

## 802 CHECK CLEARING OPERATIONS

The PCHC was appointed and designated by the Bangko Sentral as a processing agency and exclusive provider of nationwide Magnetic Ink Character Recognition (MICR)/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 PCHC that CICS is operational <sup>1</sup>.

Banks shall observe the clearing procedures in accordance with the PCHC Clearing House rules and regulations 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 Deposits.**<sup>2</sup>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 PCHC, subject to the latter's accreditation rules, either through (1) direct participation in clearing operations; or (2) indirect participation through conduit arrangements with UBs/KBs. 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 the clearing in PCHC shall be subject to the following measures to manage the settlement risks:
  - (1) Settlement of both inward and outward items shall be value dated on the day the checks are originally presented to PCHC or RCC, net of AM returns. For this purpose, the *value date or settlement date* referred to herein shall be defined uniformly as the date of original presentation of the COCI to PCHC for the Integrated GM LX and to the RCC for the RLX. For the Integrated GM Outward to Region, Integrated GM Inward from Region and Region to Region clearing, the value date or settlement date shall be on the day the COCIs are received and processed at PCHC.
  - (2) A ceiling shall be set on the amount of overdraft a bank may incur due to failure to cover clearing losses through interbank borrowings and/or repurchase agreements with the Bangko Sentral. The *ceiling* is defined as the sum of clean Overdraft Credit Line (OCL) equivalent to fifteen percent (15%) of rediscounting line with the Bangko Sentral, and the collateralized OCL that will be extended by Bangko Sentral. A bank not meeting the following criteria:

- (a) CAMELS composite rating of at least “3”;
- (b) CAR of at least ten percent (10%); or
- (c) No chronic reserve deficiencies for the immediately preceding one (1) year, or other measures as may be defined by the Bangko Sentral for this purpose, should apply for collateralized OCL in an amount equivalent to at least five percent (5%) of their demand deposit liabilities as of end of month, two (2) months prior to the date of application with the Department of Loans and Credit (DLC); otherwise, its outward clearing items shall be subject to second day value dating.

Other banks may also apply for collateralized OCL in any amount.

- (3) Provided the overdraft does not exceed the ceiling as defined in Item “2” hereof, the bank may avail of the clean/collateralized OCL. The availments against the approved clean/collateralized OCL shall bear interest at a rate equivalent to one-tenth of one percent (1/10 of 1%) per day or the 91-day T-Bill rate of the last auction immediately preceding the availment, plus three percentage (3%) points, whichever is higher.
  - (4) The availment shall be for a maximum period of five (5) consecutive clearing days or five (5) clearing days within any 30-day rolling calendar period, after which the OCL shall be suspended.
  - (5) Should the overdraft exceed the ceiling, as defined in Item “2” hereof, no availment of the clean/collateralized OCL shall be allowed.
    - (a) In the case of end-of-day overdraft, the Payments and Settlements Office (PSO) shall advise the PCHC of the amount available for settlement of the drawee bank’s net clearing loss, beyond which amount inward clearing items will be unwound in accordance with the PCHC Clearing House Rules and Regulations.
    - (b) In the case of final overdraft, i.e., after AM returns, where unwinding is no longer possible, the bank shall be excluded from next clearing. The PSO shall advise the PCHC of such exclusion upon prior Monetary Board approval.
  - (6) The collateralized OCL may be converted into an emergency loan provided the bank complies with the guidelines governing the grant of emergency loans under Sec. 285 (*When an emergency loan or advance may be availed of*) or may be subject to foreclosure of collateral. The guidelines implementing Item “b” of this Section are in *Appendix 25*.
- c. In indirect participation through conduit arrangement, where the clearing results of participating

TBs/RBs are consolidated with those of the conduit UBs/KBs, caps shall be set on the net clearing losses to be passed on to the conduit UB/KB by the TB/RB.

The cap is defined as the combined value of the following amounts:

- (1) the TB/RB's DDA with the Bangko Sentral; and
- (2) the value of clean/collateralized overdraft credit line that may be extended by the conduit UB/KB to the TB/RB.

The conduit arrangement should include provisions setting aforementioned cap on the net clearing losses.

**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 PCHC in accordance with the PCHC Clearing House Rules and Regulations.<sup>3</sup> Nothing in this Section shall prevent direct settlement between the parties concerned. The provision of Sec. 203 shall also apply for withdrawals on NOW accounts.

**Check Clearing Operations During Public Sector Holidays.** The guidelines on check clearing operations during public sector holidays are shown in *Appendix 88*.

*(Circular No. 974 dated 29 September 2017, M-2017-010 dated 15 March 2017, 948 dated 01 March 2017, M-2017-001 dated 17 January 2017, 924 dated 07 September 2016 and M-2016-012 dated 08 September 2016)*

#### Footnotes

1. 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.
2. See schedule of revised clearing and settlement process shown as footnote of Sec. 203.
3. See schedule of revised clearing and settlement process shown as footnote of Sec. 203.