

**Guidelines on netting off of old and
small value entries - Clearing differences**

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All Primary (Urban) Co-operative Banks

Dear Sir,

**Guidelines on netting off of old and
small value entries - Clearing differences**

As you are aware, persistence of a large number of outstanding entries in the Clearing Adjustment Account has been a matter of concern to banks and the Reserve Bank of India. Banks have been advised, from time to time, to take corrective action for early adjustment of the pending entries in the Clearing Adjustment Accounts. Since this is a fraud prone area, it is imperative for banks to adjust the old pending entries in the Clearing Adjustment Accounts.

2. While reviewing the position of progress made by banks in reducing the outstanding entries in their Clearing Adjustment Account, it has been observed that entries of smaller values form a significant portion of the old outstanding clearing differences and pose practical difficulties in the reconciliation. In the light of suggestions received from banks and with a view to reducing the level of long pending outstanding entries in the Clearing Adjustment Account of banks, it has been decided, **as a one time measure**, to allow banks to net off the entries representing clearing differences receivable against entries representing clearing differences payable up to Rs. 500 which are outstanding for more than three years.

3. Banks are advised to adopt the following procedure for netting off the entries representing clearing differences receivable against entries representing clearing differences payable.

- a. Banks may net off all entries representing clearing differences 'receivable' against entries representing clearing differences 'payable', of amounts less than Rs. 500 each which are outstanding in the Clearing Adjustment Accounts for more than three years as on March 31, 2003, i.e., all outstanding entries of less than Rs. 500 each in the Clearing Adjustment Account (receivables against payables) originated on or before March 31, 2000 and outstanding as on March 31, 2003.
- b. In case of the entries outstanding in the branch books, the banks may net off the outstanding entries in the clearing differences account and thereafter transfer the net position to their Head Office along with the full details of the entries representing clearing differences payable as also the entries representing clearing differences receivable.
- c. At the Head Office, the bank may aggregate the net positions reported by the branches and arrive at the net aggregate position of clearing differences. If the aggregate net is in debit, the same may be written off by debit to the profit and loss account. If the aggregate net is a credit, the same may be transferred to a separate blocked account and shown under 'other liabilities and provisions - others' in the balance sheet (Schedule 5 of the Balance Sheet). The balance in the blocked account will be reckoned for the purpose of maintenance of CRR/ SLR.

- d. Banks should ensure that the above exercise does not result in any portion of the clearing difference entries being parked in the inter-branch accounts.
- e. Banks should maintain a record of the clearing difference entries transferred to Head Office at the branches / Head Office for verification by internal inspection / auditors / RBI inspection. The netting off at the branches, the transfer of entries by the branches to the Head Office, the netting off at the Head Office and the writing off / transfer at the Head Office should be subjected to a 100 percent audit by the internal auditors, the concurrent auditors and the statutory auditors.

4. It has also been observed that the Clearing Adjustment Account of banks include entries pertaining to inter-branch clearing differences in addition to the inter-bank clearing differences. Separation of instruments viz. cheques, demand drafts etc. pertaining to inter-branch transactions from inter-bank clearing is expected to reduce the clearing differences considerably. Hence, banks are advised to route their inter-branch clearing instruments through an in-house clearing mechanism and not route it along with inter-bank clearing instruments.

5. These guidelines may be placed before the Board of Directors.

6. Please acknowledge receipt to our concerned Regional Office .

Yours faithfully,

(A. V. Sabhapathy)
Deputy General Manager