



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 1180 **Series of 2023**

Subject: **Amendments to the Check Clearing and Settlement Regulations**

The Monetary Board (MB), in its Resolution No. 1471 dated 9 November 2023, approved the following amendments to the check clearing and settlement regulations in the Manual of Regulations for Banks (MORB) for the following purposes:

1. Comply with the requirements of Section 610 of the Manual of Regulations for Payment Systems (MORPS), particularly, item *g* on Finality of Settlement; and
2. Terminate the Overdraft Credit Line (OCL) of the Bangko Sentral since its limited purpose of addressing overdrafts arising from check clearing losses is covered by the Bangko Sentral's automated intraday settlement facility (ISF) that the banks can use not only for the settlement of check clearing results but also for any other local currency real-time gross settlement.

Section 1. Section 202 of the MORB is hereby amended to read, as follows:

202 RETURNED CHECKS

xxx

- c. The Drawee bank shall transmit the electronic documents¹ relative to the dishonor to the Presenting bank within the prescribed period or not later than the cut-off time indicated in Appendix 35 for returned items in accordance with the following procedures:

xxx

- (2) The AM clearing window for clearing items dishonored due to insufficiency of funds or credit, technical reason, closed account, and/or stop payment order shall be conducted in accordance with the timeline prescribed in *Appendix 35* for returned items; and
- (3) The returned checks shall be settled through the Peso Real-Time Gross Settlement (RTGS) system. For purposes of settlement, the value date of the returned Checks and Other Cash Items (COCI) in the AM clearing window shall be the date of settlement through the Peso RTGS system.

¹ Such as but not limited to the Return Image Cash Letter (Return ICL) containing the dishonored Regular Clearing Item [i.e., electronically generated document showing a Check Image with Electronic Payment Information transmitted via CICS to the Drawee bank for collection of the amount]. Image Cash Letter (ICL) is an ANSI standard interface file specifications (X9.100-187) for electronic exchange of check and image data. It is generated by the front-end system of a Presenting bank or Drawee bank containing CICS Items transmitted to the Drawee bank or Presenting bank, respectively.

Section 2. Section 285 of the MORB is hereby amended to read, as follows:

285 EMERGENCY LOANS OR ADVANCES TO BANKING INSTITUTIONS

XXX

Acceptable collaterals and their corresponding loan values. XXX

ACCEPTABLE COLLATERALS	With Surety Agreement and Negative Pledge	With Surety Agreement but No Negative Pledge	With Negative Pledge but No Surety Agreement	No Surety Agreement and No Negative Pledge
XXX	XXX	XXX	XXX	XXX

XXX

ACCEPTABLE COLLATERALS	With Surety Agreement and Negative Pledge	With Surety Agreement but No Negative Pledge	With Negative Pledge but No Surety Agreement	No Surety Agreement and No Negative Pledge
XXX	XXX	XXX	XXX	XXX
Assets of other third parties to cover deficiency arising from unpaid interest and liquidated damages and reduction in loan value of existing collaterals:				
XXX	XXX	XXX	XXX	XXX

XXX

Interest rates, liquidated damages, and penalties. XXX

XXX

Any shortfall in collateral due to unpaid accrued interest, liquidated damages, and reduction in loan value of existing collaterals may be covered by third party assets after the assets of the bank have been exhausted.

XXX

Section 3. Section 802 of the MORB, as amended by Circular No. 1132 dated 14 December 2021, is hereby amended to read, as follows:

802 CHECK CLEARING OPERATIONS

A check clearing switch operator (check CSO) is appointed and designated by the Bangko Sentral as a processing agency and exclusive provider of a nationwide Automated Clearing Facility. It shall implement clearing of checks via electronic presentment through its Check Image and Clearing System (CICS) upon receipt by the Bangko Sentral of a written notice from the check CSO that CICS is operational².

Banks shall observe the clearing procedures in accordance with the check CSO rules for the clearing of checks, including the Banks' responsibility to verify the accuracy of reports and directly communicate with the concerned party regarding any clearing discrepancy or error noted in the course of proving their incoming/outgoing clearing items.

Check Clearing Rules for Banks Authorized to Accept Demand Deposits³

The following are the check clearing rules for banks authorized to accept demand deposits:

- a. Banks authorized to accept demand deposits may participate in the clearing process conducted by the check CSO, subject to the latter's accreditation rules, either through (1) direct participation in clearing operations; or (2) indirect participation through conduit arrangements. Other banks may indirectly participate through maintenance of DDAs with UBs/KBs as settlement account for demand deposit or NOW accounts of TBs/RBs.
- b. Banks authorized to participate directly in clearing through the check CSO shall be subject to the following measures to manage settlement risk:
 - (1) For purposes of settlement, the value date of inward and outward check clearing items, including returns, shall be the date of settlement through the Peso RTGS system.
 - (2) If any of the banks has insufficient settlement account balance to cover its check clearing obligation, the Peso RTGS system shall automatically reject the settlement file from the check CSO, which in turn shall receive a corresponding notification from the Peso RTGS system. The Bangko Sentral shall advise the concerned bank to fund its deficient settlement account so that the checks issued by the bank's clients will be honored for settlement. If the liquidity shortfall is addressed, the check CSO shall resend the file that was initially transmitted to the RTGS system. Otherwise, the check CSO shall send a new settlement file reflecting the necessary clearing result adjustments brought about by the failure of the concerned bank to fund its settlement account.

² The new check clearing process shall be implemented on 20 January 2017. For participant banks which will not be compliant with the CICS standard on 20 January 2017, they shall execute a Letter of Commitment stating, among others, the actions that they will be taking to be compliant with the CICS standard until 21 April 2017.

³ See schedule of revised clearing and settlement process shown as footnote of Sec. 203.

- c. In an indirect participation through conduit arrangement⁴, the conduit bank⁵ shall be responsible for taking the necessary measures to ensure that the risk exposure to the sponsored bank/s⁶ remains within the conduit bank's risk tolerance.

Clearing of Negotiable Order of Withdrawal Accounts. Any NOW account which may be deposited with a bank other than the drawee bank may be cleared through the check CSO in accordance with the check CSO's rules.⁷ xxx

xxx

Section 4. Appendix 25 on *Implementing guidelines for banks participating directly in the clearing operations of the Philippine Clearing House Corporation (PCHC)* of the MORB is hereby deleted.

Section 5. Appendix 35 on *Settlement of Interbank Transactions vis-à-vis Covering Reserve Requirement/Deficiency of Banks' Demand Deposit Account with the Bangko Sentral* is hereby amended in its entirety, and shall now be titled as "*Schedule of Peso Real-Time Gross Settlements*", as shown in Annex A.

Section 6. Appendix 123 of the MORB is hereby amended to read, as follows:

**GUIDELINES ON THE HANDLING OF RETURNED CHECKS UNDER THE AUTOMATED
CHECK CLEARING SYSTEM
(Appendix to Item a of Sec. 202)**

- a. Checks and Other Cash Items (COCIs) without sufficient funds/with stop payment orders/drawn against closed issuer/payer accounts**

xxx

COCIs dishonored for the reason that such are drawn against insufficient funds or credit, or are drawn against closed issuer/payer accounts, or payment of the COCIs has been stopped, shall be returned by the drawee bank to the presenting bank in accordance with the clearing timeline for returned COCIs set by the check CSO.¹

⁴ An arrangement where the clearing results pertaining to the participating sponsored banks are consolidated with those of the conduit banks.

⁵ "Conduit banks" is used interchangeably with "direct participants". These are participants in a funds or securities transfer system, directly exchanging transfer orders with other participants in the system (BIS Glossary of Terms Used in Payment and Settlement Systems).

⁶ "Sponsored banks" is used interchangeably with "indirect participants", which are banks/financial institutions that are characterized by their inability to perform system activities (e.g. input of transfer orders, settlement) performed by direct participants. They therefore require the services of direct participants to perform those activities on their behalf (BIS Glossary of Terms Used in Payment and Settlement Systems).

⁷ See schedule of revised clearing and settlement process shown as footnote of Sec.203.

(1) *For local Exchanges*

There shall be two (2) clearing windows for COCI's returned due to insufficient funds or credit, closed account, and/or stop payment order - one in the afternoon of T+0 for checks returned within the PM Adjustment Window and another in the morning of T+1 for checks returned until the close of the AM return window.

The Schedule of the Peso RTGS, which includes the timeline for the settlement of check clearing results, is shown in *Appendix 35*.

- (a) PM Adjustment Window (PAW) - The COCI's returned in the PAW due to insufficient funds or credit, closed account, and/or stop payment order shall be cleared in accordance with the timeline set by the check CSO. For purposes of settlement, the value date of the returned COCI's shall be the date of settlement through the Peso RTGS system.
- (b) AM Return Window - The COCI's returned in the AM clearing window due to insufficiency of funds or credit, closed issuer/payer account, and/or stop payment order shall be cleared in accordance with the timeline set by the check CSO. For purposes of settlement, the value date of the returned COCI's shall be the date of settlement through the Peso RTGS system.

(2) *COCIs not coursed through the Clearing System*

COCIs dishonored by reason of insufficiency of funds or credit, drawn against a closed issuer/payer account, and/or stop payment order, and bilaterally transacted outside the clearing system for purposes of settlement, shall be returned by the drawee bank to the holder or the presenting bank, as the case may be, not later than the banking day following the date the COCI's are presented for payment by the drawee bank.

The presenting bank shall, in turn, return the COCI's dishonored by reason of insufficiency of funds or credit, drawn against a closed issuer/payer account, and/or stop payment order to the holder not later than the banking day following its receipt of the dishonored COCI's from the drawee bank.

b. Checks dishonored due to technical reasons.

COCIs dishonored due to technical reasons shall be returned by the drawee bank to the presenting bank in accordance with the clearing timeline for returned COCI's set by the check CSO.

(1) *For Local Exchanges*

There shall be two (2) clearing windows for COCI's returned due to technical reasons - one in the afternoon of T+0 for checks returned as of the end of the PAW and another in the morning of T+1 for checks returned until the close of the AM return window.

The Schedule of the Peso RTGS, which includes the timeline for the settlement of check clearing results, is shown in *Appendix 35*.

- (a) PAW – The COCIs returned through the PAW due to technical reasons shall be cleared in accordance with the timeline set by the check CSO. For purposes of settlement, the value date of the returned COCIs shall be the date of settlement through the Peso RTGS system.
- (b) AM Return Window - The COCIs returned in the AM clearing window due to technical reasons shall be cleared in accordance with the timeline set by the check CSO. For purposes of settlement, the value date of the returned COCIs shall be the date of settlement through the Peso RTGS system.:

(2) *COCIs not Coursed Through the Clearing System*

COCIs dishonored due to technical reasons, which were bilaterally transacted outside the clearing system, for purposes of settlement, shall be returned by the drawee bank to the holder or the presenting bank, as the case may be, not later than the banking day following the date the COCIs are presented for payment by the drawee bank.

The presenting bank shall, in turn, return the COCIs dishonored due to technical reasons to the holder not later than the banking day following its receipt of the dishonored COCIs from the drawee bank.

Section 7. References to the PCHC in certain sections of the MORB pertaining to check clearing and settlement shall be changed to check clearing switch operator or check CSO, whichever is applicable, as shown below:

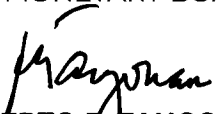
MORB Section/Appendix	Amendments
Section 102 (Basic Guidelines in Establishing Domestic Banks), Conditions for the grant of authority to convert into a lower category. Item b	xxx a TB (previously authorized by the Monetary Board to accept demand deposits) may be allowed to retain such authority when converting into an RB but may clear checks only through a correspondent bank and shall not be allowed to participate directly in the check clearing system: xxx
Section 201 (Authority to Accept or Create Demand Deposits), Requirements for Accepting Demand Deposits. Item b	That if it is not a member of the check CSO, it has appointed a commercial bank, or a normally operating thrift bank which is a direct participant in the check clearing system with the check CSO/Peso RTGS system and has complied with the minimum capital required for commercial banks, thru which it shall participate in the check clearing system; and
Section 222 (Minimum Features of Negotiable Order of Withdrawal Accounts)	The standards and design of the order of withdrawal form shall be in accordance with the check CSO rules if said order of withdrawal form is intended to be cleared

MORB Section/Appendix	Amendments
	through the check CSO. Otherwise, the minimum features of the pro-forma order of withdrawal shall conform with Appendix 11.

Section 8. The check clearing participants shall be given a period of three (3) months from the effectivity of this Circular to make appropriate changes to their plans, rules, policies, processes, and systems in order to comply with the requirements under this Circular/Section. Upon the lapse of said period, the Bangko Sentral's OCL facility shall be terminated. Consequently, all existing OCLs with the Bangko Sentral shall be cancelled and the corresponding collaterals shall be returned to the concerned banks.

Section 9. This Circular shall take effect 15 calendar days following its publication either in the Official Gazette or in any newspaper of general circulation in the Philippines.

FOR THE MONETARY BOARD:


MAMERTO E. TANGONAN
 Officer-in-Charge

16 November 2023

SCHEDULE OF PESO REAL-TIME GROSS SETTLEMENTS

(Appendix to Sec. 202 and 203)

Start Time	Parties Involved	Activities	End Time
Current Day (T+0), Assuming Thursday (Normal Operation)			
8:30 AM	BSP-FAD	Sending of Final Statement of Account (value Wednesday)	8:45 AM
9:00 AM	BSP-PSD	Settlement operations as follows:	5:45 PM
9:05 AM	BSP-PSD BSP-FM	Settlement/repayment of maturities related to the BSP's monetary operations	11:00 AM
11:00 AM	BSP-FM	Monetary Operations trading window – Overnight RRP	11:30 AM
9:00 AM	Peso RTGS Payment System (PS) Participants	Intra- and Inter-FI transactions, including transactions of BSP departments	5:45 PM
9:00 AM 11:00 AM 3:00 PM	BSP-PSD/InstaPay CSO	Settlement of InstaPay clearing results and defunding transactions • Batch 1 • Batch 2 • Batch 3	10:00 AM 12:00 PM 4:00 PM
9:00 AM	BSP-PSD/BSP-FM/Peso RTGS PS Participants	Repurchase of securities used for ISF availed on Wednesday	11:00 AM
9:00 AM	BSP-GMRO/BSP-ROBs/BSP-PSD/Peso RTGS PS Participants	Cash withdrawal transactions from the BSP	12:00 PM
9:00 AM	BSP-GMRO/BSP-PSD/Peso RTGS PS Participants	Cash deposits and other cash transactions through BSP-GMRO	5:45 PM
9:00 AM	DvP FMI/BSP-PSD	Settlement of GS trades via DvP	4:00 PM
9:00 AM	BSP-PSD/eDvP FMI	Settlement of security trades via eDvP	4:00 PM
9:00 AM	PvP FMIs	Settlement of FX trades via PvP	5:45 PM
9:15 AM	BSP-PSD/Peso RTGS PS participants	Availment of ISF	5:30 PM

Start Time	Parties Involved	Activities	End Time
		(Government Securities for ISF are transferred to the BSP-ISF Direct Account in NRoSS between 9:00 AM to 5:15 PM)	
10:00 AM	BSP-FM/ BSP-PSD/ Peso RTGS PS participants	Monetary Operations trading window: • Outright GS purchase and sale • OLF • ODF	5:00 PM 5:15 PM 5:30 PM
10:00 AM	BSP-PSD	Settlement of TDF, Outright GS purchase and sale/OLF/ODF	5:45 PM
10:00 AM 3:00 PM	ATM CSO/BSP-PSD	Settlement of ATM clearing results • Batch 1 • Batch 2	11:00 AM 4:00 PM
10:00 AM 4:00 PM	PESONet CSO/BSP-PSD	Settlement of PESONet clearing results and defunding transactions • Batch 1 • Batch 2	11:00 AM 5:45 PM
4:30 PM	Check CSO/BSP-PSD	Settlement of regular checks	5:15 PM
5:16 PM	Check CSO/BSP-PSD	Settlement of returned checks and other adjustments in the PM Adjustment Window (PAW)	5:30 PM
11:00 AM	BSP-PSD	Settlement of Overnight RRP	5:45 PM
5:31 PM	BSP-PSD/BSP-FM/Peso RTGS PS Participants	Repurchase of securities for ISF availed on Thursday	5:45 PM
5:45 PM	BSP-PSD	Close of settlement operations	N.A.
Next Business Day (T+1), Friday (Normal Operation)			
9:00 AM	Check CSO/BSP-PSD	Settlement of returned checks following the 8:00am clearing cut-off	9:05 AM
9:00 AM	BSP-FM	Repurchase of securities for ISF availed on Thursday (with fee)	11:00 AM

Next Business Day (T+1), Friday (Assuming Disruption of Business Operation on Thursday, Leading to Extension of Business Day to Friday)			
Extended End-of-Day, Back Value Date Thursday			
8:00 AM	Peso RTGS PS participants/BSP-PSD	Availment of ISF (Government Securities for ILF were transferred to the BSP-ILF Direct Account in NRoSS on Thursday)	9:30 AM
8:00 AM	BSP-FM	Monetary Operations trading window on an extended EOD basis • TDF • Outright GS purchase and sale • OLF • ODF • Overnight RRP (bid submission at 8:16 AM)	9:45 AM
8:16 AM	BSP-PSD	Settlement of TDF, outright GS purchase and sale, OLF, ODF, and RRP	9:59 AM
9:00 AM	Peso RTGS PS Participants	Intra- and Inter-FI transactions, including transactions of BSP departments	10:00 AM
9:31 AM	BSP-PSD/BSP-FM/Peso RTGS PS Participants	Repurchase of securities for ISF availed on Thursday (if not repurchased on Thursday)	9:45 AM
10:00 AM	BSP-PSD	Close of settlement operations	N.A.
New Business Day, Value Date Friday			
12:55 PM		Uploading of beginning balances of settlement accounts (SA) from the GL System to the Peso RTGS Payment System	1:00 PM
1:00 PM	BSP-PSD/Peso RTGS PS Participants	Settlement operation (The settlement activities reflected under Thursday, normal operation, shall happen on Friday within the shortened business hours from 1:00PM to 5:45PM without specific windows, unless explicitly stated below).	5:45 PM
1:00 PM	BSP-PSD/BSP-FM/Peso RTGS PS Participants	Repurchase of securities for ISF availed on Thursday	2:00 PM

Next Business Day (T+1), Friday (Assuming Disruption of Business Operation on Thursday, Leading to Extension of Business Day to Friday)			
New Business Day, Value Date Friday			
1:00 PM	BSP-FM	Monetary Operations trading window on an extended EOD basis (back value Thursday) • BSP SF auction • Outright GS purchase and sale • OLF • ODF • Overnight RRP (bid submission at 4:30PM)	5:30 PM
1:15 PM	BSP-PSD/Peso RTGS PS participants	Availment of ISF (Government Securities for ILF are transferred to the BSP-ILF Direct Account in NRoSS between 1:00 PM to 5:15 PM)	5:30 PM
5:31 PM	BSP-PSD/BSP-FM/Peso RTGS PS Participants	Repurchase of securities for ISF availed on Friday	5:45 PM
5:45 PM	BSP-PSD	Close of settlement operations	N.A.

List of Acronyms

ATM	Automated Teller Machine
BSP-FAD	BSP Financial Accounting Department
BSP-FM	BSP Financial Markets
BSP-GMRO	Greater Manila Regional Office
BSP-PSD	BSP Payments and Settlements Department
BSP-ROBs	Regional Offices and Branches
BSP-ROSS	BSP Regional Operations Sub-Sector
BSP-TDIO	BSP Technology and Digital Innovations Office
CSO	Clearing Switch Operator
DvP	Delivery versus Payment
eDvP	Enhanced Delivery versus Payment
EOD	End-of-Day
FI	Financial Institutions
FMI	Financial Market Infrastructure
GS	Government Securities
ISF	Intraday Settlement Facility
MBS	Multi-batch Settlement
nRoSS	National Registry of Scripless Securities
ODF	Overnight Deposit Facility
OLF	Overnight Lending Facility
PDS	Philippine Dealing System
PvP	Payment versus Payment
RRP	Reverse Repurchase Agreement
RTGS	Real-Time Gross Settlement
TDF	Term Deposit Facility
T+0	Current Banking Day
T+1	Next Banking Day