



# BANGKO SENTRAL NG PILIPINAS

## CIRCULAR NO. ~~1135~~ Series of 2022

OFFICE OF THE GOVERNOR

Subject: **Guidelines on the Settlement of Electronic Payments Under the National Retail Payment System (NRPS) Framework**

The Monetary Board, in its Resolution No. 102 dated 20 January 2022, approved the following guidelines on settlement of electronic payments under the NRPS framework.

**Section 1.** Section 804/802-Q/502-S/402-P/502-N of the Manual of Regulations for Banks (MORB)/ Manual of Regulations for Non-bank Financial Institutions (MORNBF<sup>1</sup>) are hereby amended to include guidelines on batch clearing and settlement of electronic payments, as follows:

### **"804/802-Q/502-S/402-P/502-N SETTLEMENT OF ELECTRONIC PAYMENTS UNDER THE NATIONAL RETAIL PAYMENT SYSTEM FRAMEWORK**

**Policy Statement.** It is the thrust of the Bangko Sentral to ensure the efficiency of payment systems in the country. In line with this, the Bangko Sentral requires BSP-Supervised Financial Institutions (BSFIs) participating in an Automated Clearing House (ACH) for electronic payments to ensure that this ACH provides 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 risk management (i.e., including management of credit and settlement risks, among others) for electronic payment services.

**Definition of terms.** For the purpose of this Section, the following definitions shall apply:

- a. *Batch clearing and settlement of electronic payments* pertains to the bulk processing, clearing and settlement of payment instructions at set intervals based on a specified cut-off time. It may be referred to as multiple batch clearing and settlement of electronic payments when more than one cycle is performed in a clearing day.

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<sup>1</sup> Old Sections and Subsections of the MORB/MORNBF<sup>1</sup> introduced under Circular No. 1000 dated 19 April 2018 were renumbered to new format Sections of the MORB/MORNBF<sup>1</sup> under Circular Nos. 1065 and 1066 dated 3 and 4 December 2019.

- b. *Clearing participants*, as used in this Section, shall refer to direct clearing participants, as defined in Section 803/801-Q/501-S/401-P/501-N.
- c. *Clearing switch operator (CSO)* provides clearing switch service, as defined in Section 803/801-Q/501-S/401-P/501-N.
- d. *Electronic payment*, synonymous to electronic fund transfer (EFT), shall refer to transfers of funds between two transaction accounts in the same or different BSFIs which are initiated and received using electronic devices and channels to transmit payment instructions, and excludes domestic remittance transaction under existing Bangko Sentral regulations, as defined in Section 803/801-Q/501-S/401-P/501-N.
- e. *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 possible.<sup>2</sup>

***Minimum requirements for the operation of a settlement mechanism for electronic payments.*** Settlement mechanisms for electronic 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 electronic payments;
- b. Distinct DDAs shall be separately established and used for each of the following: (i) instant retail payments, and (ii) batch clearing and settlement of electronic payments;
- c. The clearing participant or its settlement sponsor shall prefund the settlement of its net clearing obligation through the DDA stated in Item "a" above, ensuring that such account can sufficiently cover said obligation at any point during a settlement cycle. In determining the adequate amount of prefunding, the clearing participant/settlement sponsor shall consider the number of settlement cycles within a clearing day, and the length of settlement cycles such as during weekends and holidays, among others;
- d. The clearing participants shall agree on thresholds which shall be the bases of the CSO in determining if the balances of the DDAs are sufficient for clearing and settlement of the participants' electronic payments in any given settlement cycle.

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<sup>2</sup> Bank for International Settlements. (2016, November). *Fast payments – Enhancing the speed and availability of retail payments*. <https://www.bis.org/cpmi/publ/d154.pdf>

In the case of instant retail payments, the CSO shall 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 agreed-upon threshold is breached.

As regards batch clearing and settlement of electronic payments, the CSO shall provide a system that enables clearing participants to monitor movements and place additional funds, when necessary, in their DDAs in a timely manner for each and every settlement cycle;

e. The service contract between the clearing participants and the CSO shall include, at a minimum, the following provisions:

(1) For instant retail payments:

(a) 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;

(b) 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 concerned clearing participant; and

(c) 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.

(2) For batch clearing and settlement of electronic payments:

(a) The CSO shall record the clearing participants' DDA balances obtained from the Bangko Sentral prior to the initial settlement cycle of the day;

(b) The CSO shall allow clearing participants to effectively monitor the sufficiency of their DDA balances for every settlement cycle by providing access to timely data on the clearing participants' net clearing obligations against their respective DDA balances;

- (c) Should the balance of a clearing participant's DDA be insufficient to settle its net clearing results, the participant shall ensure prompt settlement by funding its DDA with the Bangko Sentral either prior to the specified settlement cut-off time or within the agreed-upon grace period after the settlement cut-off time. If the clearing participant fails to sufficiently fund its DDA for a specific settlement cycle, the CSO shall exclude all of the said clearing participant's payment instructions from the net clearing results transmitted to the Bangko Sentral for such settlement cycle;
- (d) If the CSO receives a settlement failure report from the Bangko Sentral, the CSO shall re-process the transactions and generate a revised net settlement report which excludes all payment instructions from the clearing participants with insufficient DDA balances; and
- (e) Clearing participants that fail to sufficiently fund their net obligations in a timely manner shall be subject to commensurate penalties as provided under the ACH rules and regulations; and
- f. Should the clearing participants determine that the funds in their DDAs for electronic payments are excessive after taking into account their highest potential clearing obligations and agreed-upon threshold, the clearing participants shall be allowed to withdraw from their DDAs to enable them to make optimal use of their funds, provided that such withdrawal will not result in a deficiency in the required reserve of the bank/QB.

The Bangko Sentral shall not be precluded from deploying applicable regulatory enforcement actions to concerned clearing participants 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 electronic 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 concerned clearing participant, the BSFIs participating in any 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 Sections 146/146-Q/125-N on Operational Risk Management and 145/145-Q/144-S/124-N on Liquidity Risk Management.

***Demand deposits for electronic payments as eligible reserves.*** The DDAs maintained with the Bangko Sentral for the settlement of net clearing obligations arising from electronic payment transactions shall form part of the banks'/QBs' reserves against deposit and deposit substitute liabilities pursuant to Section 252/212-Q on the Composition of Reserves.

***Supervisory enforcement action. x x x***

**Section 2. Effectivity.** This Circular shall take effect immediately upon its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:

**BENJAMIN E. DIOKNO**  
Governor

21 January 2022