for recording incorrect or ambiguous payments pending resolution (DAB transit account or Interbank Clearing Account)
- b) keep a file of any errors, exceptions and omissions that have been discovered or notified, including copies of all primary documents, and a record of any correspondence and conversations related to the problem

- c) notify the DAB and the counterparty participant immediately, and provide copies of such documentation as may be necessary to resolve the problem
- d) pursue resolution immediately
- e) record the resolution in the file

#### **§7.3.6. Statements and Advices**

A bank is obliged to provide to the customer a statement covering a specified period, identifying the opening balance carried from the previous period, all of the changes in the account during the period, and the closing balance for the period. The statement should also provide sufficient remittance advice description as to assist the customer to identify and / or to recollect the purpose of the payment. The period to be covered (daily, monthly, annual etc.) by the statement should be agreed between the bank and the customer during the account opening procedure.

The customer must exercise ordinary care in reviewing the bank's statement, and advise the bank as soon as the customer knows of any discrepancy or contested debit or credit. The bank will assist the customer in pursuing the investigation on such discrepancies or disagreed items, provide relevant information available to it, and where facts are agreed or determined, make appropriate adjustments to the account.

The bank should also deliver other individual transaction confirmations / receipts in accordance with good practice.

#### **§7.3.7. Collection of Fees for Rendered Services in Bank Accounts**

A bank may, for the collection of its fees and commission for services rendered to the customer, apply all customer's funds maintained as sight deposits with the bank, and may obtain a lien on other assets of the customer (held at the bank or otherwise) under the this regulation.

### **Part 4. – Payment Services Provided by the Post Office**

#### **§7.4.1. Payment Services Provided by the Post Office**

The Post Office may provide services in the form of payment instructions only sent intrabank (DAB branches) payments where no connectivity exists in the branch.

### **Part 5. – Risk Management in the IPS**

#### **§7.5.1. Operational Risks in the IPS**

Operational risks in the IPS are addressed as follows:

- a) Routine and ad-hoc management procedures (operator, participants, parties)
- b) Routine external verification of transactions and balances

- c) Internal and external audit
- d) Access controls
- e) Contingency planning.

Access to the IPS is restricted to duly authorized personnel of participants, including the DAB.

Participants are obliged to control the security of access points (user ID) to the IPS.

Participants are fully responsible for the competence, integrity and proper management of personnel who are user IDs and granted access to the IPS.

The DAB, as operator of the IPS will maintain, and will periodically test, a contingency plan that establishes and ensures compliance with acceptable 'mean time between failure' (MTBF) and 'maximum time to recovery' (MTTR) and disaster recovery facilities.

Participants are obliged to have their own contingency plans and disaster recovery facilities, and to participate in periodic tests organized by the DAB.

#### **§7.5.2.Systemic Risk in the IPS**

Systemic risk in the IPS is managed by the following techniques:

- a) processing payments through the IPS in RTGS mode (i.e. providing intra-day finality in central bank money)
- b) participation criteria to ensure that only regulated (solvent and liquid) banks are permitted to join the IPS
- c) disallowing participants from viewing incoming transfers on counterparty queues

#### **§7.5.3.Liquidity Risk in the IPS**

Liquidity risk in the IPS is managed by the provision of DAB liquidity facilities to the participants:

- a) Banks are permitted to make use of their mandatory reserves for intra-day liquidity in accordance with the Regulation on Reserve Requirements for Monetary Policy.
- b) Banks are also able to avail themselves of collateralized credit facilities from the DAB in accordance with the Regulation on Liquidity Maintenance and Measurement.

#### **§7.5.4. Credit Risk in the IPS**

The management of credit risk in the IPS is managed by participation criteria to ensure that only regulated (solvent and liquid) banks are granted credit.

- a) Banks may make intra-bank and inter-bank payments out of such accounts on the instruction of the customer, whether or not there is cover in the account; making a payment without liquidity cover in the account is an extension of credit to the customer and as such is subject to collection risks.

### **Part 6. – Transitional Provisions**

#### **§7.6.1. Prioritization of Enforced Collection Orders**

If there are not sufficient funds on an IPS account to settle all payment orders, payment orders are processed in the following sequence:

- a) orders for enforced collection of taxes, contributions, custom duties and other public income based on executive regulations of fiscal, customs and other competent authorities, and customer orders for payment of these obligations according to the time of receipt
- b) payment order for which priorities for collection are defined by law (orders issued by banks based on executive court regulations and other executive regulations, legal authorities and charges for payment transaction services) according to the time of receipt
- c) creditors orders (orders issued by creditors based on matured securities and other instruments for insuring payments, opened letters of credit, other accepted instruments of payments transactions) according to the time of receipt
- d) order of account holders according to the date of maturity i.e. time of receipt if the date of maturity is not indicated.

The DAB will rescind this transitional provision when the various statutes that give rise to the requirement for enforced collection through the IPS is rescinded.

#### **§7.6.2. Participation Criteria for Unlicensed Banks / other Financial Institutions**

Pending resolution of the licensing status of Banks, existing unlicensed banks and other financial institutions may not be admitted as participants to the payment system.

### **Part 7 . Effective date of regulation.**

7.7.1. This regulation approved on 2-3 March 2010 by the DAB Supreme Council and the regulation will publish in DAB web site.

## **Part 8. LETTER OF AGREEMENT**

### **7.8.1. To the Regulation on domestic payment operations in Da Afghanistan Bank**

Dear Sirs:

We agree to the provisions of the Regulation on domestic payment operations in Da Afghanistan Bank (DAB) dated March 2010. We recognize that this regulation may be amended from time to time to allow for changes in the payment environment and / or addition of payment services.

We agree to all security and contingency arrangements as recommended by DAB, to assure that this bank continues its essential file transfer operations in the event of disruptions to internal facilities.

This institution has been licensed by, and is in good standing with DAB.

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

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

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

\_\_\_\_\_

Bank Identification Number: \_\_\_\_\_

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

Signature: \_\_\_\_\_

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