

804 SETTLEMENT OF INSTANT RETAIL PAYMENTS

Policy statement. It is the thrust of the Bangko Sentral to ensure efficiency of payment systems in the country. In line with this thrust, the Bangko Sentral requires the BSFIs participating in an ACH for instant retail payments to ensure that this ACH provides for certainty of settlement of the multilateral clearing obligations of the clearing participants. The settlement scheme agreed upon by the clearing participants shall form an integral part of the comprehensive credit risk management for instant retail payment services.

For the purpose of this Section, an instant retail payment, otherwise known as fast payment, is defined as an electronic payment in which the transmission of the payment message and the availability of “final” funds to the payee occur in real time or near-real time on as near to a 24-hour and seven-day (24/7) basis as possible¹. Moreover, as used in this Section, clearing participants shall refer to direct clearing participants.

Minimum requirements for the operation of a settlement mechanism for instant retail payments. The settlement mechanism for instant payments shall meet the following minimum requirements:

- a. A clearing participant or its settlement sponsor shall maintain with the Bangko Sentral a demand deposit account (DDA) which shall be used specifically for the settlement of the clearing participant’s net clearing obligations arising from instant retail payments;
- b. The clearing participant or its settlement sponsor shall prefund the settlement of its net clearing obligation through the DDA stated above, ensuring that such account can sufficiently cover said obligation at any point during a settlement cycle. When prefunding, the clearing participant/settlement sponsor shall consider increasing the fund in its account for longer settlement cycles such as during weekends and holidays;
- c. The clearing participants shall agree on thresholds which shall be the bases of the CSO to execute a notification process that enables the clearing participants to efficiently monitor movements in their instant retail payment positions, and at the same time alerts them to place additional funds in their DDAs particularly when the ultimate threshold is breached;
- d. The service contract between the clearing participants and the CSO shall include, at a minimum, the following provisions:
 - (1) The CSO shall record the clearing participants’ DDA balances obtained from the Bangko Sentral at the start of every settlement cycle and monitor the clearing participants’ net clearing obligations against their respective account balances;

- (2) Should the instant retail payments position (Funds in the DDA minus net clearing obligation/withdrawal from the DDA) of any of the clearing participants breach their agreed-upon thresholds, the CSO shall immediately send an electronic notification to the clearing participant concerned; and
- (3) Any instant retail payment which is not fully covered by the corresponding DDA or which will result in a negative instant retail payments position shall be rejected by the CSO. A clearing participant with an instant retail payments position of zero shall be suspended from carrying out further outgoing instant payment transactions until said participant registers a positive position on account of its incoming payment transactions and/or subsequent deposits into its DDA;
- e. Should the clearing participants determine that the funds in their DDAs for instant retail payments are excessive after taking into account their highest potential clearing obligations, the clearing participants shall be allowed to withdraw from their DDAs to enable them to make optimal use of their funds; and
- f. The Bangko Sentral shall not be precluded from deploying applicable regulatory enforcement actions to clearing participants concerned notwithstanding the inclusion of sanctions in the ACH for non-compliance with the clearing participants' agreed-upon settlement mechanism.

Risk Management. In view of the risks involved in the prescribed settlement mechanism for instant retail payments, including the possibility that a rejected payment transaction of a client due to prefunding issues may give rise to serious reputational damages to the clearing participant concerned, the BSFIs participating in the instant retail payment ACH shall ensure that they have the necessary operational and liquidity risk management measures in place. Such measures shall be designed in accordance with the guidelines provided under Sec. 146 on Operational Risk Management, and Sec. 145 on Liquidity Risk Management.

Demand deposits for instant payments as eligible reserves. The DDAs maintained with the Bangko Sentral for the settlement of net clearing obligations arising from instant retail payment transactions shall form part of the banks' reserves against deposit and deposit substitute liabilities pursuant to Sec. 252.

Supervisory enforcement action. Consistent with Sec. 002, the Bangko Sentral may deploy enforcement actions to promote compliance with the requirements set forth in this Section and ensure timely implementation of preventive or corrective measures as needed. As part of its enforcement actions, the Bangko Sentral may issue directives or impose sanctions which limit the level of or suspend any business activity that adversely affects the safety and soundness of a BSFI.

(Circular No. 1000 dated 23 April 2018)

Footnotes

1. Based on the paper *“Fast payments - Enhancing the speed and availability of retail payments”* of the Committee on Payments and Market Infrastructures, Bank for International Settlements