RULES AND REGULATIONS GOVERNING THE PHILIPPINE PAYMENT AND SETTLEMENT SYSTEM (PhilPaSS)
I. INTRODUCTION

1. Purpose

This PhilPaSS Rules and Regulations Manual provides a basic understanding on the operations of the Philippine Payments and Settlements System (PhilPaSS), a Real Time Gross Settlement (RTGS) System, owned and operated by the Bangko Sentral ng Pilipinas (BSP) that effect the online, real-time settlement of high-value payment instructions between banks through the Demand Deposit Accounts (DDAs) of the banks maintained with BSP. The manual also defines the roles and responsibilities of the participants including the relationships between Bankers Association of the Philippines (BAP), Chamber of Thrift Banks (CTB), Investment House Association of the Philippines (IHAP), Rural Bankers Association of the Philippines (RBAP), Philippine Finance Association (PFA), Philippine Clearing House Corporation, Philippine Dealing System, BancNet, Bureau of the Treasury and other payment providers interfacing with PhilPaSS.

2. Background

In 2002, PhilPaSS was implemented in order to provide an infrastructure that will improve the efficiency of the country’s state of electronic interbank payments and settlements by mitigating the risks that may arise with electronic payments. PhilPaSS allowed the banks to interface directly with the automated accounting and settlement systems of the BSP. The processing and real time settlement of each electronic fund transfer instructions take place continuously, thereby achieving final and irrevocable gross settlement of banks and financial institutions’ financial transactions. Due to the continuous real time settlement capability of the system, the related credit, settlement and systemic risks that are inherent to these financial transactions are eliminated. Funds are readily available to the recipient customers at the time the interbank/fund transfer instructions are received by the System.

3. Transactions Settled in PhilPaSS

The following transactions are transmitted to PhilPaSS for processing and settlement:
1) High value funds transfer among banks, non-bank financial intermediaries performing quasi-banking functions (NBQBs);
2) Results of BSP Open Market Operations (ODF, TDF, RRP, RP);
3) Peso leg of foreign currency (USD) trading via the Payment vs. Payment (PvP) mechanism;
4) Results of Government Securities (GS) trading via the Delivery vs. Payment (DvP) mechanism;
5) Payment/Redemption of Coupon/GS maturities;
6) Banks’ customer payment instructions;
7) Interbank settlement of BancNet ATM network transactions;
8) Results of BancNet’s InstaPay payment operations;
9) Results of PCHC’s electronic check clearing operations;
10) Results of PCHC’s PESONet payment operations;
11) Remittances of collected taxes/custom duties to Bureau of Treasury by the BIR and BOC Authorized Agent Banks (AABs);
12) Banks’ Cash Deposits/Withdrawals with BSP-Cash Department/Regional Cash Units;
13) Banks’ Withdrawal of excess reserves with BSP;
14) Proceeds/Repayment of e-Rediscounting transactions of banks with BSP-Department of Loans and Credit;
15) Collection of BSP-SES Annual Supervisory Fees and Penalties;
16) Processing fees for the financial institutions application for foreign loans and foreign currency depository unit (FCDU) loans with BSP-International Operations Department;
17) Proceeds of the BSP Liquidity Facilities (i.e., Overdraft Credit Line, Intraday Liquidity Facility); and
18) Proceeds of BSP Checkless payments to suppliers/stakeholders.

4. PhilPaSS participants

The major participants in PhilPaSS are:

1) Bangko Sentral ng Pilipinas

The BSP is the owner and operator of PhilPaSS; the settlement bank for peso electronic interbank fund transfer transactions initiated by the participating banks/financial institutions through the System. Users from different BSP departments and offices utilize PhilPaSS for the settlement of various transactions that affect the demand deposit accounts maintained by participants in the BSP.

2) Banks and non-bank financial institutions

The banks and non-bank financial institutions are the “participants” duly recognized by the BSP to do electronic interbank fund transfer transactions in PhilPaSS after completing all membership requirements/documentation as enumerated under Section E of this manual.

3) BAP, CTB, IHAP, RBAP and PFA

Various bankers’ organizations have entered into a Memorandum of Agreement (MOA) with the BSP to serve as negotiating and signing agents on behalf of the commercial banks, savings and thrift banks, investment houses/financial institutions and rural banks for the use of PhilPaSS.

4) Third party systems providers (TPSPs)

Independent non-bank institutions providing payment services through the utilization of electronic-based media established linkage to PhilPaSS for the settlement of their member’s financial transactions. These TPSPs validate the
accuracy, completeness and validity of their participants’ payment transactions and transmit the results to PhilPaSS for settlement in the banks’ respective DDAs maintained with BSP. The third party system providers that currently connect with PhilPaSS are namely: Philippine Clearing House Corporation (PCHC), BancNet, Philippine Dealing System (PDS) and Bureau of Treasury (BTr).

5. Membership Requirements

The requirements that shall be required from banks and non-bank Institutions financial institutions intending to participate in the settlement operations of PhilPaSS are as follows:

1) Applicant must be a BSP-supervised financial institution; hence, must have a demand deposit account (DDA) maintained with BSP
2) Letter of application for PhilPaSS participation
3) Signed Participation Agreement
4) Certification from BAP, CTB, RBAP, IHAP or PFA, whichever is applicable
5) Certified true copy of bank’s Board Resolution or Secretary’s Certificate authorizing the bank to apply for membership to PhilPaSS and enumerating the List of authorized Officers and Users with their specimen signatures
6) VPN Connectivity Registration Form
7) SWIFT-issued Bank Identifier Code (BIC)
8) Participant Browser User Registration Form

Forms are downloadable at www.bsp.gov.ph under Payments and Settlements section.

6. Participant-access to PhilPaSS

Once admitted and upon receipt of the signed Participation Agreement, the BSP shall set up the Participant Organization details of the applicant bank in the PhilPaSS database.

Each participant shall be required to accomplish and submit to BSP-Payments and Settlements Office (Payments and Settlements Office) all duly signed user-registration forms in order to facilitate access to PhilPaSS through the use of the PhilPaSS Participant Browser (PPB). In using the PPB, all registered users shall be authorized to perform the following functions:

a) Fund transfers and payments instructions
b) Authorization of payment instructions, as applicable
c) Account status and balance inquiry
d) Re-prioritization of queued payments
e) Cancellation of queued payments
f) Generation of payment reports / SOAs
7. Requests for Manual Settlement

In case of extraordinary events that will cause a participant the inability to electronically transmit payment instructions to PhilPaSS, the PPB Continuity of Business (COB) Manual Settlement Form shall be accomplished, duly signed and submitted to the Payments and Settlement Office for the manual processing and settlement before the cut-off time at 5:45PM. The authorized officers shall be any (2) in the list previously submitted with specimen signatures.

Requests for manual processing and settlement in PhilPaSS shall only be allowed under the following circumstances:

1) When the receiving bank of the payments instruction is a non-PhilPaSS participant.

2) When both the primary and back-up PhilPaSS Participant Browser of the paying/instructing bank encounters technical and/or connectivity problems during the transmission of payment instructions to PhilPaSS for settlement.
   a) The technical problem shall be reported officially to PhilPaSS_Helpdesk@bsp.gov.ph and referred to BSP-IT Network Group for evaluation and/or validation.
   b) The COB Manual Settlement Form shall be requested and signed by the most senior/highest position-rank bank official and stating the nature/details of the technical problem encountered.
   c) The signatories to the COB manual Settlement Form shall be based on the latest authorized signatories (with specimen signatures) submitted to the Payments and Settlements Office.

8. Membership Termination

The BSP may terminate a Participant’s PhilPaSS membership for a specified or indefinite period of time under the following circumstances:

1) Notification of the BSP’s Supervision and Examination Sub-Sector on the status of the bank as maybe applicable.

2) The Participant has formally requested BSP for the termination of its PhilPaSS membership based on valid reasons presented.

9. Transaction Fees

1) Participation in PhilPaSS is free. No membership and/or license fees shall be imposed to any participant. However, transaction fees will be automatically collected for every payment instruction that successfully settles in PhilPaSS. These fees cover the cost of real time processing and settlement of fund transfer and payment instructions;
based on the PhilPaSS Pricing Structure approved by the BSP Monetary Board. The BSP reserves the right to revise the schedule of fees whenever it may deem necessary.

**REVISED PRICING STRUCTURE FOR PhilPaSS AND RELATED SYSTEMS**

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<th>TYPES OF FEES</th>
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<td>B. Other Fees</td>
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<td>1. Online Transaction inquiries</td>
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2) BIR Revenue Regulation No. 17-2003 requires that income payments are subject to creditable withholding tax. This covers income payments made by the top ten thousand (10,000) private corporations to their local/resident supplier of goods and local/resident supplier of services other than those covered by other rates of withholding tax of (2%).

BIR Revenue Regulations (RR) No. 2-98 as amended, PhilPaSS Fees and Smart Card Fees shall be subject Creditable Withholding Tax (CWT).

a) Collection of PhilPaSS Fees and Smart Card Fees shall be computed net of 2% and 1% CWT, respectively.

b) Monthly consolidated report on computed CWT shall automatically be transmitted thru the registered email addresses of Authorized Agent Banks (AABs) and can be downloaded via the PhilPaSS Participant Browser. Total amount of CWT represents the amount of tax due for remittance to the Bureau of Internal Revenue every 10th day following the quarter.
c) Proof of payment BIR Form 2307 shall be submitted to the BSP Payments and Settlements Office. Non-submitting (AABs) shall hold full responsibility of penalties or sanctions that may be imposed by BIR in the event that a bank fails to remit the 2% and 1% CWT on or before due date.

10. Participation Requirements for Third Party System Providers (TPSP)

A TPSP who intends to participate and establish linkage to PhilPaSS shall secure and submit the following documents to the Payments and Settlements Office:

1) Letter of Application for Participation in PhilPaSS
2) Secretary’s Certificate re: Board Resolution authorizing the TPSP to apply for participation in PhilPaSS and enumerating the list of authorized officers with their specimen signatures
3) Certificate of Registration from the SEC
4) License to Operate from BSP
5) Diagram of Information and Communications Technology (ICT) architecture, which includes: a) Hardware brand and model; b) Software; c) Vendors/Service Providers; and d) Existing operational workflow
6) Copy of Business Continuity Plan Manual

11. Termination of TPSP Participation

The BSP may terminate the participation of a TPSP in the settlement operations of PhilPaSS on grounds deemed by BSP as sufficient to warrant its termination.

A TPSP who wishes to terminate its participation in the settlement operations of PhilPaSS shall write to the Payments and Settlements Office citing the reasons for termination.
II. OPERATING RULES AND REGULATIONS

Pursuant to PhilPaSS rules and regulations, the transmission of payment instructions by the participants and TPSPs must comply with the applicable practices, procedures, standards and specifications contained herein.

A. Conduct of Operation

PhilPaSS operates daily (Monday to Friday) from 9:00 AM to 5:45 PM.

Details of settlement timelines and cutoff times are found in the Appendix 39 to Sections X202 AND X203 of the Manual of Regulations for Banks.

In case of unforeseen and extraordinary events, the System’s operating hours may be extended by the Payments and Settlements Office especially when the normal course of PhilPaSS’ business operations are affected. In these cases, an electronic notification broadcast shall be issued via SWIFT, PhilPaSS Participant Browser or email, as may be applicable, to inform all participants on the status of PhilPaSS’ operations as a consequence of such events. When a local holiday covering specific areas in the country is announced, PhilPaSS will be open to accept transactions from participants located in areas not covered by the said local holiday. All future-dated payments (up to four days) transmitted by a participant will be accepted as warehoused transactions and will be processed and settled on the specified value date.

A PhilPaSS business day operation is illustrated as follows:

1. At the start of the PhilPaSS business day or before 9:00 a.m. the beginning balances of participants’ DDA shall automatically be transferred from the General Ledger System of the BSP to PhilPaSS.
2. Upon transfer of DDA beginning balances in PhilPaSS, all payment instructions transmitted by its participants and third party system providers shall automatically be settled subject to available DDA balances.
3. If balances are insufficient, a payment instruction shall be held on queue until the system has determined that adequate funds are available to allow its settlement.
4. Upon settlement, PhilPaSS sends an electronic notification to sender and receiver participants to confirm that their respective DDAs have either been debited or credited.
5. At cut-off time of 5:45 p.m., PhilPaSS shall automatically stop receiving payment instruction from the participants.
6. After 6:00 p.m., PhilPaSS shall generate the banks’ DDAs end of day balances and banks’ Statement of Accounts shall be available for access via SWIFT or PhilPaSS Participant Browser (PPB).
B. PhilPaSS Operating Guidelines

All PhilPaSS participants are required to comply with the following operating guidelines to ensure the efficiency and effectiveness of the System when processing PhilPaSS transactions:

**Under Normal Conditions** - a state where the operating environment is business-as-usual

1. From 9:00AM to 5:45PM, PhilPaSS shall be the source of the banks’ official DDA balances.

2. Payment transactions received by PhilPaSS shall automatically be settled by the system provided the Debit participants’ DDA balances are sufficient.

3. Settled transactions are deemed final and irrevocable.

4. All payment instructions shall be settled based on business priority in the order of arrival or in First-In-First-Out-Basis

5. Settlement of payment transactions shall be based on a set business priority codes. Payments to government accounts i.e. BSP, Bureau of Treasury and government banks shall have priority over all other interbank transactions.

6. A gridlock resolution is automatically triggered whenever two or more queued payment instructions of more than two (2) participants remain unsettled due to the shortage of funds in the DDA of any of the involved paying participant.

7. Unsettled queued payment instructions shall automatically be rejected by the system when PhilPaSS closes at 5:45PM.

8. Anytime during the PhilPaSS business hours, participants can inquire on their DDA balance online via SWIFT or PPB.

9. At the end of the business day, participants using the PPB may generate an end of the day report after the system has closed. For SWIFT participants, PhilPaSS will automatically generate a SWIFT MT 950 (Statement Message).

10. At the end of business day, when all the DDA related transactions have been posted in the GL System including the results of PCHC’s Returns Clearing and collection of PhilPaSS fees, the resulting DDA balances shall form part of the bases for determining the participants’ compliance with their respective daily reserve deposit requirements through a system monitored by a BSP supervisory department.
11. The morning IBCL (back-value) window, which enables participants to cover losses in PCHC morning clearing returns, shall be handled as follows:
   a. Between 8:01 a.m. to 8:45 a.m., the borrowing Participant shall inform Payments and Settlements Office that it will utilize the IBCL AM window or Overdraft Credit Line (OCL) with DLC to cover its losses in PCHC’s return clearing.
   b. If IBCL window will be utilized, the lending Participant shall execute a fund transfer instruction to debit its DDA and credit the DDA of the borrowing Participant by transmitting via facsimile to the Payments and Settlements Office the COB Manual Settlement Form duly accomplished and signed by lending bank’s two (2) PhilPaSS authorized signatories.
   c. Upon receipt of the lending bank’s COB Manual Settlement Form, the Payments and Settlements Office shall post and authorize the debit and credit of the lending proceeds to the DDA of the participants concerned.
   d. The lending bank shall transmit the original COB Manual Settlement Form to the Payments and Settlements Office within the same value day of the transaction.
   e. If OCL will be utilized, the implementing rules and regulations of Circular 681 shall apply.

12. All participants shall be responsible for reconciling their DDA balances on a daily basis against PhilPaSS. Any discrepancy noted must be reported to BSP-Financial Accounting Department (FAD) within three (3) working days. Non-reporting or failure to report shall mean that the participant bank’s DDA is accurate and complete.

**Under Abnormal Conditions** - a state where the operating environment will be significantly affected by events that may lead to business disruption. These events may include natural calamities, acts of terrorism, etc. that may impact on the availability and operability of people, systems and business sites.

1. *PhilPaSS* operating hours may be extended when adversely affected by extraordinary circumstances. Under the extended end-of-day procedures, *PhilPaSS* will remain open. *PhilPaSS* resumes settlement operation the following day from 8:00 a.m. to 10:00 a.m. (same value date as of previous day). *PhilPaSS* will close for business at 10:00 a.m., and starts operating for the new value date at 1:00 p.m. *PhilPaSS* will close at 5:45 p.m. as scheduled.

2. In case of contingencies, the BSP Payments and Settlements Office shall advise all the participants on changes in *PhilPaSS* operating hours through the Payments and Settlements Office’s messaging facility.

3. In case there is a failure in *PhilPaSS* primary site, the alternate site complete with the back-up systems shall be immediately activated. In worst cases i.e., where both the primary and alternate sites is inoperable, the BSP Payments and Settlements Office will consider alternative means of processing interbank payments.
C. BSP Liquidity Facilities Available for participants

In case of insufficient DDA balances, the following liquidity facilities of BSP can be utilized by the participants to facilitate the settlement of transactions:

1. Intraday Liquidity Facility (ILF) – an established credit mechanism requiring full collateralization support using government securities aimed at providing additional funds to facilitate the settlement of intraday payments. This ensures the smooth and efficient operation of the payment system to avoid interbank payments gridlock in the settlement process within PhilPaSS’ business hours.

2. Overdraft Credit Line – also a fully collateralized facility which aims to assist bank experiencing unexpected or higher than usual volume of inward check clearing transactions.

D. Rules Governing the BSP’s issuance of Smart Cards

The Payments and Settlements Office issues smart cards to each bank officers with Authorizer role in order to ensure data integrity, security and safety of payment instructions transmitted to PhilPaSS for settlement.

Smart Card Issuance Policy

1. The Smart Card (SC) shall be issued together with the PPB Account profile upon request of the bank personnel by filing the PPB User Registration form. (Form is downloadable at www.bsp.gov.ph under Payments and Settlements section)
2. The SC is non-transferrable.
3. A requesting bank personnel shall only be issued one SC.
4. The SC is valid for a maximum of three (3) years.
5. Each SC shall be issued as part of a SC kit which includes the SC and the SC reader.
6. For every SC kit issued, participant bank’s DDA will be charged accordingly as determined by Payments and Settlements Office based on acquisition cost of the SC kit.
7. The release of SC kit to the requesting bank shall be subject to the submission of the following documents:
   a. Secretary’s Certificate indicating the name of bank personnel authorized to claim the SC;
   b. Release, Waiver, and Quitclaim Form duly signed by the authorized bank personnel indicated in the Secretary’s Certificate; and
   c. Special Power of Attorney – executed by the authorized bank personnel indicated in the Secretary’s Certificate appointing a subordinate employee to claim the SC kit in case of his/her non-availability.
Smart Card Renewal Policy

1. Renewal of smart cards shall be requested three (3) months before the expiry date as indicated at the back of each card.

2. A duly accomplished SC Renewal Form shall be submitted to the Payments and Settlements Office for processing and configuration. The form is downloadable at www.bsp.gov.ph under Payments and Settlements section.

Smart Card Deletion Policy

1. An SC account may be requested for deletion in cases of retirement, resignation, transfers of registered/authorized users.

2. Upon deletion of the SC account, the PPB account profile of the registered/authorized user shall also be deleted in the PPB User Registration database.

E. Rules Governing Compensation Claims

The guidelines on compensation claims are:

1. Each Participant shall be responsible for reclaiming funds it has erroneously sent through the System. Participants shall ensure to settle claims as promptly as possible so that no party is unjustly enriched by the actions of another party. The BSP and the BAP, CTB, IHAP, RBAP and PFA shall not be held responsible for the reclaim of erroneously transmitted funds.

2. Participants who are recipients of funds erroneously sent are encouraged to promptly return the funds upon receipt of notice/advice from the sending Participant and upon verification that the funds were indeed erroneously credited to its DDA. Failure of the recipient to refund the payment until the next business day shall entitle the sending Participant to claim compensation in accordance with the formula stated in Section II E.5.

3. Reclamation of funds is a fund pay out by the receiving Participant as a result of:
   a. Payment that should not have been sent;
   b. Payment transmitted to the wrong receiving Participant (recipient); and
   c. Duplication of payment or over-payment

4. Errors and/or omissions may be corrected, provided the same are communicated by the originating (sending) Participant to the receiving Participant. The rectification of the error shall be on a “best efforts” basis.

5. Claims for compensation arising from erroneous instructions where the funds are still within the control of the receiving Participant shall be covered by an indemnity or
written undertaking by the originating Participant and shall be made within five (5) days from the date of reclamation of the erroneous instruction. Otherwise such claim for compensation may not be honored by the receiving Participant. Claims for compensation filed within the five (5) day period shall be paid using the following formula:

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\text{Compensation} = (\text{Amount of Payment}) \times (\text{Ave. Interbank Call Loan Rate}) \times \frac{\text{(No. of days)}}{360}
\]

**F. Oversight of PhilPaSS**

To ensure the safety and efficiency of the operations of PhilPaSS, the self-assessment of PhilPaSS on its observance of the (applicable) Principles for Financial Market Infrastructures (PFMI) is conducted periodically including the compliance with relevant BSP regulations.

The BSP-Payment System Oversight Department, established under the National Payment System Act under R.A. No. 11127, is mandated to conduct regulation and oversight functions over all payments systems, both high value and retail payments, arrangements, including third party system providers, at least once a year or whenever it may deem necessary.

**III. SANCTIONS**

Violations of the PhilPaSS rules and regulations shall subject the participants to sanctions, as may be imposed by the BSP.

**IV. SETTLEMENT OF DISPUTES AMONG PARTICIPANTS**

The Settlement of Disputes among participants is covered by Section 8.0 of the Memorandum of Agreement on PhilPaSS as approved by the BSP, BAP, CTB, IHAP, PFA RBAP and concurred by the participants through their respective signed Participation Agreement.

**V. AMENDMENTS**

The Rules and Operating Guidelines governing PhilPaSS may be amended, repealed or altered, in whole or in part as the need arises.

Approved:

\[\text{ELEANOR S. TURARAY}\]

Director
Payments and Settlements Office
20 May 2019