

**IMPLEMENTING GUIDELINES FOR BANKS PARTICIPATING DIRECTLY IN THE
CLEARING OPERATIONS OF THE PHILIPPINE CLEARING HOUSE CORPORATION (PCHC)
(Appendix to Sec. 802)¹**

Sec. 1. Definition of Terms

- a. *Clearing Day* - shall refer to a day when the PCHC processes the exchange of checks and other cash items of participating member banks
- b. *Value or Settlement Date* - Settlement of both inward and outward items shall be value dated on the day the checks are originally presented to PCHC or Regional Clearing Center (RCC), net of AM returns. For this purpose, the value or settlement date referred to herein shall be defined uniformly as the date of original presentation of the Checks and Other Cash Items (COCI), to PCHC or RCC for the Integrated Greater Manila local exchanges (Integrated GM LX) and regional local exchanges (RLX).

Unless otherwise modified in subsequent Circulars, value or settlement date for clearing items shall be as stated in the following schedule:

| Session | Value/Settlement Date |
|---|--|
| Returned Items AM Returns Integrated Greater Manila local exchanges (Integrated GM LX) and regional local exchanges (RLX) Integrated GM Outward to Region Integrated GM Inward from Region Region to Region PM Returns (for returned COCIs due to technical reasons only) | On date of original presentation of COCI to PCHC or Regional Clearing Center (RCHC) On the date the COCIs are received and processed at PCHC On date of return |
| Outward Items Integrated GM LX and RLX Integrated GM Outward to Region Integrated GM Inward from Region Region to Region | On date of original presentation of COCI to PCHC or RCC, net of AM returns On the date the COCIs are received and processed at PCHC |
| COCI not coursed through PCHC | On the date the COCI is cleared by the drawee bank |

Sec. 2. Ceiling on Overdraft Due to Clearing Losses .

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 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.

Sec. 3. Application for Collateralized OCL

- a. Banks shall file their application for collateralized OCL with the DLC supported by the documents indicated below:

- (1) A duly notarized secretary's certificate together with a resolution of the board of directors of the bank authorizing the bank to apply for the loan line and designating the officers authorized to negotiate, sign and execute all accessory documents for the loan line;
- (2) Notarized Surety Agreement executed by the controlling stockholders (owning more than fifty percent (50%) of the voting stock) and every person or group of persons whose stockholdings are sufficient to elect at least one director obligating themselves jointly and severally with the bank to pay promptly on maturity or when due the Bangko Sentral, its successor or assigns, all promissory notes covering avallment against the loan line, if any; and
- (3) Collateralized documents to cover the loan line.

- b. The OCL line shall be secured by first class collateral that refer to the assets and securities which have relatively stable and clearly definable value and/or greater liquidity and free from lien and encumbrances, to the extent of their applicable loan values, as follows:

| Acceptable Collateral | Loan Value | |
|--|---|---|
| | With Surety Agreement | Without Surety Agreement |
| (1) Government securities - based on the current market value of the securities | 80% | 80% |
| (2) Unencumbered real estate properties in the name of the bank | | |
| (a) <i>Initial rate</i> - based on the appraised value (AV) of the land and insured improvements | 40% | 30% |
| (b) <i>Final rate</i> - based on the AV of the land and insured improvements determined by a licensed and independent appraiser acceptable to the Bangko Sentralin accordance with Bangko Sentral's terms of reference | 70% | 60% |
| (3) Mortgage credits | | |
| <i>Initial rate</i> - based on the AV of the property securing the loan evidenced by negotiable instruments or the outstanding balance of such loan | 40% of AV or 50% of the outstanding balance, whichever is lower | 30% of AV or 40% of the outstanding balance, whichever is lower |
| <i>Final rate</i> - based on the AV of the property securing the loan evidenced by negotiable instruments as determined by a licensed and independent appraiser acceptable to the Bangko Sentralin accordance with the Bangko Sentral's terms of reference or the outstanding balance of such loan | 70% of AV or 80% of the outstanding balance, whichever is lower | 80% of AV or 70% of the outstanding balance, whichever is lower |
| (4) Hold-out on foreign currency deposits with the Bangko Sentral- based on current (buying) exchange rate | 80% | 80% |
| (5) Investment grade commercial papers | 80% | 80% |

- c. The DLC shall possess the application for OCL and any subsequent amendments to the approved OCL. Upon approval, the DLC shall require the bank to submit the following:
- (1) Duly signed and notarized OCL Agreement between the bank and the Bangko Sentral; and
 - (2) PCHC certification that the bank participates in the PCHC clearing process in accordance with the MOA per Bangko Sentral Circular letter dated 11 September 2001.

It shall also inform the Payments and Settlements Office (PSO) and Supervision and Examination Sector (SES) of the amount of the bank's approved OCL and any changes that may occur thereafter.

- d. The amount of the approved OCL shall be reviewed and if necessary, amended annually or as circumstances warrant by the DLC. A nominal processing fee of ten thousand (P10,000.00) shall be collected annually or upon amendment of the OCL.
- e. The bank shall be allowed the flexibility of changing or substituting collateral, specially matured government securities. The DLC shall process any request for amendment to the collateral offerings.
- f. The loan value of the collaterals securing the OCL shall be correspondingly reduced under any of the following circumstances:
 - (1) There are collections received on the mortgage credits;
 - (2) The mortgage credits becomes past due;
 - (3) The property mortgaged was sold; and
 - (4) The collateral assets fall short of the definition of first class collateral.
- g. The bank shall duly inform DLC of any collections on mortgaged credits or sale of assets mortgaged and ensure that adequate records on collections and sales made by the branches are maintained in its head office.

Sec. 4. Availments Against the Approved Clean/Collateralized OCL

- a. Provided the overdraft does not exceed the ceiling as defined in Section 2 hereof, the bank may avail of the clean/collateralized OCL. The availment shall be granted the next banking day after taking into account the amount of AM returns, for value the previous banking day.
- b. The availment shall bear interest at one-tenth of one percent (1/10 of 1%) per day or the ninety-one (91)-day Treasury Bill rate of the last auction immediately preceding the availments, plus three percentage points whichever is higher.
- c. The availment shall be fully debited to the demand deposit account of the bank with Bangko Sentralon the next banking day without need of demand.
- d. 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.

Sec. 5. Procedures for Unwinding and Exclusion.

Should the overdraft exceed the ceiling as defined in Section 2 hereof, no availment of the clean/collateralized OCL shall be allowed.

- a. In the case of end-of-day overdraft, the PSO shall advise the PCHC of the amount available for settlement of the drawee bank's inward clearing items 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.

Sec. 6. Conversion/Suspension of Clean/Collateralized OCL.

Banks found to be abusing their clean/collateralized OCL privilege shall be subject to suspension of the OCL. The following shall constitute an abuse of the OCL privilege and shall automatically result in the suspension of the OCL:

- a. Availment of OCL for five (5) consecutive clearing days; or
- b. Availment of OCL for five (5) times within any 30-day rolling calendar period.

The suspension of the OCL may be lifted upon request by the bank concerned subject to the approval by the Monetary Board.

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.

Footnotes

1. The revised clearing and settlement process shall become effective as follows:

| Clearing Exchanges | From | To |
|---|-----------------|-----------------|
| 1. Integrated Greater Manila Local Exchanges (Integrated GM LX) | 01 January 2011 | 24 January 2011 |
| 2. Regional Local Exchanges (RLX) | 01 January 2011 | 01 July 2011 |

Provided, That for RLX, the extended deferral from 24 January 2011 to 01 July 2011 shall refer only to the provision of Circular No. 681 on the mandatory return of checks drawn against insufficient funds or credit, checks drawn against closed accounts and/or checks with stop payment orders, (i.e., not later than 7:30 AM of the next clearing day following the original presentation to PCHC or RCC), subject to the condition that checks returned due to insufficiency of funds or credit shall no longer be allowed to be covered or funded after the day they were presented to PCHC or RCC.