



Agency Banks Proposition

Indirect access to the Image Clearing System (ICS)

Unrestricted

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Indirect access to the Image Clearing System (ICS) for agency banks

This guide describes how Barclays will support those banks that wish to participate on an indirect basis in the ICS, with Barclays providing connectivity and industry settlement. The Cheque and Credit Clearing Company (C&CCC) have published details and requirements for direct participation and the other options available. All agency banks are required to inform C&CCC whether they intend to participate directly by 1 April 2016.

Section one

Introduction

Cheques have been circulating in the UK for over 350 years; four billion cheques were processed in 1990, at the height of their popularity.

Although the volume of processed cheques has fallen to around 650 million, the physical movement of all of these cheques around the UK has significant financial and environmental costs, as well as slow clearing times.

C&CCC is making changes to the UK cheque clearing scheme and, consequently, the ICS will be introduced in 2017. Barclays supports this change and has worked closely with C&CCC to ensure that the new system provides improvements for customers and can be accessed by all banks, including our agency bank clients.

The existing paper-based clearing system will be withdrawn and so this change will affect all UK banks. In this guide, we explain what the changes will be and how Barclays can support you in making this transition.

Section two

Industry overview

The most significant change for the end users of cheques is that funds will be cleared and debited to their accounts quicker than they are currently. Customers will continue to write and receive cheques in the same manner that they do today.

These cheques will of course need to be cleared and customers will therefore continue to deposit them at bank branches, through the post and via lockbox facilities. However, the process that supports cheque clearing will undergo a complete overhaul.

Once deposited by the customer, the collecting bank must create an image of the cheque; the physical counterpart will no longer form part of the clearing process. In some instances, banks may allow their customers to image the cheques themselves by using either scanners or smartphones.

C&CCC are designing the ICS to accommodate a range of options for banks:

- Connectivity may be direct to the system, or via a direct participant in the scheme, such as a settlement participant or via a third party provider
- Settlement can be via your own account at the Bank of England or via another party that has an account at the Bank of England, such as an existing settlement bank.

These two activities are not linked together; the party that provides connectivity can be different from the party that provides industry settlement.

This guide describes how Barclays will support those banks that wish to participate on an indirect basis, with Barclays providing connectivity and industry settlement. If you would like more information on the other options available, please feel free to contact us or C&CCC directly.

The current seven (T+6) working day clearing cycle will be reduced to a next working day clearing service.

- The image and associated data will be captured by the collecting bank on day one
- The image and data will be exchanged via the industry's new Image Clearing System (ICS)
- The paying bank must make a pay/no pay decision on day two
- The pay/no pay response message will be delivered to the beneficiary bank on day two. Banks must make funds available on paid cheques on day two, prior to 23:59.

Overview

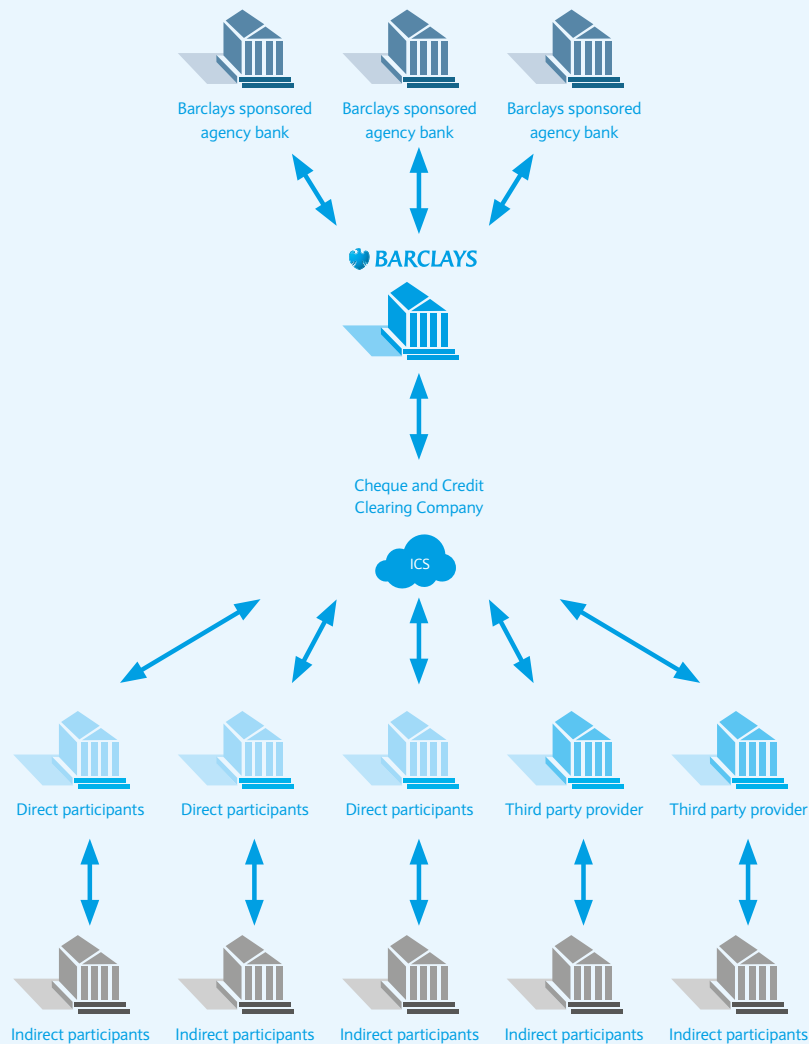


Diagram 1

Section three

Indirect participation via Barclays – overview

Barclays will support both out-clearing and in-clearing on an indirect basis.

Debit out-clearing – agency banks will submit to us images and data related to any “eligible items”. We will validate them and then forward these onto the ICS on the day of deposit and provide you with the pay/no pay responses on the following day in order to enable you to update your customers’ accounts with available funds.

The ICS allows participants to mix and match between direct and indirect participation for in-clearing and out-clearing. You could decide to connect directly for in-clearing and indirectly for out-clearing or vice versa.

Debit out-clearing

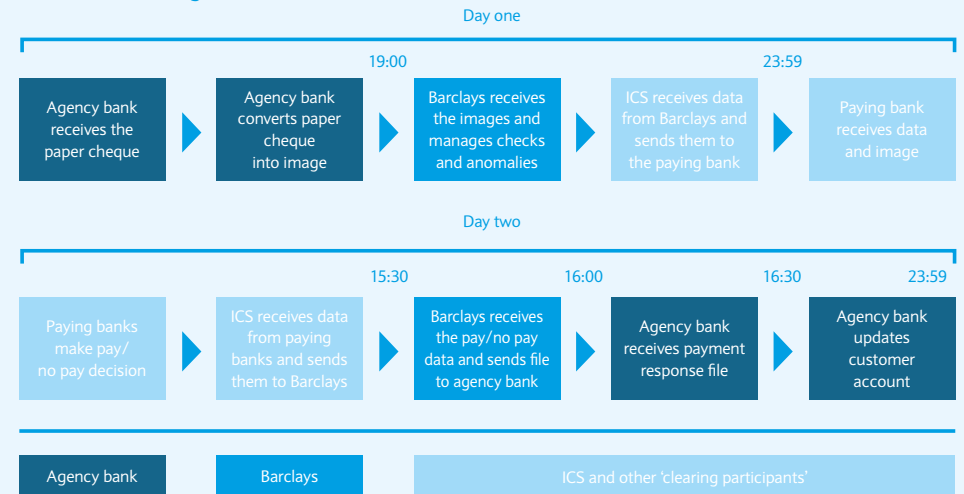
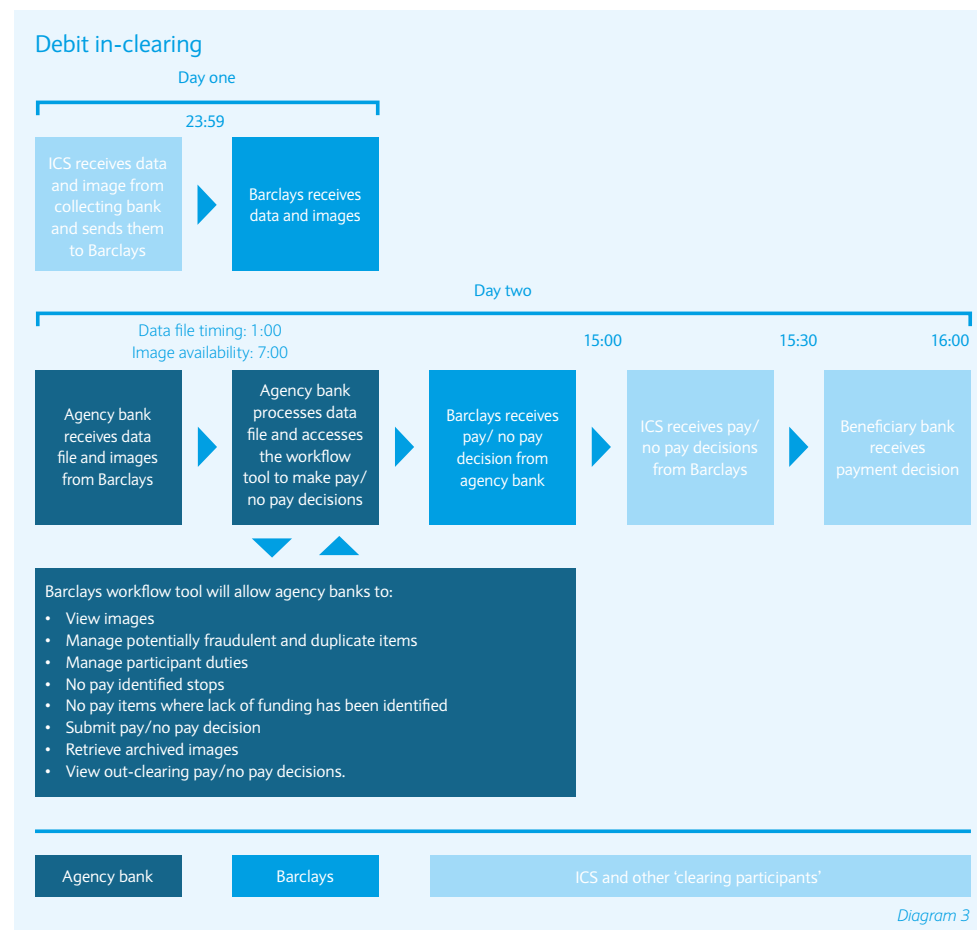


Diagram 2

Debit in-clearing – we will provide you with the data files of your in-clearing for upload into your systems and will also make available the images of the cheques to be paid via an online work-flow tool called “Agency Pay”. Once you have made your pay/no pay decisions, we will return these messages to the beneficiary bank via the ICS. The ICS requires all pay/no pay decisions to be communicated to them by 15:30.



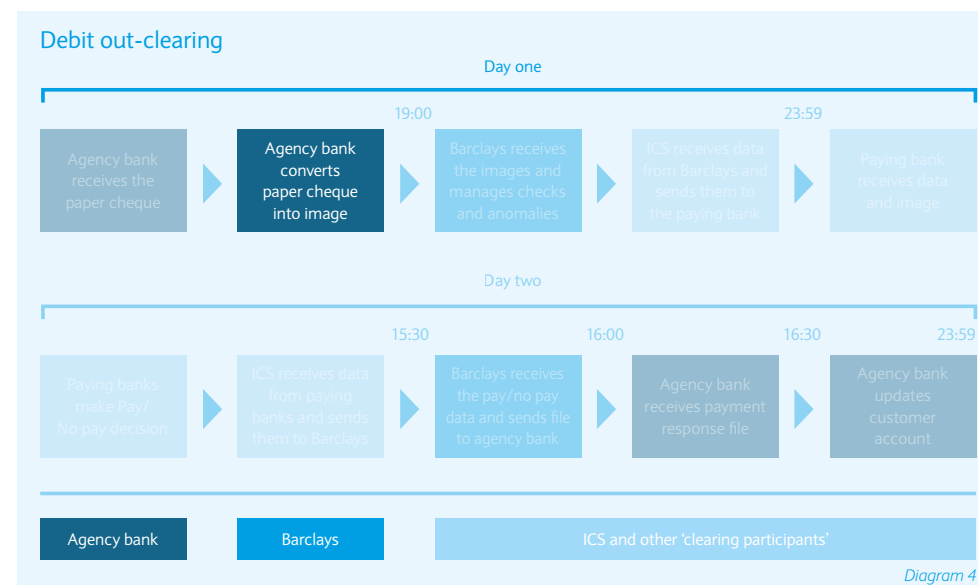
Other services that will be incorporated into the system include:

- Credit in-clearing
- Fraud detection
- Checks on participant (bankers) duties
- Access to images.

Section four

Barclays indirect participation – debit out-clearing
(cheques collected by you on behalf of your customers)

Remote cheque imaging



Once your customer has deposited the cheque with you, the first step in the process is to capture an image of the cheque and its associated data. Barclays will offer its own imaging solution for use by agency banks – you may also elect to use your own solution. Optical character recognition will record the associated cheque data.

The Barclays solution can be accessed on a stand-alone, internet-enabled PC. It is simple to implement and does not require integration with your main systems.

Once you have added the beneficiary account details (sort code and account number) and confirmed that the deposit balances, the service will deliver the images and the data to Barclays by 19:00 for onward transmission to the ICS on the same day.

Beneficiary account details data

This is provided so that it can be included in the pay/no pay response data received on day two from the paying bank, enabling you to reconcile those decisions to the cheques collected.

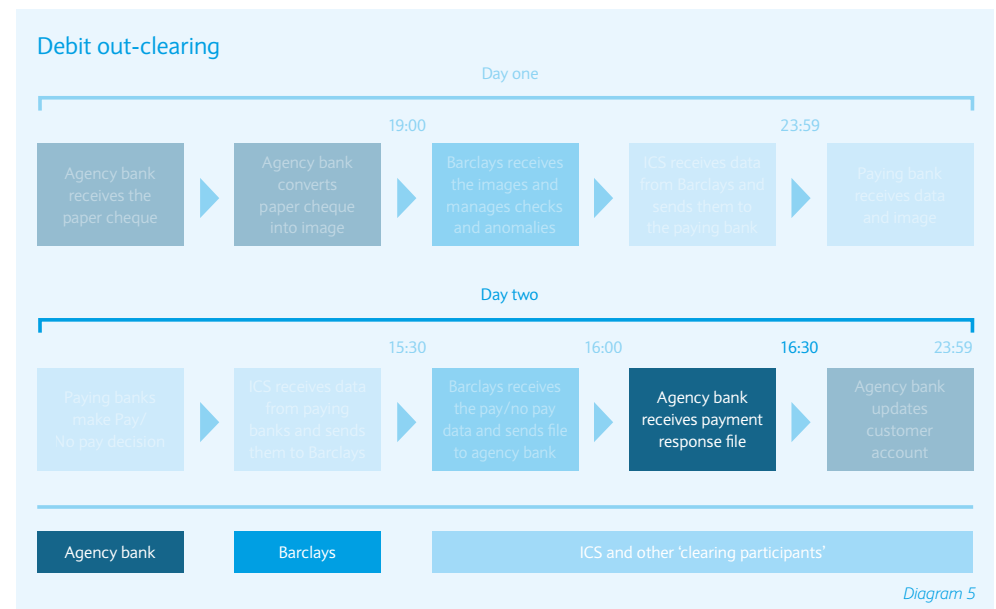
This will also be used to assist with fraud detection by linking the beneficiary and payer's details within the fraud detection systems.

If the same payment is made to the same beneficiary at a later date, the system will identify this as a "known relationship" and therefore apply an appropriate risk assessment.

Agency banks that already have an existing image solution or have more complex requirements may send their images and data to us for onward transmission to the ICS.

Agency banks can offer remote cheque scanning or smartphone solutions to their own customers. Customers will capture the image and associated data and send this to you for onward transmission to us. Please bear in mind that if you want to offer this service to your customers, you will not have sight of the cheque and you may therefore wish to consider appropriate risk profiles and thresholds.

Payment response file



A fundamental change in the new ICS is that a pay/no pay decision must be given for each item that is presented for clearing. This differs from the current scheme, where collecting banks are only advised of no pay decisions.

Paying banks will make pay/no pay decisions until 15:30 on day two which will in turn be processed by the ICS and routed to the beneficiary bank by 16:00. We will provide a data file to you by 16:30 for those decisions where you are the beneficiary bank, enabling you to update your customers' accounts. We will also provide intraday files of pay/no pay decisions for those banks that wish to update their customers' accounts during day two. All banks must make funds available on paid cheques to their customers by 23:59 on day two.

It is estimated that more than half of the cheques processed via the current UK clearing scheme are for less than £100. There is therefore an expectation that most banks will be able to make pay/no pay decisions relatively early on day two.

We will also display the status of each cheque (paid/not paid/pending) via a web service as we receive each paying bank payment decision.

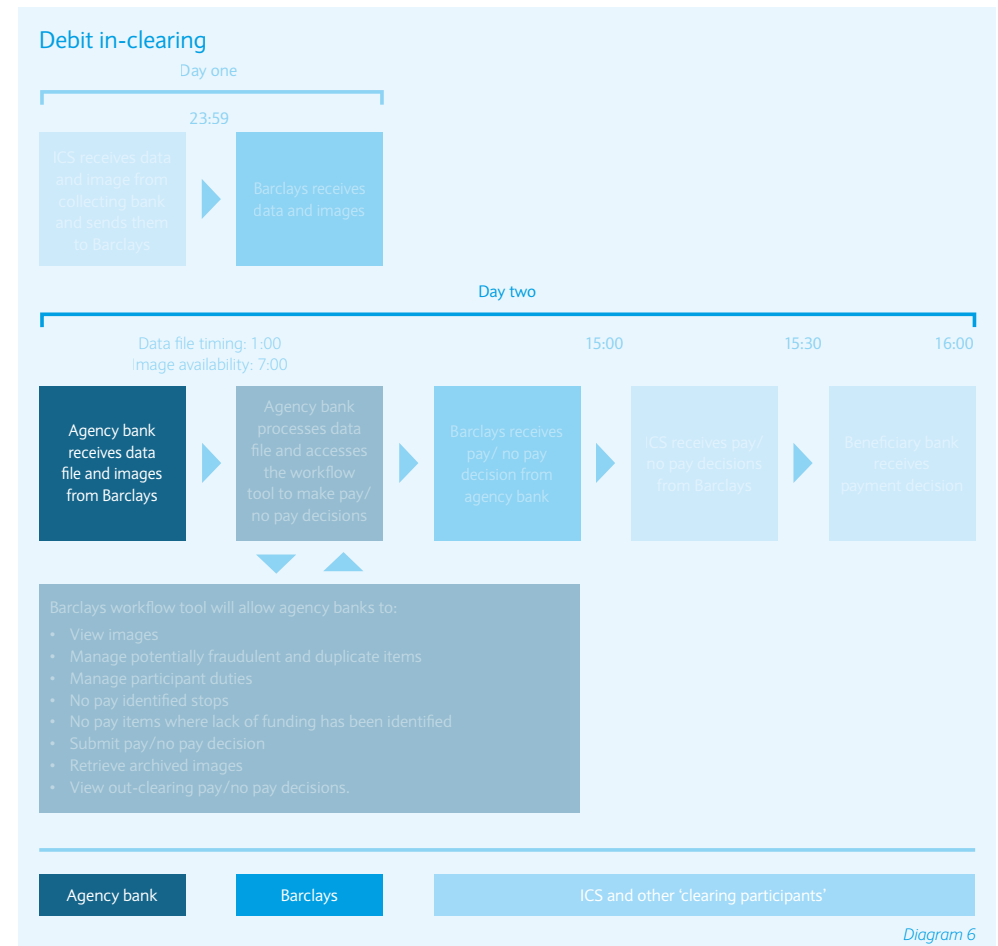
Settlement

We will credit your account on day one, at the point of deposit, with “unavailable” funds. On day two, we will change the status of each deposit from “unavailable” to “available” for paid cheques, having debited back any unpaid items prior to making the balance “available”.

Section five

Barclays indirect participation – debit in-clearing (cheques drawn on your sort codes)

Debit in-clearing data file



Cheques will be submitted to the ICS up to 23:59 on day one. We will deliver a data file detailing each of the cheques that have been drawn on your sort code by 01:00 on the morning of day two.

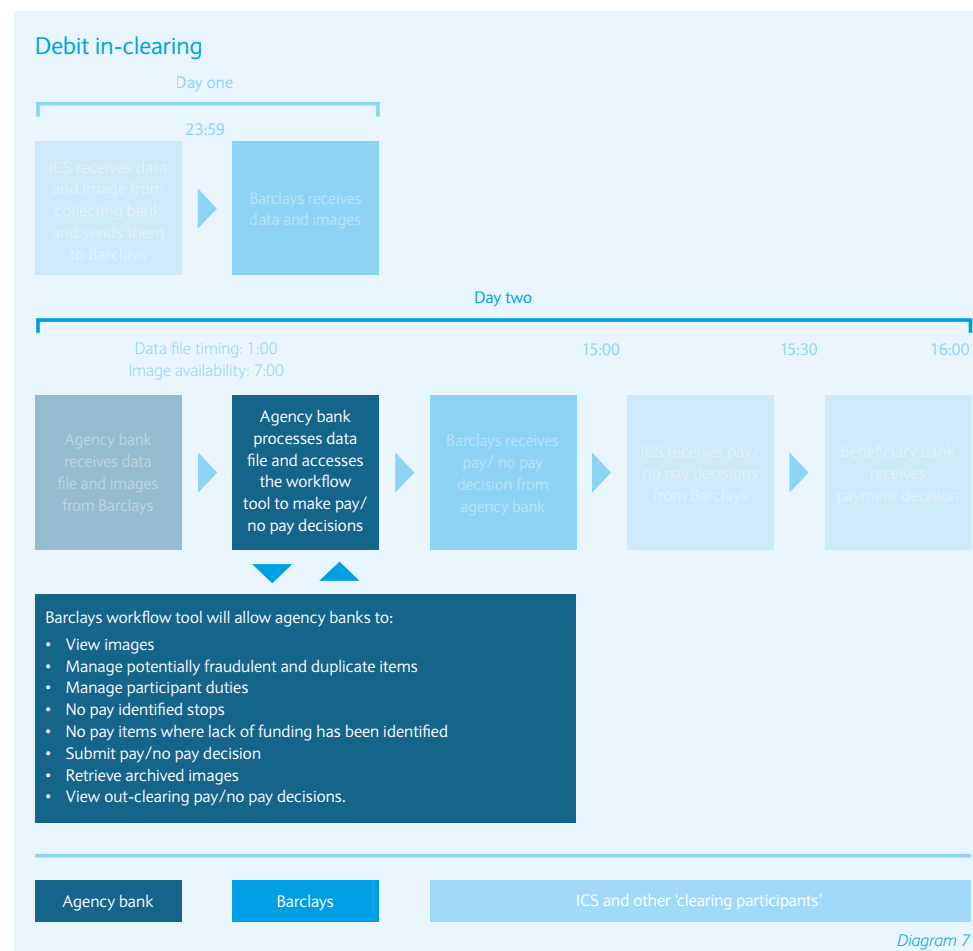
Banks wishing to minimise the scale of change may continue to use our current Direct Data service with no change of format. However, please bear in mind that the timing of the receipt of this file will change and it will not contain all of the data that will be supplied by the ICS.

Barclays will also supply data using the industry standard formats. This will contain the additional data supplied by the ICS.

Viewing images via Agency Pay

Images of your clearing will be made available to you before the start of the working day via our internet-based Agency Pay service. You will be able to sort and filter the list of cheques for each day's clearing using various criteria e.g. the amount, sort code, account number, serial number etc. We will also pass your cheques through our system (Kappa) to identify potentially fraudulent, duplicate and cheques. Cheques that require closer scrutiny after these checks will be flagged accordingly. Historic images will also be available online.

Workflow



Agency Pay will include a workflow tool that will enable you to mark each cheque as either 'pay' or 'no pay', alongside a return reason. The key activities undertaken by paying banks in order to make a pay/no pay decision can be broken down into four areas:

- Identifying stopped cheques
- Fraud and duplicate checking
- Participant duties (formerly bankers duties)
- Funds checking.

Kappa is an automated fraud detection system used by Barclays. Kappa creates profiles at an account level, based on the features of the cheques that it reviews and the way that customers complete them. Subsequent cheques are compared to the profile and any anomalies are flagged for closer inspection. We will share the output from our Kappa system with you.

Whilst Kappa has very high rates of fraud detection, the liability for any fraudulent cheques not detected by the Kappa system will remain with you in accordance with the scheme rules.

Stopped cheques

While you still need to maintain your existing stops database and processes, the search and filtering functionality will enable you to locate cheques quickly and efficiently so that you can return any cheques that have been stopped.

Fraud checking (Kappa) and duplicate checking

We will pass each cheque through our fraud detection system, Kappa, and flag each cheque that requires closer inspection. We will also flag potential duplicate items.

Funds availability

You will be able to quickly locate cheques where you want to 'no pay' them for lack of funds, or retry paying them later in the day. Simply use the filtering functionality and mark each one accordingly.

For each of these activities, you may mark cheques as:

- Pay
- No pay (with return reason)
- Pending.

Throughout the day, you will be able to submit your pay and no pay decisions to us for onward transmission to the ICS and the beneficiary bank. Any cheque that has a 'pending' marker will remain in your work queue until the specified cut-off time. At this point, a default pay/no pay decision will be applied.

Default pay/no pay

You will be able choose a default decision that should be applied in the event that you have not submitted your pay/no pay decisions by 15:00.

The ICS requires all banks to have delivered their pay/no pay decisions by 15:30, after which a default pay/no pay decision will be applied to all outstanding cheques*.

A default pay decision means that you run the risk of paying cheques that you did not intend to pay⁺. A default 'no pay' decision means that the outstanding cheques will not be paid, causing potential detriment to your customers. It is therefore essential that your internal processes have been completed in time.

* Decisions may be delayed for certain additional bank holidays in Northern Ireland.

⁺ The default pay decision will be subject to sufficient available funds on your Nostro.

We have been passing cheques through our Kappa system for agency banks since November 2014. As a result, we have already established the required profiles and have reported high rates of fraud detection for our participating agency banks.

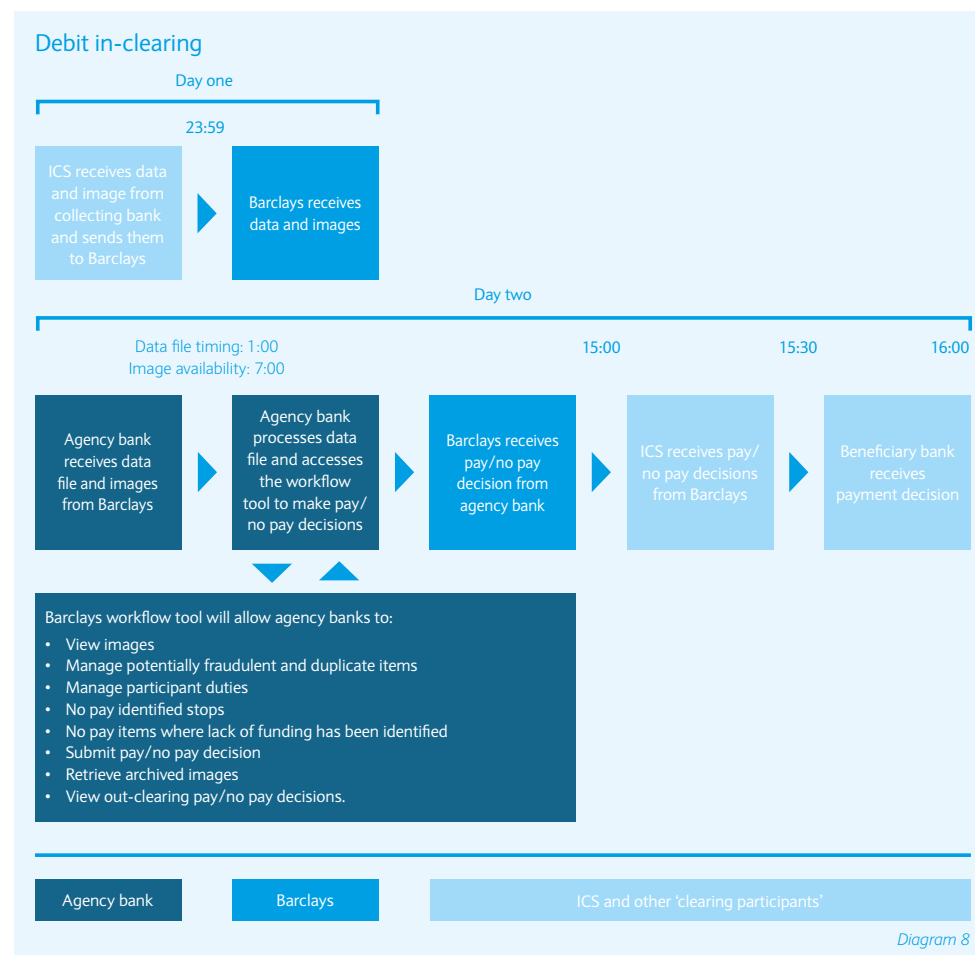
Participant duties

We will pass each cheque through our participant duties checking system, which will check that:

- Words and figures match
- Signatures are present
- Dates are present
- Payee names are present.

Cheques will be flagged where closer inspection is required. To reduce the number of cheques that need to be reviewed, the filtering functionality will enable you to sort by amount so that you can simply review the higher value items.

Settlement



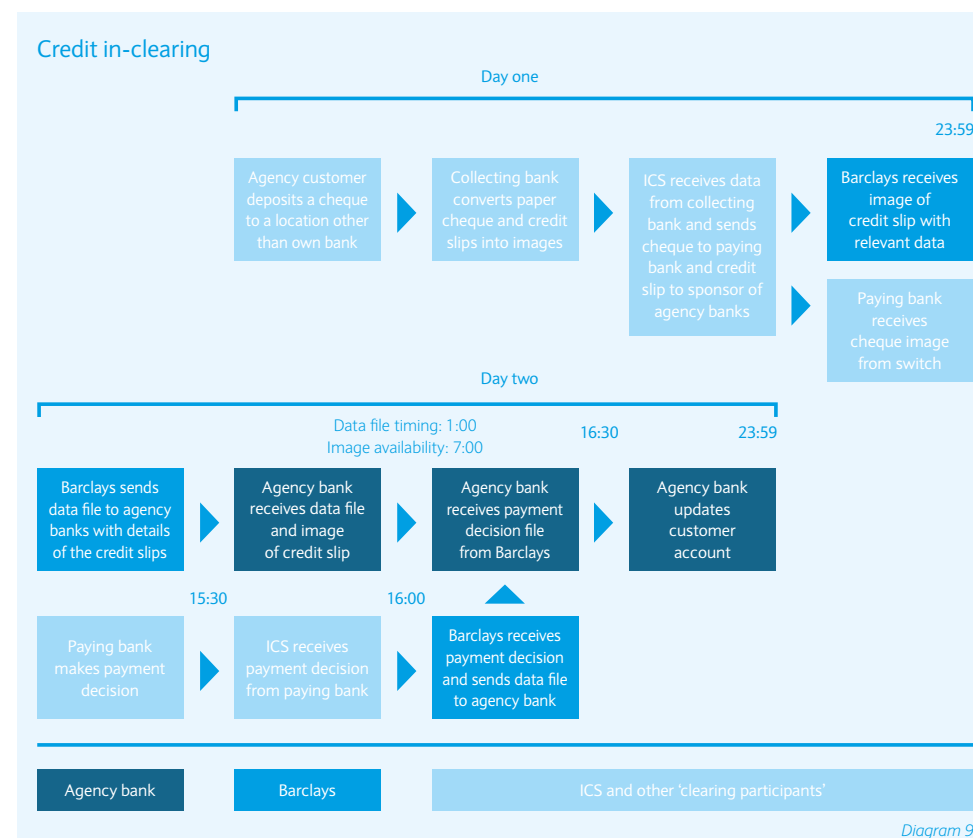
We will debit your Nostro for the value of you debit in-clearing and will forward the pay/no pay decisions to the ICS for onward transmission to the beneficiary bank.

Section six

Credit in-clearing

(cheques deposited by your customers at locations other than your own)

Credit in-clearing data file



Cheques will be deposited into the ICS up to 23:59 on day one, together with a bank giro credit containing your customer account details. We will deliver a data file detailing each of the credits where your customer is the beneficiary by 01:00 on day two. This file will also include details of the cash deposited.

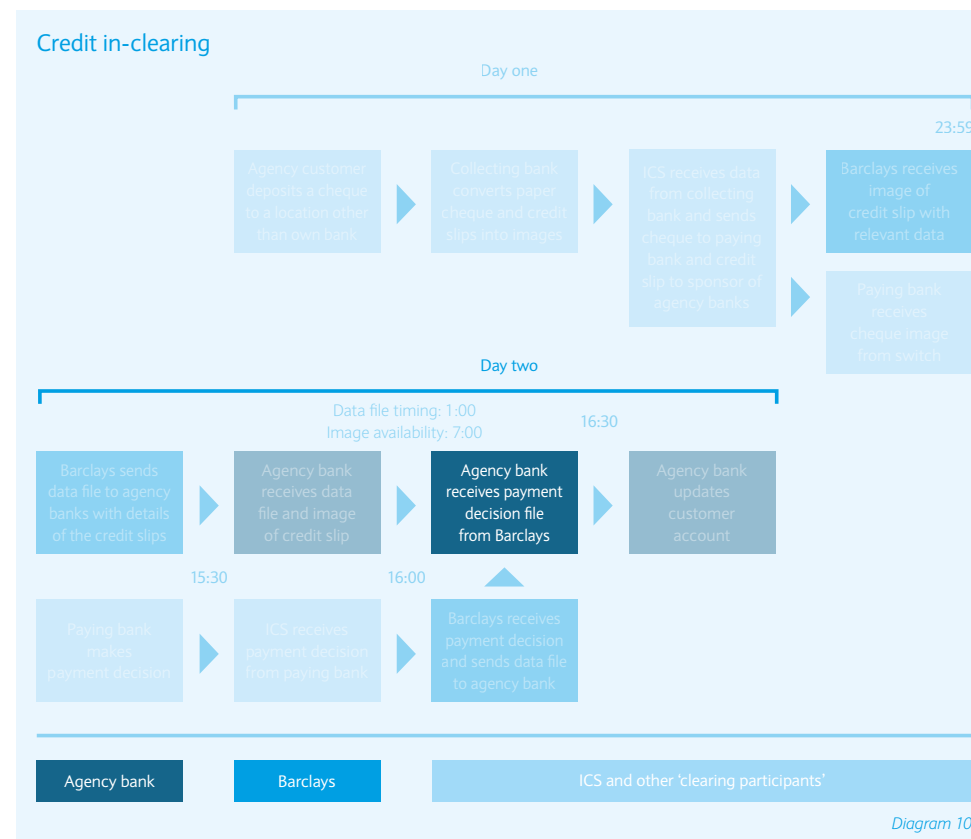
Banks wishing to minimise the scale of change may continue to use our current Direct Data service with no change of format. However, please bear in mind that the timing of the receipt of this file will change and it will not contain all of the data that will be supplied by the ICS.

Barclays will also supply data using the industry standard formats. This will contain the additional data supplied by the ICS.

Viewing images via Agency Pay

Images of your credit clearing will be made available to you before the start of the working day via our internet-based Agency Pay service. You will be able to sort and filter the list of credits for each day's clearing using various criteria e.g. amount, sort code, account number, serial number etc.

Payment response file



As with the debit out-clearing process, paying banks must make pay/no pay decisions up to 15:30 on day two. These will, in turn, be processed by the ICS and routed to the beneficiary bank by 16:00. We will provide the pay/no pay decisions in the same response file produced for debit out-clearing. This will then enable you to update your customers' accounts. Any decisions made on an intraday basis by the paying bank will also be included within the intraday files for those banks that elect to have intraday reporting.

We will also display the status of each cheque, e.g. paid/not paid/pending, via a web service as each paying bank submits their payment decision.

Settlement

We will credit your account with the value of your credit in-clearing early on day two. At the end of day two, we will change the status of each deposit from “unavailable” to “available” for paid cheques, having debited back any unpaid items prior to making the balance “available”.

Section seven

Fraud liability

The fraud liability model is under discussion at C&CCC and we will share details with you as they become available. However, in terms of cheque processing, the agency bank will be:

- The collecting bank, if the cheque is paid in over your own counters or at your own offices, or if you allow your customers to image the cheques themselves by using scanners or smartphones
- The paying bank, if the cheques are drawn on your sort codes
- The beneficiary bank, if the payee holds an account with you.

Section eight

Tariff

The tariff will be determined by the proposed volumes of cheques to be processed. Please provide details of your proposed volumes and we will provide you with an applicable tariff.

Section nine

Timelines

All banks that wish to become direct participants of the ICS must advise C&CCC by 1 April 2016.

All paying banks must be able to clear cheques using images by 13 March 2017.

The existing paper-based cheque clearing scheme will be withdrawn in October 2017. Therefore, all collecting banks must be able to image cheques by the time the scheme has been withdrawn.

All paying banks must be able to pay cheques using images from the start of the ICS as it is the collecting bank that decides whether a cheque will be cleared using the ICS or the existing paper-based scheme (until October 2017).

Section ten

| Cut-off times* | Day | Cut-off time |
|---|-------|--------------|
| Debit out-clearing | | |
| Delivery of RCI images to Barclays from agency bank | Day 1 | 19:00 |
| Delivery of RCI images to ICS | Day 1 | 23:59 |
| Paying bank pay/no pay responses to ICS | Day 2 | 15:30 |
| Paying bank pay/no pay responses from ICS to Barclays | Day 2 | 16:00 |
| Paying bank pay/no pay responses from Barclays to agency bank | Day 2 | 16:30 |
| Debit in-clearing | | |
| Final delivery of data and images from ICS | Day 2 | 00:30 |
| Delivery of data from Barclays to agency bank | Day 2 | 01:30 |
| Availability of images | Day 2 | 07:00 |
| Pay/no pay responses from agency bank to Barclays | Day 2 | 15:00 |
| Pay/no pay responses from Barclays to RCI | Day 2 | 15:30 |
| Credit in-clearing | | |
| Final delivery of data and images from ICS | Day 2 | 00:30 |
| Delivery of data from Barclays to agency bank | Day 2 | 01:00 |
| Availability of images | Day 2 | 07:00 |
| Paying bank pay/no pay responses to ICS | Day 2 | 15:30 |
| Paying bank pay/no pay responses from ICS to Barclays | Day 2 | 16:00 |
| Paying bank pay/no pay responses from Barclays to agency bank | Day 2 | 16:30 |

*The above timings will be subject to limited change.

Section eleven

Summary

We at Barclays support many banks in the paper-based clearing scheme and we want to continue to do so using the ICS. We have been developing our solution for indirect participation over the last 12 months, with a number of trials to ensure that our service will be easy to implement and use on a day-to-day basis. Technology development on your part will be kept to a minimum, given that several existing data files will be reusable and pay/no pay decision-making will be made available online.

We will process your cheques via our own internal systems for fraud detection and participant duties checking and display this to you in an easy-to-use format within our Agency Pay service. Day-to-day processing of clearings will be quicker and more efficient than today.

If you would like more information on our indirect proposition for agency banks, please e-mail agencyICS@barclays.com or contact your Relationship Director.

Section twelve

Disclaimer

The full specification of ICS has yet to be finalised at an industry level. Barclays has been asked by C&CCC to provide details of their intended proposition for agency banks prior to the finalisation of the full specification. There remain a number of matters to be finalised at an industry level. As such, Barclays may have to withdraw, update or amend this proposition or any of the details contained within it as the details of the ICS become clear. As a result, nothing in this document shall constitute an offer or any commitment by Barclays to offer any of the services described in it. This document is intended as an early stage description of one option for agency banks to access the ICS. This document is not intended to be a full description of the proposition described in it, which will be subject to appropriate documentation and will be charged at a rate to be determined.

Section thirteen

| Glossary | |
|--|--|
| Agency Pay | The web-based interface offered by Barclays to manage interaction with the ICS. |
| Available funds | The point at which the beneficiary may utilise the proceeds of the cheque. |
| Beneficiary bank | The ICS participant that holds the payee's account. |
| Cheque and Credit Clearing Company (C&CCC) | The industry body that manages cheque clearing in England, Wales and Scotland. |
| Collecting bank | The ICS participant where the cheque is deposited. |
| Credit in-clearing | The processing of credits where the beneficiary bank is your institution. |
| Credit in-clearing file | A data file delivered to the beneficiary bank which details the individual credit in-clearing items that can be uploaded into the agency banks' systems. |
| Debit in-clearing | The processing of cheques to be paid/not paid by your institution as the paying bank. |
| Debit in-clearing file | A data file delivered to the paying bank which details the individual debit in-clearing items that can be uploaded into the agency bank's systems. |
| Debit out-clearing | The processing of cheques into the clearing system by your institution as the collecting bank. |
| Default pay/no pay decision | A decision applied to all cheques where a pay/no pay decision has not been made by a given time. |
| Eligible items | Items that can be processed via the ICS. This includes cheques, banker's drafts, building society cheques, postal orders, travellers cheques, dividend warrants, government warrants and payable orders. |
| Image Clearing System (ICS) | The C&CCC administered image cheque clearing system. |
| Industry settlement | The daily transfer of funds between settlement participants at the Bank of England. |
| Kappa | A cheque fraud detection system. |
| Lockbox | A service provider that receives and prepares cheque transaction sets for entry into the clearings. |
| Participant duties (formerly bankers duties) | Obligations that all participants undertake to ensure that cheques that are processed in the clearing are in order. |
| Paying bank | The ICS participant on which the cheque is drawn. |
| Payment response file | A data file delivered to the beneficiary bank which details the pay/no pay decisions made by the paying bank. |
| Settlement bank | A bank that holds an account at the Bank of England which is used for industry settlement. |
| Third party provider | A non-bank participant of the ICS. |