

Operating Procedure for Settlement Guarantee Fund

Version 1.0

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**NEPAL
CLEARING
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1. General Definition and Abbreviations

1.1. Abbreviations

1. "NRB" refers to Nepal Rastra Bank, The Central Bank of Nepal.
2. "NCHL" refers to Nepal Clearing House Ltd
3. "NCHL-IPS" refers to Interbank Payment System owned and operated by NCHL.
4. "NCHL-ECC" refers to Electronic Cheque Clearing System owned and operated by NCHL.
5. "BFIs" refers to Banks and Financial Institutions.
6. "SGF" refers to Settlement Guarantee Fund.

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1.2. Definitions

1. "Members" or "Participating BFIs" or "Participants" refer to the direct member BFIs who have subscribed for participating in system/s operated by NCHL and also contributed in the SGF fund for participating in the specified products backed by SGF.
2. "Indirect/Technical members" refers to non-bank financial institutions or big institutions who have subscribed for participating in the systems operated by NCHL that have direct communication to send and receive transactions through their respective bank. The settlement of their financial obligations are also done through their respective bank (i.e. Direct member of the system/s) that has an account held at NRB.
3. "ODFI" refers to Originating Depository Financial Institution which is also referred to as Instructing Bank.
4. "RDFI" refers to Receiving Depository Financial Institution which is also referred to as Instructed Bank.
5. "SGF" refers to Settlement Guarantee Fund created by contribution of participant Member BFIs and NCHL through its own source or alternate funding arrangement to mitigate the Default Risk and Settlement Risk. SGF shall be created, managed and operated as per this operating procedures or any other directives/ guidelines issued by NCHL/ NRB.
6. "Unwinding" refers to cancellation of the already accepted transaction before the final settlement is done at central bank by the system.
7. "Net Clearing Position" (NCP) represents the financial position for each member at the closure of each clearing session, the NCP might be net debit or credit, and it is calculated on a multilateral basis.
8. "Net Debit Position" refers to a member's negative balance after having summed up of the value of all transactions related to the member in any particular system or Category/purpose at any particular point of time.
9. "Net Credit Position" refers to a member's positive balance after having summed up of the value of all transactions related to the member in any particular system or Category/purpose at any particular point of time.
10. "Debit Cap" or "Net Debit Cap" refers to the cumulative net debit position limit provided to any member BFI for the settlement position in the system per clearing session.
11. "System" refers to the main system(s) of NCHL in which SGF products shall be activated.



2. Introduction

2.1. Background

As per the mandate of Nepal Rastra Bank (NRB) "to develop a secure, healthy and efficient system of payments", it is required to implement national payment and settlement systems in Nepal. Implementation of nationwide electronic image based cheque clearing (NCHL-ECC) system and interbank payment system (NCHL-IPS) was a major transition in the payment systems of Nepal. In the process of extending the services for immediate processing of both the debit and credit legs at ODFI and RDFI banks, the banks are required to introduce immediate payments. If the creditor bank has integrated the system with their core banking system, then they will be able to credit the beneficiary account as and when the transaction is received, prior to the deferred Nostro settlement at NRB based on settlement guarantee fund established as an additional settlement risk control arrangement.

2.2. Objectives of Settlement Guarantee Fund

In order to implement immediate payments, an arrangement has to be in place to guarantee settlement between the participating members such that the possibility of settlement default risk is avoided, based on which the beneficiary account can be credited once the transaction is received. Such arrangement is made by establishing Settlement Guarantee Fund (SGF).

Thus, the main objective of establishing a SGF is to provide certainty of settlement by utilizing the fund and/or some alternative guarantee mechanism as the last resort after having exhausted all available options for the participant that are unable to settle its obligation (including funding or unwinding of transactions from other systems) for the specific transactions backed by SGF at the time of settlement.

connectIPS e-Payment System has been implemented by NCHL to support such immediate payments. And hence SGF fund is required to support connectIPS e-Payment and/or any other system or product to be backed by SGF.

2.3. Legal and Regulatory Framework

This operating procedure shall be established as an alternate funding for beneficiary credit such that value of such transaction could be supported by SGF. The legal authority of this Operating Procedure is Nepal Rastra Bank as provided by Nepal Rastra Bank Act 2058 BS (2002), the provisions of Section 5, Sub Section 1 (i) thereof and the prevailing Payment & Settlement Act 2075.

This operating procedure shall be a part of the agreement between NCHL and participating BFIs for subscription of SGF backed products/ system.

3. Operating Procedure

Managing SGF effectively needs a complete understanding of the business process along with the roles and the responsibilities of each participant; and the purpose of this Operating Procedure is to create and document rules, procedures and standards to compute, establish and operate SGF.

The Operating Procedure shall govern the compliance of the SGF operations. It sets the standards for the following:

1. Computation of SGF, Debit Caps, contribution of the participants.
2. Utilization of SGF.
3. Detailed operational rules, procedures and other authoritative information to the participants and relevant parties as to how the SGF functions in different business situations.

4. SGF Applicability

1. SGF shall be applicable only for the settlement of the specified products defined as SGF backed products within the systems operated by NCHL. Such product and/or system shall be published by NCHL.
2. SGF backed products shall be applicable for Nepalese Rupee (NPR) based transactions only.



3. The threshold transaction limits for SGF backed products shall be up to the amount as prescribed by NCHL, depending on the size of the SGF and/or as approved/allowed by NRB.
4. The transactions for SGF backed products shall be irrevocable immediately after the transaction is initiated by the debtor participant. It shall be the liability of the debtor participant to honour such transactions at the time of the settlement.
5. Net Debit Cap limit shall be assigned to each participant for transactions related to SGF backed products, corresponding to which the participant shall be restricted to transact above such limit.
6. The SGF shall be used to cover situations in case of failure to settle by any of the participant subscribed to the SGF backed products for the shortfall amount.
7. The SGF shall be invoked after having exhausted all available options including funding or unwinding of transactions from other systems that are not backed by SGF and operated by NCHL whose settlement will be done at the pre-defined time interval (including NCHL-ECC, NCHL-IPS, Others). i.e., Settlement of SGF backed products shall have the highest priority in case of failure to settle.
8. However, NCHL shall not be a counterparty of the transactions backed by SGF and for the losses arising from such transactions.

5. SGF backed Products Participant Management

5.1. Participant Prerequisites

Following shall be the eligibility criteria and the pre-requisites for participation in the SGF backed Products as a participant.

1. Shall be a member of the System that processes SGF backed transactions/Products, as per the prescribed procedure and/or criteria of the same System.
2. Participant shall have necessary arrangement for immediate credit to its beneficiary account for the SGF backed products. Immediate credit refers to beneficiary account credit as and when received as per the arrangement agreed with NCHL.
3. Participant shall agree to mandatorily contribute the prescribed minimum amount in the SGF and arrange for alternate guarantee mechanism as required.
4. Able to cover its liabilities and to pay its debts once they fall due, and not declared as insolvent in accordance with any Insolvency Act applicable to the participant.
5. Pay the applicable fees and charges to NCHL.
6. Shall agree to the terms of this Operating Procedure and any other criteria and/or conditions as may be prescribed by NRB/ NCHL.

All the participants who have agreed to subscribe for SGF backed products with NCHL shall be obliged to make contribution in the SGF.

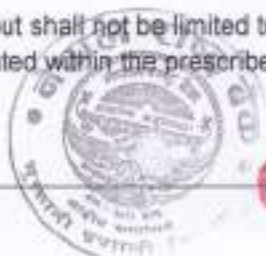
5.2. Participant Agreement

1. Each participant shall sign an agreement or amend the main agreement with NCHL to subscribe the SGF backed products.
2. The Indirect and Technical members of the System shall provide necessary consent through its Direct Member to subscribe for the SGF backed products and shall be included as the part of the Indirect and Technical member participant agreement or amendment of the main agreement. Such members may be required to contribute on SGF through its direct member BFI based on the bi-lateral arrangements between such members.
3. Participation in the SGF shall be effective from the Go-Live date of the member in the SGF backed system. Participant shall mandatorily contribute the prescribed minimum amount in the SGF and arrange for alternate guarantee mechanism as required. NCHL shall notify to all other concerned participants when new participant is added.

5.3. Participant Suspension

A participant shall be suspended for the following reasons but shall not be limited to:

1. Due to utilization of SGF until the utilized SGF is reinstated within the prescribed time.
2. License revoked or declared as problematic by NRB.



3. Participant declared insolvency or participant declared insolvent pursuant to prevailing Insolvency Act.
4. Suspended as per the prevailing Operating Rules of the System.
5. Fails to meet with the regulations stated in this Operating Procedure.

The suspension shall be immediately effective after being identified by NCHL or being informed to NCHL or as directed by NRB. The participant shall not be able to exchange and process any transaction further. However, all the transactions of the suspended participant already initiated by the debtor participant shall be deemed as accepted. Therefore, the suspended participant shall continue to be liable to NCHL and other participants in respect of all its outstanding obligations and liabilities.

5.4. Participant Resumption

In case of suspension due to the SGF utilization, the resumption shall be made after the reinstatement of the obligations and/or liabilities towards SGF including the penal charges. For other cases, the resumption may happen after the reason for suspension has been rectified.

5.5. Participant Withdrawal

Any member who intends to withdraw from the SGF participation as per its business decision must send an official request thirty (30) days in advance. After due verification of the request, NCHL shall withdraw the participant from the SGF and make repayment to the participant as per the terms of 'Repayment from SGF'. Once withdrawn, complete process of participation shall be necessary for re-participation.

5.6. Participant Termination

Termination of a participant shall be accomplished when decision for permanent removal is made. A participant shall be terminated by NCHL in case the participant is:

1. Terminated as per the Operating Rules of the main system.
2. License revoked by NRB or by any other statutory body authorized to do so.
3. Declared insolvent or participant declared insolvency or similar.
4. Withdrawal requested by the participant.

Such cessation due to termination shall be immediately effective from the day of such termination. All the transactions of the terminated participant already acknowledged by the crediting participants shall be deemed as accepted and the participant shall not be able to exchange and process any further transaction. However, the terminated participant shall continue to be liable to NCHL and other members in respect of all its outstanding obligations and liabilities. NCHL shall make the repayment to the participant as per the terms of 'Repayment from SGF'. Once terminated, complete process of participation shall be necessary for re-participation.

5.7. Participant Notification

Upon receipt of an official communication and the event executed, NCHL shall electronically notify to all the participants of any participant's suspension, withdrawal, termination or resumption.

6. SGF Computation

6.1. Computation Period and Frequency

1. The transaction data of SGF backed products for the last six (6) months shall be considered for the computation, which shall be defined as computation period.
2. Computation shall be done on every six (6) months based on the data extracted as per Nepali Fiscal Year, which shall be defined as computation frequency. Such computation shall be done and published by NCHL on the first business day of the next period.
3. The computation shall remain unchanged for next 6 months, except for the additional contribution by the participants.



6.2. Settlement Guarantee Fund Size

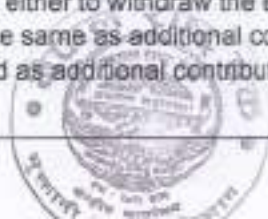
The corpus of the fund shall be adequate to meet the contingencies arising on account of failure of the largest participant, excluding the central bank (considering that there is no settlement risk from NRB). The SGF fund size shall be computed as follows:

1. The highest debit average NCP, during the computation period, shall be considered as the largest participant to be supported by the SGF.
2. 200% of the highest net debit NCP during the computation frequency, corresponding to support default of the largest participant for two (2) days, shall be considered as the minimum SGF fund size. The debit cap of the largest participant shall be adjusted in case the SGF size is less.
3. SGF size shall be sum of NCHL's contribution, and participants cash contribution (minimum and additional). However, Debit cap shall be computed based on the SGF size excluding additional contribution of the participant such that 50% of the liquid fund is only utilized in the case of SGF invocation.
4. However, depending on the SGF utilization pattern and the associated additional settlement risk, the buffer of 200% may be amended by NCHL on its contribution or on total, which shall be communicated to all participants. NCHL shall advise about the amendments if any to all participants.

6.3. Contribution to SGF

The SGF shall be established from the minimum contribution of the participants and limited contribution of NCHL and any other arrangements by NCHL/ NRB. Following shall be considered for the contribution to SGF:

1. NCHL shall contribute an initial corpus amount in the SGF through its own source or through any other alternate source. NCHL shall also contribute specified percentage of the transaction fees (net of taxes) collected from the SGF backed products for defined number of years. Contribution will also be made in the form of penal interest collected from suspended/defaulting participant. Such contributions by NCHL shall be published/ informed to all the participants in advance and included in the detailed SGF computation as NCHL's contribution in SGF.
2. NCHL's contribution shall be used to assign debit cap to the participants based on the internal risk assessment by NCHL during the computation period. NCHL shall establish a separate internal process to quantify a risk factor of the participants to utilize NCHL's contribution. Such risk factor shall be computed based on the financial indicators, SGF utilization history, number of outward transactions by the participants and as internally prescribed by NCHL.
3. Any change in the contribution of NCHL due to loss from any defaulting participant or any other reason shall be informed to all participant on the event of occurrence.
4. The participant shall contribute the minimum prescribed cash contribution in the SGF. The minimum contribution by each participant shall be prescribed by NCHL from time to time.
5. Participant may increase its contribution by addition of cash contribution or guarantee or other arrangement as allowed by NRB as per its requirements, corresponding to which its debit cap will be adjusted. However, debit cap corresponding to guarantee shall be limited to the total SGF fund (minus hair-cut). And the value at risk for participant shall be limited to the fund contributed and the guarantee provided by them in SGF.
6. The SGF contribution with corresponding debit caps shall be computed and published by NCHL on each computation frequency. NCHL shall notify the participants regarding the SGF calculation, contribution and debit cap.
7. In case, the participant does not contribute in the SGF, NCHL shall apply additional hair-cut on NCHL's contribution (as prescribed) to revise the net debit Cap for such participant and advise accordingly.
8. The participant shall be allowed to add adhoc cash contribution to handle it seasonal peak requirements (eg. arrangements for weekend or long holiday).
9. In case the contribution already made by the participant is in excess or participant intends to reduce such contribution, then the participant shall have option either to withdraw the excess contribution as per the terms of 'Repayment from SGF' or to include the same as additional contribution to increase the net debit cap limit. By default, it shall be considered as additional contribution and the debit cap shall be assigned accordingly.



10. Since SGF fund shall be placed at NRB as separate account and if the fund size considerably increases, NCHL shall make necessary consultations with NRB in favor of the participants to include BFI's contribution in SGF for regulatory balance or any alternate arrangements.

6.4. First Time Computation of Debit Cap and Contribution to SGF

For the 1st time computation of Debit Cap and Contribution to SGF, following shall be considered. This shall be used for at least one (1) month from the date of this operating procedure implementation, after which the computation and other details shall be reviewed as per this operating procedure and advised by NCHL for implementation.

1. NCHL shall fix a debit cap for each participant based on NCHL's contribution on SGF after internal risk assessment of participant during the computation period.
2. Participant's minimum contribution shall be called to be provided within next computation frequency and if not contributed, hair-cut related to non-contribution shall be applied.
3. However, participants shall be allowed for additional contribution that will change the debit cap equal to the amount of contribution. Additional Debit cap of the participants shall be equal to the total contribution of participant.

6.5. Mode of Contribution to SGF

1. The contribution of the Participants in the form of cash deposit/ transfer shall be deposited (including minimum, additional contribution or in any other cases) to the designated SGF account of NCHL held at NRB in the mode as prescribed by NCHL.
2. NCHL shall deposit its contribution in the form of cash deposit/ transfer to the designated SGF account of NCHL held at NRB.
3. Participant may provide guarantee in favour of NCHL for additional contribution to be reflected on its debit cap.

6.6. Repayment from SGF to the Participant

A participant shall be entitled for repayment/ refund from the SGF in the following cases up to the extent of its contribution after receiving an official request and having cleared all its obligations and liabilities.

6.6.1. Participant Withdrawal

In case a participant withdraws from participating in the SGF backed products, as per its business decision, in line with the participant withdrawal procedure, NCHL shall process such request for repayment. After due verification of the request, NCHL shall transfer the amount from the SGF up to the extent of its contribution after deducting its liabilities, if any, to the participant's designated account. The decision for such repayment shall be made by NCHL within Seven (7) business days from the receipt of the request from the participant.

In case of implementation of alternate guarantee mechanism, a withdrawal/release request is received from participant, NCHL shall release such guarantee only after ensuring that all liabilities of the participant is cleared in relation to SGF backed products.

6.6.2. Participant's Call for Excess Amount

Participant may formally request for repayment of the excess contribution or reduce its contribution based on which its debit cap shall be readjusted. The decision for payment shall be made by NCHL within Seven (7) business days, from the receipt of the request from the participant. NCHL shall process such request for repayment after due verification and shall transfer the excess amount from the SGF to the participant's designated account.

In case of implementation of alternate guarantee mechanism, a release request is received from participant to be changed with lower value guarantee, NCHL shall release requested guarantee only after ensuring that the contribution portion as prescribed for the participant as per this operating procedure is covered with the lower value guarantee provided by the Participant or debit cap readjusted.



6.6.3. Participant Termination

In case a participant is terminated from the SGF backed products, in line with the participant termination procedure, the participant shall be entitled for repayment of its contribution from the SGF up to the extent of its contribution after having cleared all its obligations and liabilities at the end of the SGF computation frequency, such that it will be excluded in the next computation. NCHL shall transfer the repayment amount from the SGF to the participant's designated account within Seven (7) business days from the termination of the participant.

In case of implementation of alternate guarantee mechanism, NCHL shall release such guarantee only after ensuring that all obligations and liabilities of the Participants are cleared with relation to SGF backed products.

6.7. Repayment/Return from SGF to NCHL

In case the SGF fund is not needed in the future due to any alternate guaranteeing mechanism, NCHL shall be entitled for withdrawal of fund from the SGF to the extent of its contribution. Contribution of NCHL includes initial corpus amount, specified percentage of the transaction fees, penal interests and any other sources being contributed.

7. Debit Cap Computation

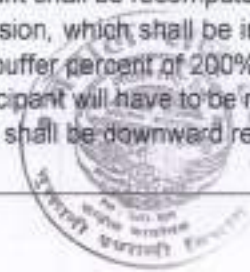
7.1. Debit Caps of Participants

A Debit Cap refers to the maximum net amount limit to the debiting participants for the settlement position in the system per clearing session.

1. Debit cap shall be computed at the computation frequency based on the data during the computation period.
2. Buffer percent from the SGF fund shall not be considered for the computation of debit cap for each participant.
3. Debit Cap for each participant shall be computed on the basis of
 - Participant's minimum mandatory contribution
 - Contribution of NCHL (its own or any other alternate source) based on the risk assessment for each participant (not exceeding 50% of NCHL's contribution in SGF for each participant).
 - Alternate Guarantee mechanism provided by the participant. (In case Bank Guarantee is provided, NCHL shall ensure that Bank Guarantee of a participant does not exceed 50% of the SGF fund at NRB)
4. Debit Cap for a participant =

$$\begin{aligned} & [\text{NCHL's Contribution} \times 50\% \text{ as Maximum Exposure} \times \text{Participant's Risk Factor}] + \\ & [\text{Participant's Minimum Contribution}] + \\ & [\text{Participant's Additional Contribution}] + \\ & [\text{Alternate Guarantee} *] \end{aligned}$$

** Alternate Guarantee shall be limited to 50% of total SGF Fund*
5. Debit cap assigned from NCHL contribution shall remain unchanged during the computation frequency. However, the participants shall be allowed to update their additional contribution and/or guarantee that will change the debit cap equal to the amount of contribution.
6. Debit cap shall be defined in the system for each participant for the SGF backed products, which will be validated by the system for every transaction in the session. Debit transactions in SGF backed products for a participant will be restricted once the debit cap is exhausted.
7. The system shall have provision to monitor the debit cap limit utilized by the participants.
8. If a participant fails to meet its obligations and SGF is utilized, based on the portion of loss attributed from NCHL's contribution, the debit cap limit of all participant shall be recomputed on the basis of the outstanding SGF with effect from the immediate next session, which shall be informed by NCHL to all the participants. In such case, in order to maintain the buffer percent of 200% to support failure of largest participant, minimum cash contribution by the participant will have to be revised and called by NCHL on the event of occurrence, until then the debit cap shall be downward revised.



9. In case of addition of new participant before the next computation frequency, debit cap shall be allocated based on the minimum cash contribution, NCHL's contribution and bank guarantee provided by the participant.

7.2. Debit Cap Reset

The utilized debit cap of each participant shall be released and reset after the settlement of each session dedicated for SGF backed products is completed. There shall not be overlapping of the sessions dedicated for SGF backed products. There shall be at least two (2) settlements for such dedicated sessions of SGF backed products. However, it may be increased up to the allowed number of settlements for NCHL.

8. SGF Invocation

When a participant is unable to settle its position for the transactions of SGF backed products, SGF shall be invoked, corresponding to which the SGF contribution of the defaulting participants shall be used first and the deficit shall be covered from the remaining balance of the SGF to the extent of deficit amount. Hence, the loss arising out of liabilities of invocation of SGF shall be distributed among the defaulting participant and NCHL. SGF shall be invoked in the following situations.

8.1. Failure to Meet Obligations

Whenever a participant fails to meet its settlement obligations arising out of its clearing and settlement operations of transactions backed by SGF for any particular settlement session, due to whatsoever reason, NCHL shall make necessary arrangement to immediately notify such participant of failure to meet obligation after having exhausted all available options including funding or unwinding of transactions from other systems and then SGF shall be invoked for the deficit amount as the last resort in the following order:

- Utilize 100% contribution of such participant.
- Utilize 100% contribution of NCHL's allocated to such participant up to the deficit obligations.
- Utilize contribution of the remaining participants (The contribution of other remaining participants shall be reinstated if the defaulting participant's is declared defaulter and alternate guarantee is invoked such that there is no value at risk for remaining participant).

Participant failing to meet obligation shall be suspended immediately from the succeeding session until the fund utilized is reinstated with the applicable penal charge within three (3) business days.

8.2. Declaration of Default

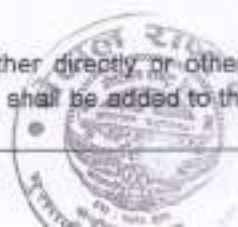
Cases of declaration of defaulter of any participant shall be as follows:

- Failure to reinstate the fund utilized within the specified time of three (3) business days.
- Admits of its inability to fulfill its liabilities related to settlement.
- Any other situations resulting into default by the participant.

When a participant is declared a defaulter, due to whatsoever reason, it shall be suspended immediately and NCHL shall inform other participants of the case. The additional penal charge shall continue until the fund is reinstated or the case is resolved. In case of loss arising from the obligation of the defaulter participant for the transactions backed by SGF, besides fund and bank guarantee of the participant, NCHL shall share the loss from its contribution in the SGF. The loss sharing of the defaulter participant's deficit obligations shall be in the following order and defined as loss arrangement.

- Utilize 100% contribution of such defaulting participant.
- Invoke Alternate Guarantee of the defaulting participant.
- Utilize 50% contribution of NCHL's portion to such defaulting participant up to the deficit obligations from its own source or alternate.

In case of recovery from the defaulter participant, whether directly or otherwise, the net amount of recovery including penal charge (net of applicable taxes), shall be added to the contribution of NCHL in



the SGF fund. Any litigation and/or other administrative cost for such recovery shall be deducted from the recovered amount prior to addition to NCHL's contribution in SGF.

8.3. Penalties for Utilization of SGF

If a participant utilizes the SGF for the deficit amount at the time of settlement, then the following restriction and/or penal charges shall be applicable:

1. Participant failing to meet its obligation thereby utilizing SGF shall be suspended immediately from the succeeding session until the utilized fund and penal charges are reinstated.
2. Penal charge of 2.5% per month effective from the day of utilization on the deficit amount excluding participant's own contribution shall be applied. The penal charge shall continue to be charged until the fund and penal charge are reinstated within three (3) business days.
3. If the fund is not reinstated within three (3) business days, then the participant shall be declared as defaulter, thereby activating the loss arrangement. However, such participant shall be liable for all its liabilities arising out of its previous transactions and for reinstating the SGF fund. Penal charge of 3% per month from the fourth business day on the utilized amount (excluding participant's own contribution and bank guarantee) shall be applied until the fund including penal charge is reinstated.
4. However, in case of the defaulting participant is restricted by NRB and/or other regulator (e.g. participant declared as Prompt Corrective Action – PCA), the penal charges shall be waived.
5. In case of reinstatement and/or recovery, the penal charge (net of applicable taxes) shall be credited to the SGF as NCHL's contribution, based on the proportion of the loss charged.
6. In case of non-payment of the utilized SGF by the defaulting participant, NCHL will coordinate with NRB for the settlement of such amount from any of the accounts of such participant maintained at NRB.

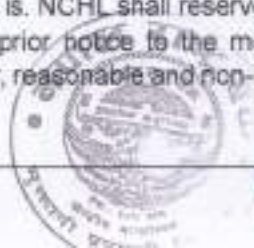
9. Management of SGF

9.1. SGF Administration

1. SGF shall be administered and managed by NCHL. However, the fund shall be placed at NCHL's special SGF account maintained at NRB. Details of the transactions in the SGF account shall be maintained by NCHL and shall be auditable.
2. SGF fund shall be used only for the intended purpose as the last resort for settlement unless specifically mentioned under this Operating Procedure.
3. In case of SGF utilization required at the time of settlement, then NCHL shall coordinate with NRB's settlement unit for transfer of fund from SGF account to the defaulting participant's settlement account.
4. Based on the utilization history of the fund and as approved by NRB, the SGF fund could be invested by NCHL in highly liquid and secured instruments like Treasury Bills, Government Bonds, etc., after taking approval from related department of NRB and provided a mechanism (collateral backed funding and/or similar arrangement), is in place for immediate liquidation of such instruments when needed for SGF utilization.
5. The income from the SGF including penal charges, interest income (if invested) and others shall be distributed proportionately among the participants and NCHL based on the proportion of contribution made. It shall be initially included as additional contribution to the participants.
6. Alternate guarantee mechanism required for Debit Cap allocation will be coordinated by NCHL with NRB in the form of cash collateral or in the form of Bank Guarantee or in the form of intraday liquidity facility (NRB's arrangement for sufficiency of liquidity for settlement process). Unless other arrangements are implemented/ approved, bank guarantee shall be used as alternate guarantee mechanism.

9.2. Fees and Charges of SGF backed Products

Pre-requisites of participation in the SGF backed products is that Bank has to be a member of the System and all other fees and charges of that system will remain as is. NCHL shall reserve the rights to define or modify the fees and charges at any time with 15 days' prior notice to the members. However, the applicable fees, charges and penalties shall be fixed in a fair, reasonable and non-discriminatory manner.



9.2.1. Transaction Fee

1. Participant shall pay transaction fees on each transaction, corresponding to which the fees liability could be on debtor participant or creditor participant.
2. Transaction fee shall be on a revenue sharing basis between NCHL, Debtor participant (ODFI) and Creditor participant (RDFI). Hence, the participants shall ensure that their customers/ creditors are not over charged for transaction fee other than as published/ agreed with NCHL or as per the prevailing NRB directive.
3. NCHL shall circulate the transaction fees structure including the sharing basis based on the products and/ or the creditor of the transaction as and when they are activated in the system.

9.2.2. Other Charges

NRB and/or NCHL may define Other Charges/ Penalties on:

- Customer complaints such as delayed sending of payment instruction and delayed customer account credit.
- Member complaints such as Incorrect Rejection Reason.

10. SGF Reports

1. NCHL shall publish the detailed SGF computation including debit caps of all the participants and other contributions on the specified dates and on every computation frequency.
2. Mode of such publication shall be through Helpdesk Support portal and/or any other appropriate communication medium to the Authorized Contact of the participants.
3. Participants shall be able to view the current debit cap and its utilization from the system.

11. Dispute Management

1. NCHL shall not have any duty to determine the legality, validity or enforceability of any transaction of the SGF backed products in the system or to determine whether any such transaction is contractually void or voidable. NCHL shall be entitled to regard all transaction(s) executed under the system as legal, valid and enforceable.
2. NCHL can determine and enforce the SLA for any delays in transaction posting/reversal for special cases including exception handling and/or technical failures.
3. NRB shall be the final authority to interpret this Operating Procedure.
4. In the event of the dispute between NCHL and the member(s), which the parties are unable to resolve amicably, the matter shall be referred to a final and binding arbitration.
5. In the event of dispute or differences arising between the members and if the parties are unable to resolve amicably, the matter shall be referred to NCHL for formation of the Arbitration Tribunal and NCHL shall be responsible to appoint an independent sole Arbitrator and same shall be immediately notified to the disputed parties. The arbitration proceedings shall be conducted in Kathmandu in accordance with the provisions of the Arbitration Act, 2056 of Nepal, and enactments / modifications, if any, thereof. The Arbitration decision shall be final and binding upon all the parties. The cost of the arbitration shall be equally borne by the disputed parties.

12. Obligations

12.1. Indemnity

1. Participants shall indemnify and hold harmless NCHL, its directors, officers, and employees from all liabilities or expenses (including but not limited to reasonable attorney fees and costs of investigation and defense) resulting from: (i) any business loss due to breach of the terms of this Operating Procedure; (ii) any violation of any statute, ordinance, or regulation; (iii) any act or omission constituting negligence or willful misconduct or breach of fiduciary duty in connection with NCHL performance or services. Participant hereby represents and warrants that in the event any suits, claims, disputes or such differences are brought directly against NCHL with respect to SGF, as a consequence of breach of the terms and conditions of this Operating Procedures. Participants shall at its sole cost assist NCHL in defending such suits, claims, disputes or differences.; (iv) In the event that NCHL becomes aware of any obligations, representation or warranty of participants as being



false or misleading, the Participants shall be liable to indemnify NCHL for any such injury, loss or damage arising out of such misrepresentation. For clarity, the participants shall only be liable for actions that originated from participants or any third party acting on its behalf and participants will not be liable for issues arising solely and independently from NCHL.

2. Participants hereby represents and warrants that in the event any suits, claims, disputes or such differences are brought directly against NCHL or any third party with respect to the SGF, as a consequence of breach of the terms and conditions of this Operating Procedure, participants shall at its sole cost assist NCHL in defending such suits, claims, disputes or differences. In the event that after the effective date, NCHL becomes aware of any obligations, representation or warranty of participant as being false or misleading, participant shall be liable to indemnify NCHL for any such injury, loss or damage arising out of such misrepresentation.

12.2. Confidentiality

Participant shall use all reasonable endeavors to ensure that all information relating to SGF, which is not in the public domain to be treated as confidential and not be disclosed to anyone except with the prior written consent of NRB and NCHL and except as may be required by Law or by any Government Authority. Nothing in this clause shall however prevent any of the parties from disclosing any of the information to their agents and representatives or attorneys provided that such disclosure is on a need to know basis and for the purpose of the normal functioning of the normal business activities. All information provided by each participant regarding SGF process shall not be used to secure a commercial advantage over the other.

12.3. Force Majeure

NCHL shall promptly notify the NRB and participants in writing or an appropriate channel of any situation or of the occurrence of any event beyond the control of the NCHL, which makes it impossible for the NCHL to carry out its services. NCHL shall not be liable for any delay in meeting or for failure to provide its services under the Operating Rules or the Operating Procedure of the system/s due to any cause outside its reasonable control.

