



MANUAL OF REGULATIONS

for Payment Systems

Updated as of
September 2024

FOREWORD

As the Bangko Sentral takes strategic strides toward payment system reforms in alignment with international standards and best practices, it has become imperative that the regulatory issuances on payments are readily available to guide these reforms. This Manual of Regulations for Payment Systems (MORPS) is therefore designed to systematically organize the various policy and regulatory issuances enforced by the Bangko Sentral. These issuances implement the broader provisions of Republic Act No. 11127 or the National Payment Systems Act in conjunction with other pertinent laws governing payment systems.

The MORPS is primarily designed to foster adherence by operators of payment systems (OPS) to standards that are aimed at fortifying the safety, efficiency, and reliability of the national payment system. Its significance, however, extends beyond OPS as it serves as an invaluable reference for any individual, institution, or agency with an active interest in the national payment landscape.

PREFACE

The Manual of Regulations for Payment Systems (MORPS) compiles payment system regulations approved by the Monetary Board of the Bangko Sentral.

This MORPS edition contains updates and amendments on payment system regulations as of end September 2024. It also covers provisions related to the adoption of international standards and best practices, as well as amendments to existing policies.

MOR Oversight Committee

Adviser	Deputy Governor, Payments and Currency Management Sector (PCMS)
Chairperson	Head, Payments and Currency Development Subsector (PCDSs)

MORPS Technical Secretariat

Chairperson:	Head, Payments Policy and Development Department (PPDD)
Members:	Officers and staff, Payments Policy Group

LIST OF ACRONYMS AND ABBREVIATIONS

ACH	Automated Clearing House
AM	Assessment Methodology
AML/CTF	Anti-Money Laundering/Combating the Financing of Terrorism
AML/CTPF	Anti-Money Laundering/Countering Terrorist and Proliferation Financing
ASEAN	Association of Southeast Asian Nations
BIS	Bank for International Settlements
BSFI	BSP Supervised Financial Institution
CDA	Cooperative Development Authority
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COE	Confirmation of Eligibility
COO	Chief Operating Officer
CPMI	Committee on Payments and Market Infrastructures
CSO	Clearing Switch Operator
CSP	Critical Service Provider
DDA	Demand Deposit Account
DOS	Directors, officers, stockholders
DOSRI	Directors, officers, stockholders, or Related interests
DPS	Designated Payment System
EFT	Electronic Fund Transfer
EMEAP	Executives' Meeting of East Asia-Pacific Central Banks
EMI	Electronic money issuers
EMI-NBFI	Electronic Money Issuer-Non-Bank Financial Institution
EPFS	Electronic Payment and Financial Services
E-Wallet	Electronic Wallet
FMI	Financial Market Infrastructure
IASP	Internationally Accepted Standards and Practices
IOSCO	International Organization of Securities Commissions
IT	Information Technology
MORB	Manual of Regulations of Banks
MORNBFI	Manual of Regulations for Non-Bank Financial Institutions
MORPS	Manual of Regulations for Payment System
NPS	National Payment System
NBFI	Non-bank financial institution
NPSA	National Payment System Act
NRPS	National Retail Payment System
ODPS	Operator of a Designated Payment System
OGCLS	Office of the General Counsel and Legal Services
OI	Originating Institution
OPS	Operator of a Payment System
OTC	Over-the-counter
PCMS	Payments and Currency Management Sector
PFMI	Principles for Financial Market Infrastructures
Php	Philippine Peso
PIPS	Prominently Important Payment System
POI	Point of Interaction

PSMB	Payment System Management Body
PSOF	Payment System Oversight Framework
PSP	Payment Service Provider
QR	Quick Response
R.A.	Republic Act
RAS	Risk Appetite Statement
RCB	Rural/Cooperative Banks
RI	Receiving Institution
RPT	Related party transactions
RTGS	Real-time Gross Settlement
SEACEN	Southeast Asian Central Banks
SEC	Securities and Exchange Commission
SIPS	Systemically Important Payment System
TB	Thrift Banks
U/KB	Universal and Commercial Banks

MANUAL OF REGULATIONS FOR PAYMENT SYSTEMS

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PART ONE REGULATORY FRAMEWORK

101 PAYMENT SYSTEM OVERSIGHT FRAMEWORK

101.1 Policy Statement. A safe and efficient national payment system is crucial to the smooth functioning of financial markets and the stability of monetary and financial systems. It is also instrumental in achieving and sustaining inclusive economic growth. Thus, the Bangko Sentral adopts this oversight framework for the effective and efficient governance of the national payment system (NPS).

101.2 Objectives of the Oversight Function. The Bangko Sentral performs oversight functions primarily to ensure safety, efficiency, and reliability of the NPS.

Safety builds and preserves confidence in the financial system. This objective requires reliability and integrity of the payment system as well as effective management of a broad spectrum of payment-related risks such as legal, compliance, credit, liquidity, business, custody, investment and operational risks, including cybersecurity breaches, operational and settlement failures, and fraudulent transactions.

Efficiency is characterized by the presence of quick and affordable payment means which are fit for the purpose of the transactions and the needs of the users and the participants. Interoperability and healthy competition among the Payment Service Providers (PSPs) and the Operators of a Payment System (OPSs) are necessary to achieve efficiency.

101.3 Responsibility for Oversight. Pursuant to the authority granted under Section 5 of R.A. No. 11127 or the NPSA and Section 3 of R.A. No. 7653 or The New Central Bank Act as amended by R.A. No. 11211, the Bangko Sentral, through an appropriate oversight department, is responsible for overseeing the NPS, including the payment system that the Bangko Sentral owns and operates pursuant to Section 8 of R.A. No. 11127. The Bangko Sentral shall adopt internal safeguards to ensure independence between its overseer and operator functions.

101.4 Cooperative Oversight. With regard to payment activities and interlinkages of Financial Market Infrastructures (FMIs) that relate or interconnect with payment systems, the Bangko Sentral shall pursue cooperative oversight with relevant local regulators, government agencies, and foreign regulators. Apart from enhancing oversight capacity and response, cooperative oversight prevents regulatory arbitrage resulting from gaps, inefficiencies, duplications, and inconsistencies in the regulations for FMIs. In this respect, the Bangko Sentral shall establish measures to facilitate effective and efficient flow of information among various regulators and government agencies. The cooperation and information-sharing process shall be compliant with relevant statutory provisions and consistent with the responsibilities for authorities under the Principles for Financial Market Infrastructures (PFMI).¹

- a. *Other local regulators and government agencies.* The Bangko Sentral shall coordinate with other regulators including primary regulators of FMIs, that relate to or interconnect with payment systems. The grant, suspension, or revocation of any government license necessary for the conduct of business of an OPS must be

¹ International standards for financial market infrastructures, i.e., payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories, issued by the CPMI and the IOSCO.

done only with prior consultation with the Bangko Sentral,² being the primary regulator of the OPS.

- b. *Foreign regulators or overseers of payment systems of other countries.* The Bangko Sentral's cooperative oversight shall conform to the arrangements entered into by the Philippines through regional and global affiliations such as, but not limited to, the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), South East Asian Central Banks (SEACEN), and Association of South East Asian Nations (ASEAN). In cases where a payment system participant in the Philippines also operates in other jurisdictions, or a domestic payment system interacts with FMIs in other countries, the Bangko Sentral can directly coordinate with foreign regulators or overseers of payment systems. The coordination aims to facilitate safe, efficient, and reliable cross-border payment transactions.

101.5 Scope of Oversight. The oversight function of the Bangko Sentral shall cover the NPS including activities of the following institutions:

- a. *Operators of payment systems (OPS).* All OPS shall comply with the relevant regulations and guidelines set out by the Bangko Sentral, including governance, risk management and reporting requirements. An OPS shall remain financially and technically capable to ensure that the payment system it operates remains robust and responsive to the needs of its participants.
- b. *Financial Market Infrastructures (FMI).* The Bangko Sentral focuses its oversight on the NPS. Cooperative oversight shall be pursued by the Bangko Sentral for payment activities and interlinkages of other FMIs that relate to or interconnect with payment systems. Payment system FMIs, at the minimum, shall observe the relevant PFMI and comply with applicable Bangko Sentral rules and regulations. PFMI assessment responsibilities for other FMIs shall be subject of cooperative oversight with the FMI's primary regulator. Likewise, the oversight function shall extend to the payment and settlement activities of correspondent banks and custodians.³
- c. *Payment System Management Body (PSMB).* A PSMB, duly accredited by the Monetary Board, shall be responsible for promoting the development and interoperability of the payment system, the creation of payment system rules and agreements, and the establishment of standards to ensure that payment transactions are safely and efficiently cleared and settled with finality; provided, that the said rules, agreements, and standards shall be subject to review and prior approval by the Bangko Sentral.

The PSMB shall develop a comprehensive and holistic governance framework that satisfactorily demonstrates how the PSMB will perform self-regulation among its members in accordance with the NPSA. The PSMB shall establish policies and procedures to implement the governance framework, including assurance measures for members' compliance with the PSMB rules and regulations, to instill discipline among its members and to promote development of the payment system. The development and implementation of the framework, policies and procedures by the PSMB shall be subject of oversight by the Bangko Sentral. The Bangko Sentral may accredit several PSMBs. Conversely, the Bangko Sentral may

² Section 9 of R.A. No. 11127

³ Custodians hold securities for their customers, including banks, and provide related services. BIS, "Central Bank Oversight of Payment and Settlement Systems" (May 2005).

revoke the accreditation of a PSMB for failure to perform its function or when it no longer serves its purpose as a PSMB.

- d. *Payment service providers (PSPs).* PSPs shall ensure that the payment instruments and delivery channels they offer are responsive to the needs of the end-users and compliant with relevant regulatory requirements, including, but not limited to, payment regulations, consumer protection, information security, and anti-money laundering/combating the financing of terrorism (AML/CFT).
- e. *Critical Service Provider (CSP) of a designated payment system.* The Bangko Sentral shall exercise its oversight function over the CSPs of DPS. The Bangko Sentral may engage in a cooperative oversight with the primary regulator of a CSP that operates not only in the Philippines but also in other jurisdictions. At the minimum, CSPs shall observe the relevant principles for CSPs as provided in the PFMI.

101.6 Oversight Activities.⁴ Consistent with a risk-based approach that takes into consideration both the payment system's risk profile and its impact in the NPS, the Bangko Sentral shall perform the following oversight activities:

- a. *Monitoring existing and planned payment systems.* The Bangko Sentral monitors existing and planned payment systems to obtain an in-depth knowledge of the interaction among payment systems and the interlinkages between payment systems and other FMIs. By monitoring payment systems, the Bangko Sentral aims to ultimately determine the impact of these systems on the broader financial and monetary systems. Relative to this activity, the Bangko Sentral adopts the following policies:
 - (1) *Registration and licensing.* The Bangko Sentral requires registration of all OPS in accordance with the guidelines provided under Section 502 of the MORPS. A registered OPS that intends to operate within a designated payment system shall secure prior approval from the Bangko Sentral.⁵ The licensing framework under the MORPS shall include, at a minimum, the requirements for PSPs, ODPS, and payment services, arrangements, instruments, and activities.
 - (2) *Off-site monitoring.* The Bangko Sentral shall require the participants of payment systems to submit periodic and ad hoc reports on payment and other financial transactions, key risk indicators, incidents, and other statistics, key documents, and information relevant to its oversight of the NPS. The submission of the required reports to the appropriate oversight department shall conform to the reporting governance framework of the Bangko Sentral. As deemed relevant, the Bangko Sentral shall conduct meetings with existing and/or prospective participants of a payment system.
 - (3) *On-site activities.* The Bangko Sentral shall perform on-site activities which shall complement off-site activities to strengthen the oversight of the NPS. The appropriate oversight department shall determine the frequency and scope of on-site activities. These activities shall include, but are not limited to, review of contractual arrangements governing payment systems, evaluation of pricing

⁴ The Bangko Sentral's oversight activities are consistent with those provided in the "Central Bank Oversight of Payment and Settlement Systems" issued by the CPMI.

⁵ Pursuant to R.A. 11127, operators of designated payment systems are required to secure prior authority from the Bangko Sentral

mechanisms against the principles adopted by the Bangko Sentral, verification of compliance with relevant laws, regulations and policies, and validation of representations made by the participants in the payment systems.

- b. *Assessing the NPS and payment systems against the safety, efficiency and reliability objectives.* In pursuit of these objectives, the Bangko Sentral conducts continuous assessment of payment systems and the NPS based on information gathered from its monitoring activities. The Bangko Sentral adopts the following policies in connection with this activity:

- (1) *Internationally Accepted Standards and Practices (IASPs).* IASPs are established, thoroughly-developed, and generally-accepted guidance prescribed by reputable international-standard setting bodies, which include multilateral agencies.⁶ The Bangko Sentral shall require the observance of IASPs in the design and operation of payment systems.
- (2) *Assessment Criteria.* The Bangko Sentral shall adopt different sets of assessment criteria in consideration of the characteristics and risk profile of payment systems, the size and profile of the transactions these systems process, and the system architecture, governance and controls, among others, established by the participants in the payment systems.
- (3) *Designation.* The Bangko Sentral shall designate a payment system which poses or has the potential to pose systemic risk that could threaten the stability of the NPS. To protect public interest, the Bangko Sentral may also designate a payment system which may not trigger or transmit systemic risk but could have a major economic impact or undermine the confidence of the public in the NPS or in the currency in general. Designation shall conform to the criteria and the process provided in this framework.
- (4) *Enforcement action.* The Bangko Sentral may deploy enforcement actions, including but not limited to monetary and/or administrative penalties and sanctions, to ensure compliance with relevant laws and regulation and bring about timely corrective actions. Any violation committed by an OPS or any other participant in a payment system, and/or by their directors and officers, shall be subject to the sanctions set forth in Sections 36 and 37 of R.A. No. 7653, as amended, and Sections 19 and 20 of R.A. No. 11127, as appropriate.

- c. *Inducing Change.* The Bangko Sentral acts as a catalyst for change to pursue development and innovation of payment systems, enhance the safety and efficiency of the NPS, as well as address emerging payment risks or issues. The Bangko Sentral may pursue its reform agenda in several ways, such as, but not limited to, the following means:

- (1) *Stakeholder dialogue.* The Bangko Sentral may regularly conduct dialogues and collaborate with key stakeholders on innovative approaches towards improving the payment system to ensure that oversight expectations are consistent with industry initiatives and the needs of the end users. Towards this end, a formal forum, led by the Bangko Sentral with key stakeholders as regular members, may be created. Further, the Bangko Sentral shall conduct focused research and, as suitable, collaborate with other local and/or foreign regulators

⁶ Examples include: The World Bank (WB), and the BIS

on payments development in the country. Joint actions or projects can be pursued for this purpose.

- (2) *Policy issuance.* The Bangko Sentral shall issue policies to enable innovative solutions for the payment systems to thrive while keeping the existing and emerging payment-related risks adequately managed and mitigated. These policies shall include principles and requirements on various areas, such as, but not limited to governance, risk management, consumer protection, data confidentiality, information security, AML/CFT, and pricing mechanism.

101.7 Designation of a Payment System. A payment system shall be designated as Systemically Important Payment System (SIPS) or Prominently Important Payment System (PIPS) upon determination by the Bangko Sentral that the payment system poses or has the potential to pose systemic risk, or the designation of the payment system is necessary to protect public interest. The Bangko Sentral shall take into account the following criteria and any other relevant considerations approved by the Monetary Board for the purpose of designating payment systems:

- a. Market share;
- b. Aggregate settlement risk based on volume and value of transactions;
- c. Nature and complexity of transactions that the system processes;
- d. Interdependence with other payment systems or FMIs; and
- e. Absence of alternative payment system.

101.8 Designation. Vetting on the designation of a payment system shall be based, among others, on information gathered from offsite monitoring, stakeholder dialogue, on-site activities, and cooperative oversight. Once the designation criteria are met, the Bangko Sentral shall initiate a focused review on the payment system's profile, including its current and potential impact on the NPS. In the course of the assessment, the Bangko Sentral shall engage the participants of the payment system being evaluated for possible designation.

Upon approval of the designation of a payment system, the Bangko Sentral shall notify the participants of the payment system. A transitory provision for compliance with the requirements for a designated payment system shall be included in the notification, as applicable. Moreover, the Bangko Sentral shall inform the public of the designation of a payment system.

101.9 Designated Payment System (DPS). Participants of DPS shall be subject to periodic assessment by the Bangko Sentral. The assessment shall be comprised of on-site visits and off-site monitoring activities. Assessments shall focus on the observance of standards such as the PFMI and other IASPs, compliance of participants in the DPS with laws, regulations, and determination of whether the factors considered for designation continue to exist. The participants in a DPS shall demonstrate adequate governance and risk management arrangements consistent with the principles set out in relevant laws and regulations. These arrangements cover several areas of concern including the access of participants to the system, management of liquidity, credit, operational, settlement and general business risks, finality of settlement, fair market competition, reasonable pricing mechanism, independent assurance/audit, and transparency.

101.10 Operator of a Designated Payment System (ODPS). Recognizing the role assumed by an operator in the maintenance and operation of a designated payment system, the Bangko Sentral, through the Monetary Board, shall set the organizational and operational requirements for an ODPS.

At a minimum, an ODPS shall:

- a. Secure a certificate of authority issued by the Monetary Board prior to (1) registering the Articles of Incorporation and By-Laws, or any amendments thereto, or (2) obtaining a license to do business in the Philippines for submission to the Securities and Exchange Commission (SEC), as applicable;
- b. Be a stock corporation, and licensed to do business in the Philippines in case of foreign entities;
- c. Be a registered OPS pursuant to Section 502 of the MORPS and must secure prior authority to be an ODPS from the Bangko Sentral. If an existing payment system is designated, the operator shall secure an authority to be an ODPS from the Bangko Sentral;
- d. Obtain prior approval of the Monetary Board for any change in ownership or control, directly or indirectly, of more than ten percent (10%) of the voting stock of the ODPS;⁷
- e. Secure approval from the Bangko Sentral prior to implementation of a significant modification in its business model;
- f. Comply with the fit and proper rule set on qualifications and disqualifications of individuals elected or appointed as directors or officers of the ODPS with respect to their integrity/probity, physical/mental fitness, relevant experience, education, training, competence and other qualifications necessary in the performance of their duties. In this regard, the officers and directors of an ODPS may be confirmed, disqualified, suspended, removed, or watch-listed by the Monetary Board, without prejudice to imposition of other enforcement actions;
- g. Comply with governance, risk management and internal control standards set by the Bangko Sentral, including but not limited to the observance of relevant PFMI principles, confidentiality of payment information, and compliance with R.A. No. 9160, otherwise known as the "Anti-Money Laundering Act of 2001" and other related laws;
- h. Comply with the outsourcing framework prescribed by the Bangko Sentral including the scope and extent of the responsibility of the ODPS in regard to the actions of its service provider(s), requirements on ensuring that governance, risk management, and internal control standards are consistently applied to the outsourcing arrangement and to the parties involved, or any limitation of functions that may be outsourced. In this regard, the ODPS is expected to establish accreditation and continuing compliance requirements on its service provider(s) or participant OPS to maintain the integrity of the payment system;
- i. Exhibit high degree of security and operational reliability; and
- j. Adopt contingency requirements (e.g., operational, liquidity) to ensure timely completion of processing commitments.

An ODPS is expected to engage with the appropriate oversight department of the Bangko Sentral to discuss how it intends to observe relevant standards. The requirements a, b, and d for ODPS as cited above shall not apply to payment systems owned and operated by the Bangko Sentral.

⁷ Section 13 of R.A. No. 11127

101.11 Designation of a Manager to Manage the Operations of the ODPS. When a threat to the safety, efficiency and reliability of a designated payment system exists, the Bangko Sentral, upon determination of its appropriate payment system oversight department, and with prior approval of the Monetary Board, shall appoint without need for prior court hearing, a manager of recognized competence in payment systems to manage the operations of the ODPS in accordance with Section 17 of R.A. No. 11127. The Monetary Board shall not be precluded from replacing the manager assigned if it is deemed necessary.

101.12 Revocation of Designation. The Bangko Sentral, through the Monetary Board, may revoke the designation of a payment system upon determination that the payment system no longer meets the designation criteria of a DPS provided in this framework. The participants in the DPS and the public shall be informed of the revocation of the designation.

101.13 Enforcement Action. Enforcement Action under Subsection 101.13 was transferred to Part 15 of the Manual.

(Circular No. 1089 dated 07 July 2020)

102 ADOPTION OF THE PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES (PFMI)⁸

102.1 Policy Statement. In line with the thrust of ensuring the safety, efficiency, and reliability of the national payment system (NPS), the Bangko Sentral shall require the adoption of the PFMI standard by the designated payment systems (DPS), pursuant to the Payment System Oversight Framework (PSOF), and the National Payment Systems Act (NPSA). In cases involving non-payment system financial market infrastructures (FMIs) and cross-border payment systems, adoption of the PFMI may be subject of cooperative arrangements⁹ with other regulatory authorities.

102.2 Scope. The mandatory adoption of the PFMI standard shall be required for DPS, including its participants¹⁰, to the extent of the role/s being performed by said participants in the DPS. Aligned with this, the Bangko Sentral shall use the PFMI assessment methodology to determine the observance of relevant principles by the DPS as well as identify possible risks and induce changes in the NPS. For non-designated payment systems, the Bangko Sentral may utilize applicable key considerations under relevant principles of said Standard to assess the practices in the design and operations of said payment systems. For cross-border payment system, in case the requirements under Bangko Sentral regulations or PFMI are not applied by the foreign overseer/authority in its home jurisdiction, said regulations or principles may still be required by the Bangko Sentral as deemed necessary and consistent with the authority granted to the Bangko Sentral over its registered and licensed

⁸ International standards for FMIs, i.e., payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories, issued by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO)

⁹ Section 9 of the NPSA Coordination with Other Government Agencies and Foreign Regulators: and as provided in the PSOF.

¹⁰ As defined under the NPSA, participants include operator, issuer, service provider or any person involved in the payment system other than the end-user

institutions. The coordination with foreign regulators shall aim to facilitate safe, efficient, and reliable cross- border payment transactions.¹¹

102.3 Relevant Principles. The PFMI is a set of international standards designed to strengthen FMIs and make them more resilient to financial crises, and participant defaults. In general, while the standards are principles-based, said standards incorporate, in some cases, specific minimum requirements to achieve the same base level of risk management across different FMIs and countries.¹²

While the PFMI consists of twenty-four (24) principles, the required adoption by the DPS shall at a minimum extend to principles relevant to payment systems in the country, as provided in Appendix 102-1. These principles shall be applied holistically and not on a stand-alone basis given that some principles are built upon others while some complement others. The principles are classified into eight (8) broad categories, namely:

- a. *General organization* - Principles under this category provide guidance on how the DPS shall generally be organized to establish a strong foundation for the comprehensive management of risks in the DPS. This covers principles on legal basis, governance, and risk management framework.
- b. *Credit and liquidity risk management* - Principles under this category provide standards to support a high degree of confidence that the DPS will be able to operate and serve as a source of financial stability even under stressful conditions.
- c. *Settlement* - Principles under this category require the DPS to address issues on settlement risk and finality of DPS transactions.
- d. *Default management* - This principle requires the adoption of appropriate policies, rules, and procedures in the DPS to manage default of participant/s.
- e. *General business risk and operational risk management* - Principles under this category are designed to: (1) protect participants and the financial system from the risk that a DPS could suddenly cease operations as a result of business losses unrelated to participant defaults; and (2) strengthen the requirements on operational reliability and resilience.
- f. *Access* - Principles under this category address management of risks posed by alternative access arrangements and the need for fair and open access to the DPS.
- g. *Efficiency* - Principles under this category enable the DPS to be efficient and effective in meeting the requirements of its participants and the market it serves.
- h. *Transparency* - Principles under this category require that relevant information shall be provided to the participants of the DPS, the authorities, and the public to enable informed and sound decision making as well as foster confidence in the market it serves.

102.4 Adoption by DPS. The adoption of the applicable principles by the DPS shall depend on whether it is designated as a systemically important payment system (SIPS) or prominently important payment system (PIPS). Appendix 102-1 provides which principles shall be adopted by a SIPS or PIPS.¹³

102.5 Critical Service Providers (CSPs). In certain cases, the operational reliability of a DPS may be dependent on the performance of service providers that are critical to its operations, such as information technology and messaging providers. In this respect, the Bangko Sentral sets forth the following expectations¹⁴ to be met by CSPs:

¹¹ As provided under cooperative oversight section of the PSOF.

¹² PFMI. Bank for International Settlements (BIS) and IOSCO, 2012

¹³ The guidelines on the designation of a payment system are provided under the PSOF.

¹⁴ Adopted from Annex F of the PFMI, BIS and IOSCO, 2012

- a. *Risk identification and management* – A CSP is expected to identify and manage relevant operational and financial risks to its critical services and ensure that its risk management processes are effective.
- b. *Information Security* – A CSP is expected to implement and maintain appropriate policies and procedures, and devote sufficient resources to ensure the confidentiality and integrity of information and the availability of its critical services in order to fulfill the terms of its relationship with the Operator of a Designated Payment System (ODPS)¹⁵ or the DPS.
- c. *Reliability and resilience* – A CSP is expected to implement appropriate policies and procedures, and devote sufficient resources to ensure that its critical services are available, reliable and resilient. Its business continuity management and disaster recovery plans should therefore support the timely resumption of its critical services in the event of an outage so that the service provided fulfills the terms of its agreement with the ODPS/DPS.
- d. *Technology planning* – The CSP is expected to have in place robust methods to plan for the entire lifecycle of the use of technologies and the selection of technological standards.
- e. *Communication with users* – A CSP is expected to be transparent to its users and provide them sufficient information to enable users to understand clearly their roles and responsibilities in managing risks related to their use of a CSP.

The contracting party¹⁶, the DPS or the ODPS, shall be responsible for ensuring that the CSP meets the above-cited expectations and that operations of the CSP shall be held to the same standards as if the services were provided by the DPS or ODPS itself. The Bangko Sentral, however, is not precluded from directly engaging with and exercising its oversight function over the CSP in accordance with the PSOF.

102.6 Assessment by the Bangko Sentral. The Bangko Sentral shall adopt the PFMI assessment methodology (AM) to evaluate the observance of the relevant principles by a DPS as well as identify possible risks and induce changes in the NPS. In performing the PFMI assessment, the Bangko Sentral shall utilize the pertinent AM's rating scale as laid out in Appendix 102-2.

102.7 Enforcement Action. Enforcement Action under Subsection 102.7 was transferred to Part 15 of the Manual.

(Circular No. 1126 dated 14 September 2021)

103 REGULATORY REPORTING STANDARDS FOR OPERATORS OF PAYMENT SYSTEM (OPS)

103.1 Policy Statement. The Bangko Sentral recognizes that relevant, complete, accurate, and timely reports are necessary for the effective oversight of the national payment system. Reports of such qualities accordingly support the Bangko Sentral's determination of appropriate oversight tools, approaches, and interventions. Thus, the Bangko Sentral adopts this reporting framework which shall govern the submission of reports of an OPS.

¹⁵ Role of and requirements for an Operator of a Designated Payment System (ODPS) are provided in the PSOF.

¹⁶ The contracting party may either be the ODPS or the DPS through its appropriate governance body (i.e., payment system management body such as the Philippine Payments Management, Inc.).

103.2 Reporting Standards. Reports submitted to the Bangko Sentral must be accurate, complete, and timely to be considered compliant with the Bangko Sentral reporting standards. Inputs to the reports shall be validated by the OPS prior to submission to the Bangko Sentral to ensure accuracy, completeness and integrity of information submitted therein. The reports shall reflect all the information required by the Bangko Sentral. Reports with incomplete schedules or attachments shall be considered non-compliant with the reporting standards prescribed in this Section. Moreover, submission of reports shall be made within the timeline and in accordance with reporting templates prescribed by the Bangko Sentral.

To be able to comply with these reporting standards, an OPS must have in place a reporting system that has at least the following functionalities under both business-as-usual and stressed conditions:

- a. Generates accurate, complete and reliable information as required by the Bangko Sentral and other regulatory bodies;
- b. Aggregates all material data across various business lines, entities, services, instruments and other groupings that are relevant to regulatory reporting; and
- c. Produces in a timely manner, regular, on-demand, and ad hoc reports particularly those required by the Bangko Sentral and other regulatory bodies.

For the purpose of this Section, a *stressed condition* shall refer to emergency conditions for OPS such as a crisis, national or public health emergencies, weather-related events, or sudden closures markets and/or clearing agencies the transactions therein are processed through an OPS for eventual settlement.

103.3 Reporting Governance. The Board and senior management shall be responsible for respectively adopting policies on and implementing an effective reporting system that generates accurate, complete, and timely reports to the Bangko Sentral. In this regard, the Board and senior management of an OPS shall establish regulatory reporting procedures that ensure adherence to the reporting standards set by the Bangko Sentral.

An effective reporting system shall have the following components:

- a. A management information system, data architecture and technology infrastructure:
 - (1) That are commensurate to the nature, scope, operational complexity and systemic importance of the OPS' business activities;
 - (2) That fully support reporting requirements; and
 - (3) That facilitate internal independent validation prior to submission of reports.
- b. Documented policies and procedures, which should include, at a minimum:
 - (1) Processes for generating required reports which meet the standards prescribed by the Bangko Sentral;
 - (2) Procedures to implement modifications in reporting processes, in order to incorporate corrective measures and/or enhancements for the purpose of addressing weaknesses identified during periodic reviews, responding to changes in operating environment, or complying with new regulatory reportorial requirements;
 - (3) Protocols that ensure timely reporting to the Board and senior management of significant or unusual transactions, events, or activities that have material impact on the quality of reports; and

(4) Standards and procedures for maintaining adequate back-up copies of essential business information, software and relevant documents that are necessary for restoration of critical operations.

- c. Periodic independent review of reporting processes and procedures to ensure their continuing reliability and effectiveness. The appropriate frequency of such review shall mainly depend on the systemic importance, risk profile and business complexity of the OPS as well as the extent of recurrence of control weaknesses that cause reporting exceptions. Such assessment shall be conducted by an independent unit within the OPS (i.e., internal audit) or an independent external party contracted by the OPS for such purpose, with expertise in relevant information technology (IT), data management, and regulatory reporting.

103.4 Data Retention. OPS shall likewise adopt a policy requiring data and report retention period of no less than five (5) years unless the OPS become a subject of an investigation, a special examination of the Bangko Sentral or a criminal, civil, or administrative case has been filed in a competent judicial or administrative body where the OPS is involved as a party to the investigation. In such cases, the relevant information shall be preserved beyond the five (5)-year period until such time that a final judgment has been reached by the Bangko Sentral or by the judicial or administrative body.

In cases where specific laws of Bangko Sentral issuances require a different retention period, the longer retention period shall be observed.

103.5 Sanctions for Non-Compliance with the Reporting Standards. The following guidelines shall govern the Imposition of sanctions to an OPS for non-compliance with the reporting standards:

a. Definitions

- (1) *Erroneous Report* - A report that was submitted within the prescribed deadline, but is found to be non-compliant with the Bangko Sentral reporting standards described in this Section shall be classified as "Erroneous". Submission of an Erroneous Report shall be considered as willful failure to comply with the regulation.
- (2) *Delayed Report* - A report that is compliant with the Bangko Sentral reporting standards but was submitted after the prescribed deadline shall be classified as "Delayed". Submission of a compliant report beyond the deadline prescribed by the Bangko Sentral shall be considered as willful delay in the submission of reports.
- (3) *Unsubmitted* - A report that was not submitted, or was submitted but do not comply with the Bangko Sentral reporting standards by the time the next report becomes due or upon lapse of thirty (30) business days from the report's submission deadline, whichever comes first, shall be classified as "Unsubmitted". Non-submission of required reports shall be considered as willful refusal to comply with the regulation.

Table 1 shall be used as reference for the defined number of business days after a report's submission deadline for such report to be considered "Unsubmitted".

Table 1-Number of days of delayed submission for report to be considered as “Unsubmitted”

Reporting Frequency	Defined number of business days after report’s submission deadline to be considered “Unsubmitted”
Daily	1
Weekly	7
Monthly	30
Quarterly	
Semestral	
Annual	
Event-based/Ad-hoc*	

*This refers to reports that the OPS are required to submit upon the occurrence of an event/incident or upon request by the appropriate oversight department of the Bangko Sentral for the purpose of conducting surveillance of the payment system.

b. Monetary Penalties

The applicable monetary penalty shall be based on a prescribed fine for each occurrence (in case of Erroneous reports) or for each day (in case of Delayed reports) shown in Table 2. The penalties will accumulate until such time that the report has been determined compliant with the prescribed reporting standards.

Table 2 – Prescribed fines for reporting violations

OPS	Primary Reports	Secondary Reports
OPS that are banks		
Universal/Commercial Banks (U/KBs)	Php 3,000.00	Php 600.00
Thrift Banks (TBs)	1,500.00	300.00
Rural Banks/Cooperative Banks (RCBs)	450.00	150.00
Non-bank OPS	300.00	60.00

For the purpose of this regulation, a non-bank OPS shall include non-bank electronic money issuers (EMI-NBFI), clearing switch operators, and other non-BSFIs that are registered with the Bangko Sentral as such.

Primary reports are those which shall be required of ODPS such as, but not limited to, periodic surveillance reports which shall be due for daily, monthly or quarterly submission to the Bangko Sentral. Meanwhile, *Secondary Reports* are those that shall be required of non-designated OPS such as semi-annual payment services report. Secondary reports shall also include Annual Reports which shall be submitted by all OPS.

For *Erroneous Reports*, the penalty shall be computed by multiplying the prescribed fine by the number of times the subject report was submitted before being considered compliant.

For *Delayed Reports*, the penalty shall be computed by multiplying the prescribed fine by the number of calendar days delayed.

For *Erroneous and Delayed Reports*, the penalty shall be based on the sum of the penalty for being *Erroneous* and the penalty for being *Delayed*.

For *Unsubmitted Reports*, the penalty shall be based on the amounts to be prescribed in the oversight intervention and enforcement policy for all OPS which shall be the subject of a separate issuance.

For the purpose of implementing the rules in this Section, the submission deadline is considered moved to the next business day should it fall on a working day in the locality where the reporting OPS is located or on a working day when the operations in government were suspended due to typhoon, flood or other similar fortuitous events. Failure to submit a report on time due to fortuitous events such as fire, natural calamities, public disorders, or national emergencies shall not be considered as willful delay or willful failure.

c. Non-monetary Sanctions

In addition to the monetary penalties that may be imposed based on the preceding Subsection, the following non-monetary sanctions shall likewise be imposed for *Unsubmitted Reports*:

- (1) First Offense: warning on the Chief Executive Officer (CEO) and the board of directors;
- (2) Second Offense: reprimand on the CEO and the board;
- (3) Third Offense: suspension of the CEO for at least one (1) month but not more than one (1) year, depending on the nature and gravity of the violation or irregularity;
- (4) Further Offense/s: Possible disqualification of the CEO and/or the members of the board.

In the case of an erring Operator of Designated Payment System (ODPS), the Monetary Board may designate a manager to take over the operations of the ODPS, upon determination of the appropriate oversight department that the reporting deficiencies result in a threat to the safety, efficiency, and reliability of the designated payment system, pursuant to Section 17 of Republic Act (R.A.) No. 11127 or the National Payment Systems Act (NPSA).

The designated manager shall determine within the period prescribed by the Monetary Board, but not to exceed one (1) year from the designation, whether the ODPS is able to address the significant reporting deficiencies and whether the same may be permitted to resume operations. The determination for resumption of management of the ODPS shall be subject to prior approval of the Monetary Board.

The extent of sanctions to be imposed under items “(3)” and “(4)” shall depend on the following factors and the circumstances accompanying the non-submission of required reports:

- The nature and significance of the unreported reportable items;
- The duration and habituality of the delinquency; and
- Whether the non-disclosure of the required information has caused delay on an urgent oversight, supervisory assessment or investigation (i.e., for on-demand or ad-hoc reports).

Pursuant to Section 19 of R.A. No. 11127 (The National Payment Systems Act) and Section 37 of R.A. No. 7653 (The New Central Bank Act), as amended, the administrative sanctions and other penalties in connection to non-compliance with the Bangko Sentral's regulatory reporting requirements for OPS, whether banks or non-banks, are subject to review and approval by the Monetary Board or by the Governor, as applicable. The resignation or termination from office shall not exempt the erring director or officer from administrative or criminal sanctions under Section 19(b) of R.A. No. 11127.

103.6 Bangko Sentral's Assessment of the Reporting System. The oversight department of the Bangko Sentral shall conduct an assessment of the quality of the reporting system of an OPS in order to ascertain the accuracy, completeness and integrity as well as the timeliness of their regulatory reports.

If the Bangko Sentral finds significant deficiencies (i.e., material deviations from reporting standards) in the reporting system or evaluates habitual reporting exceptions (i.e., frequent submission to the Bangko Sentral of erroneous or delayed reports), the OPS concerned shall be required to submit a time-bound, Board-approved action plan that shall articulate measures to address the noted deficiencies that are acceptable to the Bangko Sentral.

The failure of the Board and senior management of an OPS to implement the required corrective measures within the specified timeframes shall be a ground to subject the OPS, and/or its directors, responsible officers and employees, to enforcement actions described in Subsection 103.8.

103.7 Reportorial Requirements. The specific reportorial requirements, including the report categories, signatories, frequencies, deadlines, and manner of submission to the Bangko Sentral, shall be covered in a separate issuance by the Bangko Sentral.

103.8 Enforcement Action. Enforcement Action under Subsection 103.8 was transferred to Part 15 of the Manual.

(Circular No. 1138 dated 1 March 2022)

PART TWO RETAIL PAYMENT SYSTEM

201 NATIONAL RETAIL PAYMENT SYSTEM FRAMEWORK

201.1 *Adoption of NRPS Framework.* It is the policy of the Bangko Sentral to promote the establishment of a safe, efficient, and reliable retail payment system in the Philippines. Towards this end, the Bangko Sentral adopts the National Retail Payment System (NRPS) Framework consistent with Bangko Sentral regulations on risk management in light of the complex interplay of different types of risk arising from the rapid evolution of retail payment activities of Bangko Sentral supervised financial institutions (BSFIs). The NRPS vision will help achieve higher economic growth and enhance the overall competitiveness of our economy.

In carrying out retail payment-related activities, BSFIs shall adhere to the NRPS Framework as set forth in this Section and Appendix 201-1. This framework requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management, and effective and efficient interoperability. BSFIs shall comply with Bangko Sentral rules and regulations, particularly on information technology, consumer protection, and anti-money laundering/combating the financing of terrorism (AML/CFT).

201.2 *Purpose and scope.* The NRPS Framework shall apply to all BSFIs which meet regulatory requirements and the criteria set on a per Automated Clearing House (ACH) basis under the NRPS framework.

The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. It applies to all domestic payments which are denominated in Philippine Peso (Php), and which may be for payments of goods and services, domestic remittances or fund transfers.

Retail payments under the NRPS Framework are payments that meet at least one of the following characteristics:

- a. the payment is not directly related to a financial market transaction;
- b. the settlement is not time-critical;
- c. the payer, the payee, or both are individuals or non-financial organizations; and
- d. either the payer, the payee, or both are not direct participants in the payment system that is processing the payment.

201.3 *NRPS key principles.* Under the NRPS framework, sound governance shall be performed by a payment system management body (PSMB), an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral. In the absence of a PSMB which conforms to the NRPS principles in Appendix 201-1, the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by the Bangko Sentral. Clearing switch operators shall not participate in the governance of the payment system.

All clearing shall be done within the NRPS governance structure, wherein exclusive bilateral clearing arrangements are not allowed.

Non-discriminatory participation shall be espoused in the retail payment system. Hence, all BSFIs are highly encouraged to join the NRPS governance structure provided they meet the qualification criteria.

A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs participating in the NRPS governance structure.

Further details on the key principles are embodied in the NRPS Framework shown in Appendix 201-1.

201.4 Specific rules applicable to transactions performed under the NRPS framework. The following rules shall apply to retail payment transactions which are cleared and settled in accordance with the NRPS Framework:

- a. Minimum requirements to offer Electronic Payment and Financial Service (EPFS). EPFS, which shall require Bangko Sentral approval in accordance with Sec. X701/47010/4641S/4641P/4641N of the MORB/MORNBFI, refer to BSFI products and/or services that enable consumers to carry out or initiate payments electronically, financial transactions and other related services through a point of interaction. To offer EPFS, BSFIs shall conform to the following requirements:
 - (1) BSFIs shall make electronic payments available in all its delivery channels whenever applicable;
 - (2) BSFIs shall enable its clients to move/receive funds to/from accounts with other BSFIs, or, at a minimum, receive funds. Movement of funds between BSFIs shall be carried out through participation in an ACH;
 - (3) BSFIs shall immediately credit the account of its clients after receipt of clearing advice; and
 - (4) BSFIs shall conform to Section X701/47010/4641S/4641P/4641N of the MORB/MORNBFI the IT Risk Management Standards and Guidelines on electronic banking, electronic payment, electronic money and other electronic products and services provided in *Appendix 75f/Q-59f* the MORB/MORNBFI.
- b. Fees on transactions. The BSFI's board of directors shall adopt a policy on the imposition of any fee on electronic payment transactions. The policy shall include the basis and quantitative support for the setting of fees and rationalization of the fee structure or amount. Imposition of fees for transactions performed by BSFIs that meet the requirements in Item "a" of this Subsection shall be consistent with the following:
 - (1) On consumer pricing –
 - (a) BSFIs shall adopt reasonable and fair market-based pricing models, which do not arise from agreements with other BSFIs to fix the price of product or service delivery.
 - (b) The service fees for electronic payments are expected to be lower than the fees collected from transactions made manually or over-the-counter (OTC) as electronic payments are considered to provide more efficient and cost-effective means of delivering service.
 - (c) The recipient shall not pay for electronic crediting to recipient's account and the recipient shall receive the amount in full. Such account-to- account fund transfers shall not be considered as domestic remittance transactions under Sections 298/251-Q/241-S/202-N of the MORB/MORNBFI.

- (2) The BSFI shall disclose to the Bangko Sentral the details of all fees that will be charged to the client. This will be posted in an electronic bulletin board of fees for transactions performed under the NRPS framework. The bulletin board shall be maintained by the Bangko Sentral in its website for enhanced transparency and competitiveness.
- c. Anti-Money Laundering Requirements. All BSFIs shall observe applicable AML/CFT requirements under Part Eight of the MORB/MORNBFI for all transactions performed under the NRPS framework. As part of on-going monitoring of customers and their transactions, the following rules shall apply to transactions performed under the NRPS framework by BSFIs that meet the requirements in Item “a” of this Subsection:
- (1) *The originating institution (OI)* shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the OI to ensure that the account name of the source account and the amount are consistent with the Sender Name and the amount indicated in the Payment Instruction sent by the OI.
 - (2) *The receiving institution (RI)* shall be responsible for monitoring, including appropriate watchlist screening or monitoring, its own client's transactions. It is the responsibility of the RI to ensure that the actual account number credited and the amount are consistent with the Beneficiary Account Number and the amount indicated in the Payment Instruction received by the RI.
 - (3) On the basis of the above, account number matching will suffice for domestic account-to-account electronic payments. OIs and RIs shall ensure that customers are informed that account number matching will suffice to implement a transaction, and OIs and RIs shall be held free and harmless from liability for their reliance on account number matching.
 - (4) Nothing in the above rules shall prevent an OI or RI from instituting or implementing additional procedures to comply with AML laws and regulations, and other applicable laws and regulations, prior to executing a transaction performed under the NRPS framework, or debiting/crediting a client's account.
- d. BSFIs participating in the NRPS governance structure are required to comply with existing regulations of the Bangko Sentral.

201.5 Reports. BSFIs participating in the NRPS governance structure shall comply with regular reporting requirements, which will be covered by a separate issuance.

201.6 Examination of BSFIs. BSFIs shall make available all policies, procedures and other documents/information related to this Section during the on-site examination, as well as provide copies thereof when a written request is made by the Bangko Sentral.

201.7 Sanctions. Consistent with Section X009/4009Q, the Bangko Sentral may deploy enforcement actions to promote adherence to the requirements set forth in Section X1205/41205Q/4705S/4705P/4805N the MORB/MORNBFI and bring about timely corrective actions. The Bangko Sentral may issue directives to enforce compliance with the NRPS Framework or impose sanctions to limit the level of or

suspend any business activity that has adverse effects on the safety and soundness of the BSFI, among others.

Any violation of this Section shall subject the BSFI and/or its directors, officers and/or employees to the monetary and non-monetary sanctions under Section 37 of Republic Act (R.A.) No. 7653, including but not limited to the following depending on the gravity of the violation committed and the circumstances attendant thereto:

- a. Suspension of offering new electronic financial products and services;
- b. Suspension/revocation of authority to provide electronic financial products and services; and
- c. Suspension/revocation of authority to settle through the Philippine Payments and Settlements System

201.8 Enforcement Action. Enforcement Action under Subsection 201.8 was transferred to Part 15 of the Manual.

(Circular No. 980 dated 06 November 2017 and Circular No. 1161 dated 29 November 2022)

**PART THREE
RESERVED**

PART FOUR GOVERNANCE AND OVERSIGHT

401 GOVERNANCE POLICY FOR OPERATORS OF PAYMENT SYSTEM

401.1 Policy Statement. The Bangko Sentral recognizes that the OPS play an important role in sustaining the safe and efficient flow of payments including those arising from critical financial market transactions between and among banks and non-banking financial institutions, including cooperatives. Being generally responsible for interlinking these institutions that execute payment orders in their normal course of business, the OPS are also crucial in maintaining the public's confidence in the financial system.

In this regard, the Bangko Sentral adopts the following governance policy which is aligned with the applicable Principles for Financial Market Infrastructures (PFMIs) recommended by the Committee of Payments and Settlement Systems of the Bank for International Settlements and the Technical Committee of the International Organization of Securities Commissions. These guidelines provide specific regulatory expectations in the application of certain principles in consideration of national conditions.

401.2 Scope and Applicability. This policy covers all registered OPS including the Bangko Sentral, being the operator of the real time gross settlement (RTGS) system. Other OPS include the (i.) Bangko Sentral-supervised financial institutions (BSFIs) which include banks and non-bank financial institutions (NBFIs) such as non-bank electronic money issuers (EMI-NBFIs); and (ii.) non-BSFIs such as cooperatives which are regulated by the Cooperative Development Authority (CDA), branches and subsidiaries of foreign incorporated entities as well as other domestic corporations and non-corporate entities, whose businesses are considered that of an OPS under existing Bangko Sentral regulations.

For BSFIs

An OPS that has concurrent licenses such as a banking license or a license to be an EMI-NBFI shall adhere with the more stringent requirements between the guidelines in this policy and the applicable provisions of the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFIs) to be able to comply with the overall regulatory expectations of the Bangko Sentral.

The policy cross refers to certain governance standards under the MORB and the MORNBFIs since these requirements are also applicable to all OPS regardless of their concurrent authorities.

For branches or local subsidiaries of foreign incorporated OPS

An OPS, whose Head Office or Parent Company is under the jurisdiction of a foreign regulator, shall follow the more stringent requirements between the provisions of this policy and those prescribed by the relevant regulator in its home jurisdictions.

In case the requirements of the home regulator prevail, the governance arrangements being observed by the Head Office or Parent Company that are in accordance with the requirements of the relevant regulator in its home jurisdiction may be used as a means to comply with the Bangko Sentral's policy. Proof of compliance with the requirements of the relevant regulator shall be made available upon request of the oversight department of the Bangko Sentral. Failure to submit proof of compliance

with the requirements of the relevant regulator shall be deemed a violation of this provision and shall subject the OPS to appropriate enforcement actions under Bangko Sentral regulations.

In this context, a branch of a foreign incorporated OPS shall refer to any permanent office or place of business in the Philippines where an OPS may perform activities and provide products and services that are within the scope of its authority as an OPS. and of its other licenses, if any.

The provisions in Sections 401.1 to 401.9 apply to all OPS. Moreover, Sections 401.10 to 401.11 shall additionally apply to operators of a payment system that has been designated by the Bangko Sentral, pursuant to the provisions of Republic Act No. (R.A.) No. 11127 or the National Payment Systems Act (NPSA).

For OPS that are BSFIs, local subsidiaries or branches of foreign entities and other domestic corporations:

- a. *Affiliate* shall refer to an entity linked directly or indirectly to an OPS by means of:
 - (1) Ownership, control, or power of the OPS to vote of at least twenty percent (20%) of the outstanding voting stock of the entity or vice-versa;
 - (2) Interlocking directorship or officership, where the concerned director or officer owns, controls, or possesses the power to vote, at least twenty percent (20%) of the outstanding voting stock of the entity;
 - (3) Common ownership, whereby, the common stockholders own at least ten percent (10%) of the outstanding voting stock of the OPS and at least twenty percent (20%) of the outstanding voting stock of the entity;
 - (4) Management contract or any arrangement granting the OPS the power to direct or cause the direction of management and policies of the entity; or
 - (5) Permanent proxy or voting trusts in favor of the OPS constituting at least twenty percent (20%) of the outstanding voting stock of the entity or vice-versa.
- b. Close family members shall refer to persons related to directors, officers, or stockholders (DOS) of an OPS within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother/sister-in-law, grandparent-in-law, and grandchild-in-law of the OPS' DOS.
- c. Control of an enterprise exists when any of the following conditions is present:
 - (1) Power over more than half of the voting rights by virtue of an agreement with other stockholders;
 - (2) Power to govern the financial and operating policies of the enterprise under a statute or an agreement;
 - (3) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body;
 - (4) Power to cast the majority votes at meetings of the board of directors or equivalent governing body;
 - (5) Any other arrangement similar to any of the above.

Control is presumed to exist if there is ownership or holding, whether direct or indirect of twenty percent (20%) or more of a class of voting shares of a company. Should the OPS choose to disclaim or rebut this presumption, it should provide sufficient facts to show that there is indeed no control. Further, the OPS disputing the presumption of control shall submit a written commitment stating that:

- (a) shares owned or held are exclusively for investment purposes;
 - (b) the OPS-stockholder will not serve on the board of directors of the OPS and will not nominate any candidate to serve on the board of directors or otherwise seek board representation;
 - (c) the OPS-stockholder will only have limited contact with the management of the OPS;
 - (d) the OPS-stockholder will engage only in normal and customary transactions with the OPS; and
 - (e) the OPS will not pledge shares acquired to secure a loan with any institution.
- d. *Corresponding persons* in the affiliated companies of the OPS shall refer to the DOS of the affiliated companies and their close family members.
- e. *Directors* shall refer to a person who is:
- (1) named as such in the articles of incorporation;
 - (2) duly elected in the subsequent meetings of the stockholders; and
 - (3) elected to fill vacancies in the board of directors.
- f. *Independent directors* shall refer to a person who:
- (1) is not or was not a director, officer, or employee of the OPS and the payment system participants¹⁷, their subsidiaries, affiliates, or related interests during the past three (3) years counted from the date of his election/appointment;
 - (2) is not or was not a director, officer, or employee of the OPS and the payment system participants' substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
 - (3) is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the OPS or of the payment system participants, or in any of their related companies or of their majority corporate stockholders;
 - (4) is not a close family member of any director, officer, or stockholder holding shares of stock sufficient to elect one (1) seat in the board of directors of the OPS, or of the payment system participants, or any of their related companies, or any of their substantial stockholders;
 - (5) is not acting as a nominee or representative of any director or substantial stockholder of the OPS, or of the payment system participants, or any of their related companies, or any of their substantial stockholders;
 - (6) is not or was not retained as a professional adviser, consultant, agent, or counsel of the OPS, or of the payment system participants, or any of their related companies, or any of their substantial stockholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election;
 - (7) is free from any business or other relationship with the OPS, the payment system participants, and any of their related companies or with any of their substantial stockholders, unless transactions are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment;
 - (8) was not appointed by the OPS, or by the payment system participants, their subsidiaries, affiliates, or related interests as Chairman "Emeritus", "Ex-Officio"

¹⁷ For the purpose of these guidelines a payment system participant includes payment service providers (PSPs) and critical service providers (CSPs)

Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;

(9) is not affiliated with any non-profit organization that receives significant funding from the OPS or from the payment system participants or any of their related companies or substantial stockholders; and

(10) is not employed as an executive officer of another company where any of the executives of the OPS or of the payment system participants serve as directors.

g. *Majority stockholder* shall refer to a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of an OPS.

h. *Non-executive directors* shall refer to those who are not part of the day-to-day management of operations and shall include the independent directors. Not all non-executive directors are considered independent directors.

i. *Officers* shall include the chief executive officer, executive vice-president, senior vice-president, vice-president, general manager, secretary and others mentioned in the by-laws, or are generally known to be the officers of the OPS either through announcement, representation, publication, or any kind of communication made by the OPS.

Provided, that a person holding the position of chairman or vice-chairman of the board of directors or another position in the board of directors shall not be considered as an officer unless the duties of his position in the board of directors include functions of management such as those ordinarily performed by regular officers. *Provided further*, that members of a group or committee, including sub-groups or sub-committees whose duties include functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.

j. *Parent company* shall refer to a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries.

k. *Related Company* shall refer to another company which is:

(1) the parent or holding company of the OPS;

(2) the subsidiary or affiliate of the OPS; or

(3) a corporation where the OPS or its majority stockholder owns such number of shares that will allow/enable such a person or group to elect at least one (1) member of the board of directors, or a partnership where the majority stockholder of the OPS is a partner.

l. *Related interests shall refer to any of the following:*

(1) Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a DOS of the OPS;

(2) Partnership of which a DOS of an OPS or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;

(3) Corporation, association, or firm of which any or a group of DOS of the OPS and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such a corporation, or of the equity of such an

association or firm.

- (4) Corporation, association, or firm wholly or majority- owned or controlled by any related entity or a group of related entities mentioned in Items “1(2)” and “1(3)” of this Subsection;
- (5) Corporation, association, or firm which owns or controls directly or indirectly whether singly or as a part of a group of related interest. at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the OPS, or which controls majority interest of the OPS; or
- (6) Corporation, association, or firm which has an existing management contract or any similar arrangement with the parent of or controlling interest in the OPS.

m. *Related Parties* shall cover the OPS’ subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates, and special purpose entities) that the OPS exerts direct/indirect control over or that exerts direct/indirect control over the OPS, any of the OPS’ Directors, Officers, Stockholders or Related Interests (DOSRI), and their close family members. as well as corresponding persons in the affiliated companies of the OPS.

These shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the OPS.

n. *Related party transactions (RPTs)* shall refer to transactions or dealings of the OPS with its related parties. These shall include, but are not limited to, the following:

- (1) Outsourcing of critical services for payment system operations;
- (2) Consulting, professional, agency, and other service arrangements/contracts;
- (3) Purchases or sales of assets, including transfer of technology, and intangible items (i.e., research and development, trademarks and license agreements);
- (4) Construction arrangements and contracts;
- (5) Lease arrangements and contracts;
- (6) Borrowings, commitments, fund transfers; and guarantees;
- (7) Sale, purchase, or supply of any good or materials; and
- (8) Establishment of joint venture entities.

o. *Stockholder* shall refer to any stockholder of record in the books of the OPS, acting personally, or through an attorney-in-fact; or any other person duly authorized by him, or through a trustee designated pursuant to a proxy or voting trust or other similar contracts, whose stockholdings in the OPS. individually and/or collectively with the stockholdings of: (1) his spouse and/or relative within the first degree by consanguinity or affinity or legal adoption; (2) a partnership in which the stockholder and/or the spouse and/or any of the abovementioned relatives is a general partner; (3) corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or firm, amount to one percent (1%) or more of the total subscribed capital stock of the OPS.

p. *Substantial Stockholder* shall refer to a person, or group of persons whether natural or juridical, owning such number of shares that will allow such a person or group to elect at least one (1) member of the board of directors of an OPS, or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of the OPS’ equity security.

q. *Subsidiary* shall refer to a corporation or firm, where a parent company directly or

indirectly owns, controls, or holds with power to vote, more than fifty percent (50%) of the outstanding voting stock of such corporation or firm.

For the OPS organized as Cooperatives:

- r. *Director* shall refer to any member of a cooperative who was elected by the General Assembly, and/or appointed by the board in case of vacancy, who under the by-laws of the cooperative has the right to vote and who possesses all the qualifications and none of the disqualifications provided in the by-laws or rules governing cooperatives.
- s. *General Assembly* shall mean the full membership of the cooperative duly assembled for the purpose of exercising all the rights and performing all the obligations of the cooperative pursuant to R.A. No. 9520 or the Philippine Cooperative Code, its articles of cooperation, and by-laws.
- t. *Independent director* shall refer to a person who:
 - (1) is a duly elected/appointed director which has a share capital of not more than one percent (1%) of the total paid-up capital of the cooperative, and possesses the required competence required in the performance of his functions;
 - (2) is not related to an OPS' director, officer, or member within the second degree of consanguinity or affinity, legitimate or common-law;
 - (3) is free from any business or other relationship with the OPS, except for his membership, the payment system participants, and any of their substantial stockholders, unless his transactions are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment;
 - (4) is not or was not retained as a professional adviser, consultant, agent, or counsel of the OPS or of the payment system participants, either in his personal capacity or through his firm during the past two (2) years counted from the date of his election;
 - (5) is not affiliated with any non-profit organization that receives significant funding from the OPS or from the payment system participants;
 - (6) is not acting as a nominee or representative of any participant in the payment system operated by the cooperative; and
 - (7) is not employed as an executive officer of another company where any of the executives of the OPS or of the payment system participants serve as directors.
- u. *Non-executive directors* shall refer to the same definition under item "h".
- v. *Officer* shall refer to the same definition under item "i", notwithstanding the definition of officer in R.A. No. 9520.
- w. *Member of the Cooperative* is a person, either natural or juridical, who has been admitted by the cooperative as a member upon his/its adherence to the principles set forth in R.A. No. 9520 and in the Articles of Cooperation.
- x. *Substantial Shareholders* shall refer to a primary cooperative with enough shares to elect a seat in the board, or those with at least ten percent (10%) ownership of the cooperative's equity.

For all OPS:

- y. *Risk Appetite Statement* shall refer to an articulation in written form of the

aggregate level and types of risks that an OPS is willing to accept, or to avoid, in order to achieve its business objectives. It includes qualitative statements as well as quantitative measures involving systemic, financial, and operational risks that could build up in the payment system in the course of its operations.

- z. *Risk governance framework* shall refer to the framework through which the board of directors, as applicable, and management of an OPS establish business strategy; articulate and monitor adherence to risk appetite and risk limits; and identify, measure, and manage risks.
- aa. *Risk limits* shall refer to the application of an OPS' risk appetite statement to specific risk categories (i.e., settlement, liquidity, operational, etc.).
- ab. *Stakeholders* shall refer to payment system participants, end-users and other financial market infrastructures (FMIs), the operations of which are significantly interconnected with that of the payment system.

401.3 Governance Arrangements. An OPS that is a BSFI, a cooperative, a local subsidiary or branch of a foreign incorporated entity, or a domestic corporation shall adopt an effective and documented governance structure that provides clear and direct lines of responsibility and accountability of the board of directors and senior management. At a minimum, the documented governance structure should include the following:

- a. Governance structures and descriptions of:
 - (1) the roles and responsibilities of the board of directors and board-level committees;
 - (2) structure of senior management;
 - (3) reporting lines between the board and senior management; and
 - (4) the authorities and responsibilities of the General Assembly, for OPS organized as cooperatives.
- b. Design of risk management, compliance, internal control, and audit functions, including descriptions of the mechanisms by which these functions are granted adequate authority, independence, resources, and reporting access to the board and/or relevant board-level committees;
- c. Guidelines for appointment and performance evaluation of the directors and officers; and
- d. Policies for addressing conflicts of interest and outsourcing issues arising from an OPS' business connections with its affiliates and other related parties.

For OPS that are branches or local subsidiaries of foreign incorporated OPS

Given their distinct organizational structures, OPS which are branches and local subsidiaries of foreign entities shall adopt appropriate governance arrangements (i.e., Local Management Committee) through which the Head Office or Parent Company of the OPS oversee local operations and enforce commensurate standards on risk management, compliance, internal controls, and audit in conducting business as an OPS in the country. Their governance arrangements shall likewise incorporate the corresponding details enumerated in items "a" to "d" in the preceding paragraph.

Reports on the assessment of the risk management, compliance, internal controls and audit functions of branches of foreign incorporated OPS, conducted by competent and independent parties shall be made available to the Bangko Sentral during on-site examination or any time upon request. These required reports may come from the regional teams of the OPS' respective groups handling the said functions which may or may not necessarily be part of their local physical operations.

These aforementioned governance arrangements shall be documented in the policies of the OPS which shall be made available to the appropriate oversight department of the Bangko Sentral, the OPS' stockholders or members, and the participants in the payment system.

401.4 Board of Directors. Sections 401.4 to 401.6 shall apply to an OPS that is a BSFI, a cooperative, a branch or a local subsidiary of a foreign incorporated entity, or a domestic corporation.

Powers of the board of directors. The OPS shall conduct its business, and control its resources through its board of directors. The directors have the duty to exercise sound and objective judgment for the best interest of the OPS, the payment system's participants, and other stakeholders.

Composition of the board of directors.

- a. The board of directors of an OPS that is a BSFI shall be composed of not less than five (5) nor more than fifteen (15) members.

Likewise, an OPS that is organized as a cooperative, shall have a board of directors which shall be composed of not less than five (5) nor more than fifteen (15) members who shall all be elected by the General Assembly for a term of two (2) years, pursuant to R.A. No. 9520.

The board shall determine the appropriate number of its members to ensure that it is commensurate to the nature, size, and complexity of the OPS' activities, subject to compliance with relevant rules and regulations.

- b. The board of directors, as a governing body, shall have integrity and it shall possess the appropriate collective skills, work experiences, and technical knowledge of payment systems and financial markets, including the risks involved in the operation of these systems.
- c. Independent director/s of an OPS shall represent at least twenty percent (20%) of the members of the board, but in no case shall be less than one (1). Provided, that any fractional result from applying the minimum proportion (i.e., 20%) shall be rounded up to the nearest whole number.
- d. Non-Filipino citizens may become members of the board of directors of an OPS to the extent of the foreign participation in the equity of the said OPS as allowed under existing laws and regulations, except in the case of cooperatives.

Qualifications of a director.

- a. A director shall have the following minimum qualifications:

- (1) He must be fit and proper for the position of a director. In determining whether a person is fit and proper for said position, the following qualifications must be considered: integrity/probity, physical/mental fitness; relevant education/financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence, and independence of mind; and sufficiency of time to fully carry out responsibilities.

In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with the organization's policies and applicable laws and regulations, including payment system rules, and the relevant requirements and standards of any regulatory body, clearing house, payment system management body, or the government and any of its instrumentalities/agencies.

A director of an OPS shall be equipped with adequate technical training on payments and/or appropriate work experience to be able to understand payment system operations, financial markets, and payment-related risks.

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Section 401.8 (Persons disqualified to become directors/officers).

The foregoing qualifications shall be in addition to those required or prescribed under other applicable laws and regulations.

- (2) He must have attended a seminar on corporate governance for board of directors. The requirements under item "a(2)" of Sections 132/132-Q of the MORB/MORNBFI (Qualifications of a director) shall hereby apply.

For directors of OPS organized as cooperatives, directors should have completed the mandatory trainings required by the CDA¹⁸.

- (3) With regard to a cooperative OPS, it may, by resolution of its board of directors, admit as a director, or a board-level committee member, a non-member individual who was appointed by any financing institution from which the cooperative received financial assistance. Provided further, that such a director or a committee member shall neither have powers nor responsibilities except to provide the technical assistance required by the cooperative.

b. In selecting an *independent and a non-executive director*, the number and types of entities where the candidate is likewise elected as such shall be considered to ensure that he can devote sufficient time to be able to effectively carry out his duties and responsibilities. In this regard, the guidelines under item "b" of Sections 132/132-Q of the MORB/MORNBFI (Independent and non-executive directors) shall apply.

c. Members of the board of directors shall not be appointed as Corporate or Board Secretary or Chief Compliance Officer.

¹⁸ Pursuant to its Memorandum Circular 2015-09, CDA requires directors and officers of a cooperative to undergo a set of required trainings and have them completed within the first half of their term

- d. The CEO or President shall be a director of a corporate OPS while in the case of a cooperative OPS, members of the board of directors shall not hold any other position directly involved in the day-to-day operations and management of the OPS¹⁹.

Chairperson of the board of directors.

- a. *Roles of the Chairperson of the board of directors.* Being the leader of the board, the Chairperson shall be primarily responsible for the effective implementation of governance arrangements. He shall ensure that:
- (1) the meeting agenda focuses on strategic matters involving stakeholder interests, including discussions on risk appetite, and key governance and operational concerns;
 - (2) the board practices a sound decision making process;
 - (3) the board is open to critical discussions and that dissenting views can be expressed and discussed within the decision-making process;
 - (4) the board receives accurate, timely, and relevant information from management;
 - (5) first time directors undergo proper orientation and all directors are provided training opportunities; and
 - (6) the work performances of the members of the board are evaluated at least once a year.
- b. *Qualifications of the Chairperson of the board of directors.* To promote checks and balances, the Chairperson of the board of directors shall be a non-executive director or an independent director. Provided, that the Chairperson and CEO positions in any OPS shall not be held by one person.

Provided further, that exceptions to these rules shall be subject to approval by the Monetary Board. In which case, the board of directors of an OPS shall appoint a lead independent director and define his responsibilities. Such responsibilities shall be documented in a governance manual. The board of directors shall ensure that the lead independent director functions in an environment that objectively evaluates the views and strategic stance of the CEO. The lead independent director shall perform enhanced function over the other independent director/s and shall:

- (1) spearhead the independent directors in raising queries and pursuing relevant matters during board meetings; and
- (2) preside over the independent directors' meetings, which shall be conducted without the presence of the executive directors.

In case an OPS appoints only one (1) independent director, the Chairperson shall not be allowed to have a concurrent position as CEO.

Board of directors meetings. An OPS shall include in its by-laws a provision that physical or virtual meetings of the board of directors shall be held or hosted either in the Philippines or abroad.

- a. *Full board of directors meetings*

The meetings of the board of directors may be conducted through modern technologies, using video conferencing at a minimum, as long as the director who

¹⁹ This is consistent with Article 39 of R.A. No. 9520.

is taking part in the said meetings can actively participate in the discussions and deliberations, if any: Provided, That every member of the board of directors shall physically or virtually take part in at least fifty percent (50%) of all meetings every year. Provided further, that attendance and participation of members in committee meetings shall be considered in the assessment of continuing fitness and propriety of each director as member of board-level committees and the board of directors and that the absence of a director in more than fifty percent (50%) of all meetings of the board of directors during his incumbency is a ground for disqualification in the succeeding election.

b. *Board-level committee meetings*

A board-level committee shall meet as prescribed in its charter. The participation of committee members may likewise be in person or through modern technologies.

c. *Minutes of the meetings*

Detailed record or minutes of the meeting shall be maintained by the corporate or board secretary to ensure all relevant issues were discussed during board meetings. Members of the board shall sign (physically or electronically) or approve the minutes of the meeting.

401.5 Duties and Responsibilities of the Board of Directors/a Director.

Specific Duties and Responsibilities of the Board of Directors

The board of directors of an OPS is ultimately responsible for upholding the safety and efficiency of the payment system operation by ensuring that the board's overall strategies and critical decisions appropriately address the legitimate interests of payment system participants and other relevant stakeholders. The board shall approve and oversee the implementation of strategies to achieve business goals and meet public policy objectives concerning the safety, efficiency, and reliability of the payment system. It shall also oversee the implementation of the risk governance framework and internal controls.

Likewise, the board of directors shall establish a sound framework that addresses conflicts of interest and makes the board accountable for the selection of key senior officers including the heads of control functions. The board shall also oversee the performance of senior management, including the CEO.

a. *The board shall be responsible for establishing and approving the strategic objectives of the OPS and for overseeing the management's pursuit of these objectives.* In this regard, the board of directors shall:

- (1) Ensure that the payment system has a beneficial influence in maintaining financial stability by continuously providing safe and efficient payment services and facilities that are supportive of the needs of the national economy;
- (2) Approve the OPS' strategic objectives and business plans which shall take into account the OPS' long-term business interests, the level of risk tolerance, capability to effectively manage risks and stakeholder considerations;
- (3) Actively engage in the affairs of the OPS and keep abreast of its operating and regulatory environment, as well as act in a timely manner to protect the interests of the OPS and its stakeholders; and

- (4) Approve and oversee the implementation of policies governing major areas of operation. The board of directors shall regularly review these policies as well as control functions (i.e., risk management, compliance, and internal control) to determine the areas needing improvement and promptly identify and address significant risks and systemic concerns.
- b. *The board of directors shall be responsible for the appointment/selection of the key members of senior management and heads of control functions, and for the approval of a sound remuneration and other incentives policy for personnel.* In this regard, the board shall:
- (1) Apply the fit and proper standards where integrity, technical expertise, and experience in payment system operations and financial markets are the key considerations in the selection process.
 - (2) Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy. The policy should promote safety and efficiency in the operations of the OPS and should be consistent with the OPS' long-term business objectives and financial soundness.
 - (3) Oversee the performance of senior management and heads of control functions:
 - (a) The board shall regularly monitor and assess the performance of the management teams and heads of control functions based on approved performance standards;
 - (b) The board shall hold the members of senior management accountable for their actions and clearly communicate to them the possible consequences if those actions are not aligned with the board's performance expectations; and
 - (c) The board shall regularly meet with senior management to engage in discussions, and critically review the reports and information provided by senior management.
 - (4) Ensure that the expertise and knowledge of all members of senior management remain relevant by providing them with regular training opportunities as part of a professional development program that aims to enhance their competencies and allows them to stay abreast of developments that are relevant to their areas of responsibility.
- c. *The board shall be responsible for approving and overseeing the implementation of the governance framework of the OPS.* In this regard, the board shall:
- (1) Define appropriate governance structure and practices, and ensure that such practices are followed and periodically reviewed:
 - (a) The board shall adopt a structure, in terms of board size and frequency of meetings, that shall promote efficiency of oversight, critical discussion of issues, and thorough review of matters requiring board action. In doing so, it shall adopt governance policies concerning composition of the board, appointment of directors, and duration of their tenures in the board.
 - (b) The board shall create committees to increase efficiency and allow deeper focus on specific areas. The scope of the functions of these committees shall depend on the importance of the OPS in supporting critical payment transactions, preserving public interest, and maintaining public trust in payment systems in general.
 - (c) The board shall objectively assess at least annually its performance as a governing body, and the performances of the individual directors, the various committees, and the CEO. The assessment may be conducted by a corporate governance committee or by an external facilitator.

- (d) The board shall maintain appropriate records (i.e., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken, and dissenting opinions expressed) of its deliberations and decisions. The board shall ensure that independent views and relevant stakeholders' interests are given due consideration in the discussions and that these matters are documented in the minutes.
- (2) Develop a policy on the remuneration and other incentives for directors²⁰. This policy shall be submitted for approval by the stakeholders of a cooperative OPS. The board shall ensure that the policy is aligned with the OPS' long-term business interests and that the policy neither compromises the OPS' safety and efficiency objectives nor conflicts with the directors' fiduciary responsibilities.
 - (3) Conduct and maintain the affairs of the OPS within the scope of its authority, in accordance with the OPS' Articles of Incorporation or Articles of Cooperation, as applicable, and as prescribed in existing laws, rules, and regulations.
 - (4) Maintain and periodically update, organizational rules, by-laws, or other similar documents setting out the organization of the board, its rights, responsibilities, and key activities. The board shall ensure that there is clear delineation of the lines of responsibility and accountability.
 - (5) Oversee the development of governance arrangements, approve such arrangements, and monitor the implementation of the same. These arrangements shall be embodied in the governance policies which shall be periodically reviewed. The board shall ensure that the arrangements are observed accordingly.
 - (6) Approve a policy on RPTs to ensure that these transactions are conducted on an arm's length basis and relevant stakeholders' interests are protected. The board shall ensure applicable laws, rules, and regulations are complied with.
 - (7) Adopt guidelines for identifying, addressing, and managing conflict of interests stemming from board actions or decisions that involve beneficial and/or pecuniary interest of a member or his related interests.
- d. *The board of directors shall be responsible for approving the OPS' risk governance framework and ensure the implementation of this framework.* In particular, it shall:
- (1) Approve policies for setting risk tolerance, defining risk appetite, and addressing crises that could threaten the viability of the payment system which the OPS operates. In pursuing so, the board shall take into account the OPS' safety and efficiency objectives, business environment, regulatory landscape, long-term business interests, and risk management capability.
 - (2) Oversee the development of a risk appetite statement (RAS) and approve the same. The board shall ensure adherence to the statement, as well as compliance with risk limits and other risk management policies throughout the organization.
 - (3) Assign responsibilities and accountability for decisions that have a significant impact on the overall risk profile of the OPS, by adopting the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions as the second line of defense, and the internal audit function as the final line of defense.

In this regard, the board of directors shall ensure that the risk management, compliance, and internal audit functions have proper stature in the organization and have adequate staff and resources. The stature of these

²⁰ R.A. No. 9520 provides that compensation of directors shall be fixed in its by-laws and that in the absence of any provision on the same, directors shall not receive any compensation except for reasonable per diems.

functions in the organization must enable them to carry out their responsibilities independently, objectively, and effectively.

- e. *The board shall ensure the OPS' compliance with all supervisory and regulatory requirements.* In relation to this, it shall establish an effective compliance risk management system that shall identify and mitigate risks arising from the OPS' failure to comply with applicable laws, Bangko Sentral regulations, standards prescribed by the relevant payment system management body, and codes of conduct applicable to OPS' activities.
- f. *The board shall ensure that the OPS' business model, strategies, and activities appropriately take into account the legitimate interests of its participants and other relevant stakeholders.* In this regard, it shall:
 - (1) Consider the welfare of participants and relevant stakeholders in crafting major operational decisions involving the payment system's design and overall business strategies. These decisions may involve the OPS operating structure, the scope of transactions processed, and the critical technology used in operations; and
 - (2) Establish clear processes for identifying and addressing stakeholders' concerns and any conflict of interests between the stakeholders and the OPS.

Specific Duties and Responsibilities of a director. The position of a director is a position of trust which assumes fiduciary responsibilities for different stakeholders of the payment system. Hence, the members of the board of directors should exercise their "duty of care" and "duty of loyalty" to the OPS.

- a. *To remain fit and proper for the position for the duration of his term.* A director should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills and knowledge through continuing education, training, and other learning opportunities. He should also have adequate understanding of the activities of the OPS, as well as the developments in the national payment system, the financial markets, and the broader financial system that may have implications for the safety and efficiency of the payment system where the OPS operates.
- b. *To act honestly and in good faith, with loyalty and in the best interest of the OPS, its stockholders, and other stakeholders such as the end-users of the payment system and the general public.* A director must always act in good faith, with the care which a prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.
- c. *To have a working knowledge of the statutory and regulatory requirements affecting the institution.* A director should be knowledgeable of the regulations of the Bangko Sentral, the provisions of the NPSA, and where applicable, the requirements of other relevant regulatory agencies. A director should also keep himself informed of financial system developments and payment system trends and relevant international standards in order to safeguard the interest of the OPS.

In addition, a director of an OPS shall have the duties and responsibilities of a director

enumerated as items “b”, “d”, “e”, “f”, “g”, and “i” in Sections 132/132-Q of the MORB/MORNBFI (*Specific duties and responsibilities of a director*).

401.6 Board-Level Committees. The board of directors may delegate some of its functions, but not its responsibilities, to board-level committees. In this regard, the board shall:

- a. Approve, review, and update at least annually or whenever there are significant changes to the charter of each committee or other governance arrangements that set out a committee’s mandate, scope of function, and working arrangements. These arrangements shall articulate how the committee will report to the board of directors, what the committee members are expected to deliver, and how long a member may serve the committee. The board shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.
- b. Appoint members of the committees, considering the optimal mix of skills and experiences to allow the board of directors, through the committees, to fully understand and objectively evaluate relevant issues. To promote objectivity, the board shall appoint independent directors and non-executive members of the board. Towards this end, an independent director who is a member of any committee that exercises executive or management functions which can potentially impair such director’s independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight, or Corporate Governance Committee without prior approval of the Monetary Board.

In the case of a cooperative, the Audit Committee members that meet the qualifications stated in this policy shall be elected by the cooperative’s General Assembly pursuant to R.A. No. 9520.

- c. Ensure that each committee maintains appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee’s fulfillment of its responsibilities and facilitate the assessment of the performance of the committee’s functions.
- d. Form an Audit Committee unless directed by the Bangko Sentral to create other board-level committees (i.e., Risk Oversight or Corporate Governance Committee) such as the case for Operators of Designated Payment Systems (ODPS) under Section 401.10. Provided, that the board of directors shall discuss risk management and corporate governance matters in its meetings, with the views of the independent director/s, in addition to those of the other directors, duly considered and minuted.

In complying with this provision, OPS that are branches or locally incorporated subsidiaries of foreign incorporated OPS may resort to the global or regional board-level committees formed by their Head Office or Parent Company. Hence, these OPS need not form their own local board and board-level committees to comply with this provision. However, depending on the nature, scale and complexity of their local businesses they may be required by the Bangko Sentral to form local management committees to oversee risk management, internal control, compliance and strategic

concerns emanating from their local operations.

Audit Committee

- a. *Composition and chairperson.* The audit committee of an OPS shall be composed of at least three (3) members of the board of directors who shall all be non-executive directors, including the chairperson who shall be an independent director. The chairperson of the audit committee shall not be the chairperson of the board of directors or of any other board-level committee.

The audit committee shall have expertise in payment system operations, internal control frameworks, accounting, auditing, or related financial management expertise or relevant experiences commensurate with the size, systemic importance, operational complexity, and risk profile of the OPS. The committee shall have access to independent experts who can assist in carrying out the committee's responsibilities.

- b. *Duties and responsibilities of the audit committee.* The audit committee shall:
- (1) *Oversee the operational and financial reporting framework.* The committee shall oversee the operational and financial reporting processes, practices, and controls. It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.
 - (2) *Oversee the internal audit function.* The committee shall be responsible for the appointment/selection, performance evaluation, remuneration, and dismissal of internal auditors. It shall review and approve the audit scope and frequency and shall ensure that the scope covers the review of the effectiveness and adequacy of the OPS' internal controls and risk management system. To ensure the effectiveness of the internal audit function, the committee shall deploy sufficient audit human resource and accord the auditors the independence necessary to enable them to provide rigorous assessment on the quality of risk management and control processes. The committee shall functionally meet with the head of the internal audit function, or with equivalent personnel in case the internal audit function is outsourced, and their meetings shall be duly minuted and adequately documented.
 - (3) *Oversee the external audit function.* The committee shall be responsible for the appointment, performance evaluation, and replacement of the external auditor, including approval of fees to this auditor. It shall review and approve the audit engagement contract and ensure that the audit, at a minimum, covers the areas which are specifically prescribed by the Bangko Sentral and other regulators.
 - (4) *Establish whistleblowing mechanism.* The committee shall establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns to persons or entities that have the power to take corrective actions on possible improprieties or malpractices in the areas of payment system operations, financial reporting, internal control, and audit, or other issues. The committee shall also ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

Other responsibilities of the audit committee set forth under items "b(2)", "b(5)" and "b(6)" of Sections 133/133-Q of the MORB/MORNBFI (Audit Committee), shall likewise apply.

Risk Oversight Committee.

The provisions pertaining to the composition, chairperson, and duties and responsibilities of the Risk Oversight Committee under Sections 133/133-Q of the MORB/MORNBFI (Risk Oversight Committee) shall apply.

Corporate Governance Committee.

- a. *Composition.* The provisions pertaining to the composition of the Corporate Governance Committee under Section 133 of the MORB and Section 133-Q of the MORNBFI shall apply.
- b. *Duties and responsibilities of the corporate governance committee*
 - (1) Duties of the corporate governance committee pertaining to the oversight of the nomination process for members of the board of directors and for positions appointed by the board; and the oversight of the evaluation process on the performance of the board and members of senior management under items “b(1)” and “b(3)” of Sections 133/133-Q of the MORB/MORNBFI (Corporate Governance Committee) shall apply.
 - (2) Oversee the continuing education program for the board of directors. The committee shall ensure allocation of sufficient time, budget, and other resources for the continuing education of directors, and draw on external expertise as needed.

The committee shall establish and ensure effective implementation of the policy on onboarding/orientation for first time directors and on the annual continuing education for all directors. For this purpose, the first-time directors shall undergo a minimum of 8-hour orientation program subject to exemptions provided under item “a (2)” of Sections 132/132-Q of the MORB/MORNBFI (*Qualifications of a director*), while all directors shall take a minimum of 4-hour annual continuing training. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors, including strategic management, payment system and financial market concepts, risk management techniques, and internal control frameworks.

- (3) Oversee the design and operation of the remuneration and other incentives policy. The committee shall ensure that the remuneration and other incentives policy is aligned with the operating and risk culture, as well as with the strategic and financial interest of the OPS. This policy shall preserve the interest of the payment system where the OPS operates, and comply with legal and regulatory requirements.

Moreover, the committee shall monitor and conduct a periodic review of the remuneration and other incentives policy to ensure that this policy operates and achieves the objectives as intended.

401.7 Officers. Sections 401.7 and 401.8 shall apply to all OPS.

Qualifications of an officer. An officer must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity/probity, education/training, and relevant competencies such as knowledge, experience, skills, and diligence that are necessary in the effective and efficient discharge of the

responsibilities of the position.

In assessing an officer's integrity/ probity, consideration shall be given to the officer's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies, clearing and settlement rules, and applicable laws and regulations, including payment system rules and standards adopted by a relevant payment system management body, regulatory body, professional organization, or the government in general and any of its instrumentalities/agencies.

An appointed officer has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Section 401.8 (*Persons disqualified to become directors/officers*).

The foregoing qualifications for officers shall be in addition to those required or prescribed under other applicable laws and regulations.

Duties and responsibilities of officers.

The provisions of Sections 134/134-Q of the MORB/MORNBFI (Duties and responsibilities of officers), shall apply to the extent that these guidelines are appropriate for officers handling the business of an OPS.

Chief Executive officer (CEO). The CEO shall be the overall-in-charge for the management of the OPS businesses and affairs which are governed by the strategic direction and risk appetite approved by the board of directors. He shall be primarily accountable to the board of directors for championing the desired conduct and behavior, implementing strategies while ensuring the payment system's safety, efficiency, and reliability, and promoting both long-term business and stakeholder interests.

401.8 Disqualification of Directors and Officers. The Bangko Sentral recognizes that the fitness and propriety of the board of directors and management significantly influence the quality of governance over an OPS. In addition to the standards set forth on the qualifications and responsibilities of the board and management, this Section provides the rules governing the watchlisting and disqualification of persons from becoming directors/officers of an OPS. This policy aims to further promote the integrity of the payment system and better protect the interest of the payment system participants and the public.

Persons disqualified to become directors/officers. Without prejudice to specific provisions of the law prescribing disqualifications for directors/trustees, the following persons are disqualified from becoming directors:

a. Permanently disqualified

- (1) Persons who have been convicted by final judgment of the court for willful violation of payment system laws, rules, and regulations; and
- (2) Persons who were found culpable for the closure of an operator of a payment system, as determined by the Monetary Board;

Items “a. numbers (1)-(7)” under Sections 138/137-Q of the MORB/MORNBFI (*Persons disqualified to become directors-- Permanently Disqualified*) shall hereby apply to the grounds for permanent disqualification of directors and officers of an OPS.

b. Temporarily disqualified

(1) Persons who have shown unwillingness to settle their financial obligations, as evidenced by, but not limited to, the following circumstances:

(a) the person has failed to satisfy any financial obligation that has been adjudicated by a court;

(b) the person has filed for insolvency or payment suspension that adversely affects his/her fitness and propriety as director/officer; or

(c) a person who is delinquent in the payment of: an obligation with a bank that functions as an OPS where he/she is a director or officer; or at least two (2) obligations with other banks/FIs.

Financial obligations as herein contemplated shall include all forms of borrowings mentioned under item “b. (3.b)” of Section 138/137-Q of the MORB/MORNBFI (*Persons disqualified to become directors - Temporarily disqualified*). Directors/officers concerned shall remain temporarily disqualified until the financial obligations have been settled or satisfied.

(2) Persons involved in the closure of an OPS pending their clearance by the Monetary Board;

(3) Persons confirmed by the Monetary Board to have committed acts or omissions, which include failure to observe/discharge their duties and responsibilities prescribed under existing regulations, resulting in: (a) undue injury or disadvantage to the OPS through manifest partiality, evident bad faith, or gross inexcusable negligence; (b) material loss or potential damage to the payment system, OPS, participants, stakeholders, the Bangko Sentral, or the public in general; or (c) a significant threat to the safety, efficiency, and reliability of the payment system;

(4) Persons found to have been involved in any irregularity/violation which constitutes a just cause for dismissal/termination as defined under the Labor Code of the Philippines, as amended, regardless of any action taken by the OPS;

(5) Persons with cases pending before a court or other tribunal, or those convicted by said court or tribunal or those convicted by said court or tribunal but whose conviction has not become final and executory, for offenses involving: (a) dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), violation of R.A. No. 9160, as amended (Anti-Money Laundering Act), and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees); or (b) violation of securities, banking or payment system laws, rules, and regulations;

(6) Persons who are engaged in a business that is the same or similar to that of the OPS;

(7) Persons who in any way possess a conflict of interest with the OPS, including but not limited to, for a clearing switch operator (CSO) that provides clearing services to any of the automated clearing houses (ACHs) established under the governance of a Bangko Sentral accredited payment system management body (PSMB) under the National Retail Payment System (NRPS) framework, persons who are directors of such PSMB and of such CSO's critical service provider/s (CSP), as defined under the Payment System Oversight Framework.

In this regard, a director of a PSMB, shall likewise be temporarily disqualified as a director of a CSP of the CSO to an ACH that is governed by such PSMB.

Item "b. numbers (5), (6), and (8)-(12)" under Sections 138/137-Q of the MORB/MORNBFI (*Persons disqualified to become directors - Temporarily disqualified*) shall hereby apply to the grounds for temporary disqualification of directors and officers of an OPS.

Resignation or retirement from his/her office shall not exempt the person from being permanently or temporarily disqualified under this Section.

Persons prohibited to become officers

a. The spouses or relatives within the second degree of consanguinity or affinity holding officership positions across the following functional categories within an OPS:

- (1) Decision making and senior management function, e.g., president, chief executive officer (CEO), chief operating officer (COO), general manager, and chief financial officer (CFO);
- (2) Recordkeeping and financial reporting functions, e.g., controller and chief accountant;
- (3) Safekeeping of assets, e.g., personnel handling cash receipts and disbursements;
- (4) Risk management function, e.g., chief risk officer;
- (5) Compliance function, e.g., compliance officer; and
- (6) Internal audit function, e.g., internal auditor.

b. Persons who are engaged in a business that is the same or similar to that of the OPS;

c. Persons who in any way possess a conflict of interest with the OPS; and

d. Owing to their official government responsibilities, any appointive or elective government official, whether full time or part time.

Effect of non-possession of qualifications or possession of disqualifications. An elected/appointed director/officer of an ODPS, not possessing all the qualifications mentioned under Section 401.4 and Section 401.7, and/or has any of the disqualifications mentioned under Section 401.8 shall not be confirmed by the confirming authority of the Bangko Sentral and shall be removed from office even if he/she has assumed the position to which he/she was elected or appointed pursuant to Section 6(d)(3) of the NPSA. A confirmed director/officer or a director/officer not

requiring confirmation found to possess any of the disqualifications, shall be subject to the following disqualification procedures.

Disqualification procedures. A director/officer who is considered disqualified under this Section shall be subject to the disqualification procedures provided herein. Disqualified persons shall be included in the Bangko Sentral Watchlist Files.

- a. An OPS shall be responsible for determining the existence of the ground for disqualification of the person concerned and for reporting the same to the appropriate oversight department of the Bangko Sentral within ten (10) calendar days from knowledge thereof. The OPS shall ensure that the person concerned is informed that his/her offense was reported to the appropriate oversight department of the Bangko Sentral and as such, may be evaluated for watchlisting. The OPS shall conduct its own investigation, impose sanction/s if appropriate, and report the results of the actions taken to the appropriate oversight department of the Bangko Sentral within twenty (20) calendar days from the termination of investigation.

This shall be without prejudice to the authority of the Monetary Board to disqualify a person from being elected/appointed as director/officer in any Bangko Sentral-supervised institution, based on information on the existence of any ground for disqualification gathered or obtained from the Bangko Sentral, domestic financial regulatory authorities, financial intelligence units, and similar agencies or authorities of foreign countries, the courts and other quasi-judicial bodies, and other government agencies or the public.

- b. On the basis of knowledge and evidence on the existence of any of the grounds for disqualification mentioned in this Section, the appropriate oversight department of the Bangko Sentral shall notify in writing the person concerned, by personal service, electronic mail, registered mail, or courier with registry return receipt card at his/her last known address, of the existence of the ground for his/her disqualification. The person shall be allowed to submit within fifteen (15) calendar days from receipt of such notice a sworn statement/explanation on why he/she should not be disqualified and why his/her name should not be included in the watchlist file, as provided in this Section. The person shall submit the sworn statement/explanation together with a document supporting his/her position. The head of said appropriate oversight department of the Bangko Sentral may allow an extension on meritorious ground.
- c. Upon receipt of the reply/explanation of the person concerned, the appropriate oversight department of the Bangko Sentral shall proceed to evaluate the case.
- d. The failure of the person to reply within the period provided under Item "b" of this Section (Disqualification Procedures) shall be deemed a waiver of opportunity to explain and the appropriate oversight department of the Bangko Sentral shall proceed to evaluate the case based on the available records/evidence.
- e. Upon evaluation of the appropriate oversight department of the Bangko Sentral that a person is disqualified under any of the grounds listed in this Section, said Bangko Sentral department shall elevate to the Monetary Board the person's disqualification and inclusion in the Bangko Sentral Watchlist Files for approval.
- f. Upon approval by the Monetary Board, the appropriate oversight department of

the Bangko Sentral shall inform in writing the concerned person, by personal service, electronic mail, registered mail or courier, at his/her last known address, of his/her disqualification from being elected/appointed as director/officer in any Bangko Sentral-supervised institution and his/her inclusion in the masterlist of watchlisted persons.

- g. The determination of the Monetary Board shall become final and executory within fifteen (15) calendar days from the receipt of the resolution by the concerned directors or officers, unless a motion for reconsideration has been filed.
- h. In case the subject of disqualification is an incumbent director/officer, the board of directors of the OPS concerned shall be immediately informed of such disqualification approved by the Monetary Board and shall be directed to act thereon not later than the following board meeting. Within three (3) business days after the board meeting, the corporate secretary shall report to the appropriate oversight department of the Bangko Sentral the action taken by the board on the person involved.
- i. In cases which are initiated by the Bangko Sentral and which resulted in conviction by final judgment of a court for violation of payment system laws, rules, or regulations, the Office of the General Counsel and Legal Services (OGCLS) shall recommend to the Monetary Board, the permanent disqualification of said person and his/her name shall be included in the Disqualification File "A" (Permanent) upon approval of the Monetary Board.

In administrative complaints against directors and officers filed with the Bangko Sentral, resulting in the imposition of administrative penalties for violation of payment system laws, rules, or regulations, the OGCLS shall recommend to the Monetary Board, the disqualification of said person, if warranted, according to the severity of the offense, and his/her name shall be included in the Disqualification File "A" (Permanent) or "B" (Temporary), as the case may be, upon approval by the Monetary Board.

Watchlist Files, and Procedures for Delisting and Reclassification

The guidelines governing the Bangko Sentral Watchlist files and the delisting and reclassification procedures for disqualified directors and officers under Section 138/137-Q of the MORB/MORNBFI (*Watchlist files; Delisting/Reclassification*) shall apply herewith.

Confidentiality

Watchlist files shall be for the internal use of the Bangko Sentral only. Provided, That upon authority of the person/s concerned, an OPS can gain access to information in said watchlist files, among other Bangko Sentral records, by using the prescribed form in Appendix 401-3 only for the purpose of screening the nominees/applicants for director/officer positions.

401.9 Governance Policy for other OPS. The following guidelines shall apply to OPS that are organized either as a sole proprietorship or a partnership:

Qualifications as to the fitness and propriety of owners and officers. The individuals that own and/or manage the OPS shall possess and display the following characteristics:

a. *Probity, honesty, integrity, and good reputation*

Individual owners and officers shall conduct business with diligence, fairness, and in accordance with sound ethical business practices. They shall not possess or be charged with any of the grounds for disqualifications for directors and officers of an OPS, under Section 401.8 (*Disqualification of Directors and Officers*).

b. *Competence and professional capability*

Individual owners and officers shall have:

- (1) Adequate relevant knowledge of the structure, risks, and purpose of the products and services associated with their business activities;
- (2) Sufficient work/business experiences and proficient understanding of the technical requirement of payment system operations; and
- (3) Capability to comply with relevant laws, rules, and regulations governing the OPS.

c. *Financial soundness and capacity*

Individual owners and officers shall be capable of ensuring that the OPS can extinguish its liabilities when they come due. They shall manage their financial affairs in a prudent manner to mitigate the financial risks that are associated with the business of the OPS.

These required credentials of owners and officers are intended to ensure that the persons managing the OPS are equipped with technical knowledge, financial management know how, and relevant competencies, which are necessary for protecting the interest of the OPS' stakeholders and safeguarding the welfare of the payment system in general.

Officers of an OPS that is organized as a sole proprietorship or a partnership shall be covered by:

- a. the provisions on the duties and responsibilities of officers under Section 401.7 (Officers), and
- b. the grounds for disqualification and the disqualification procedures for officers of an OPS under Section 401.8 (*Disqualification of Directors and Officers*).

Minimum Prudential Requirements. At a minimum, an OPS which is organized as a sole proprietorship or a partnership, shall institute sound governance, risk management, internal control, and compliance functions in conducting the business affairs of the OPS.

a. *Governance*

The individual owners and officers shall demonstrate sound management practices appropriate to the size, risk profile and operational complexity of their OPS business. These practices shall be observed through:

- (1) active oversight of the business operations, performance, risk exposures, and

- regulatory compliance of the OPS;
- (2) adoption of appropriate policies and procedures governing key business activities and control functions;
- (3) establishment of effective risk monitoring and management information systems; and
- (4) maintenance of a sound internal control environment that is supported by effective internal audit and compliance programs.

b. *Risk Management*

The individual owners and officers shall set up commensurate risk management systems to identify, measure, evaluate, report, and control material risks on a timely basis and assess adequacy of resources in relation to their risk profile. Appropriate risk management procedures should be deployed to aid in effectively addressing threats and/or risks to the safety, efficiency, and reliability of payments transacted through the OPS.

c. *Internal Controls*

The individual owners and officers shall establish an effective and adequate system of internal controls in conducting their business. Internal control measures in place shall, at a minimum, encompass the following elements:

- (1) Sound organizational structures that address appropriate segregation of duties and proper reporting lines among business owners, officers, and employees;
- (2) Accounting policies and processes that incorporate checks and balances, and separation of financial records between those of the OPS and those of the owners to ensure integrity of financial reports and key business processes;
- (3) Safeguarding of assets;
- (4) Subjecting business activities and processes to an independent internal audit to determine whether business objectives are being met and internal controls are functioning as intended; and
- (5) Engaging a Bangko Sentral-accredited external auditor to conduct an external audit of the financial statements of the OPS on an annual basis for a maximum period of two (2) years. The OPS may re-engage an external auditor after two (2) years from the latest audit conducted by the auditor.

d. *Compliance System*

The individual owners and officers shall devise a compliance system that is commensurate to the size, risk profile, and operational complexity of the OPS. The system shall be designed to specifically identify and mitigate business risks that may erode the franchise value of the OPS. In the context of this policy, business risk refers to conditions that may be detrimental to the institution's business model and its ability to generate income from operations. These risks include compliance, market conduct, legal, and reputational risks.

As part of the OPS compliance system, the individual owners and officers shall adopt adequate compliance policies and procedures that govern the conduct of robust compliance monitoring, testing, and review of business operations to assess adherence of the OPS to payment system laws, Bangko Sentral regulations,

payment system management body rules and standards, and other pertinent rules or regulations.

401.10 Governance Requirements applicable to Operators of a Designated Payment System (ODPS). The following policy guidelines shall apply to operators of a payment system that has been designated by the Bangko Sentral:

- a. Non-executive directors, who shall include independent directors, shall comprise the majority of the board of directors of an ODPS;
- b. Independent directors of an ODPS shall represent at least one third (1/3) of the members of the board but in no case shall be less than two (2). Provided, that any fractional result from applying the minimum proportion, (i.e., 1/3) shall be rounded up to the nearest whole number; and
- c. The board of directors of an ODPS shall constitute, at a minimum, the following committees: (1) Audit Committee; (2) Risk Oversight Committee, and (3) Corporate Governance Committee;

The Audit, Risk Oversight and Corporate Governance committees of an ODPS shall be composed of at least three (3) members of the board of directors, who shall all be non-executive directors, majority of whom shall be independent directors, including the chairperson.

401.11 Confirmation of the Election/Appointment of Directors/Officers; Bio-Data of Directors and Officers

Confirmation of election/appointment of directors/officers.

Elected or appointed directors and key officers of an ODPS shall be subject to confirmation by the Bangko Sentral. Provided, that the election/appointment of a director or officer of an ODPS shall not be subject to confirmation by the Bangko Sentral if his election/appointment as such in another BSFI has been previously confirmed by the Bangko Sentral.

Confirming authority. The election/appointment of directors/officers shall be subject to the confirmation by the following:

Confirming Authority	Position Level
a. Monetary Board	Directors and CEOs of ODPS
b. Payments and Currency Management Sector (PCMS) Committee	Heads of internal audit, risk management and compliance functions, and other officers with rank of senior vice-president and above (or equivalent ranks) of an ODPS

Provided, That an ODPS shall report to the appropriate oversight department of the Bangko Sentral, any succeeding resignation, retirement, or replacement of the abovementioned directors/officers, within twenty (20) business days after such resignation/retirement.

The election/appointment of abovementioned directors/ officers shall be deemed to have been confirmed by the Bangko Sentral, if after sixty (60) business days, the appropriate oversight department of the Bangko Sentral does not advise the ODPS concerned against said election/appointment.

However, the confirmation by the Monetary Board or by the PCMS Committee of the election/appointment to the abovementioned position levels shall not be required in the following cases:

- a. Re-election of a director (as a director) in the same ODPS or election of the same director in another ODPS;
- b. Re-election of an independent director (as an independent director or not) in another ODPS; and
- c. Promotion of an officer, other than to that which requires (a) prior Monetary Board approval or (b) a different set of minimum qualifications, or (c) a different level of confirming authority as provided in the first paragraph hereof, in the same ODPS or appointment or transfer of the concerned officer to another ODPS.

The said exemptions shall apply provided that: (i) the director/officer concerned has been previously confirmed by the Bangko Sentral, or (ii) his/her election/promotion/transfer requires the same level of confirming authority mentioned in this Section. These exemptions shall apply to directors/officers confirmed by the Monetary Board or by the PCMS Committee starting 1 July 2022.

Provided further, that for re-elections, promotions and appointments which are exempted from Bangko Sentral confirmation under this Section, an ODPS shall submit to the Bangko Sentral an authorization form for querying its watchlist files (see Appendix 401-3) and ascertain that there is no outstanding derogatory information on the concerned director/officer since his/her last appointment/election.

The appointment of officers below the rank of senior vice-president, other than the heads of internal audit, risk management and compliance functions regardless of rank shall not be subject to Bangko Sentral confirmation.

Documentary Requirements

- a. The complete list of the required certifications and other documentary proof of qualifications for the confirmation of the election/appointment of directors/officers are shown in Appendix 401-1.

In this regard, an ODPS shall submit the documents listed in Appendix 401-1, to the appropriate oversight department of the Bangko Sentral within twenty (20) business days from the date of election/re-election/appointment of the directors or from the date of the meeting of the board of directors in which the officers are appointed/promoted.

Non-submission of complete documentary requirements within the prescribed period shall be construed as failure to establish qualifications for the position.

A director/officer whose election/appointment was not confirmed for failure to submit the complete documentary requirements shall be deemed removed from office upon the Bangko Sentral's issuance of due notice to the board of directors of the ODPS, even if he/she has assumed the position to which he/she was elected/appointed, pursuant to Section 6 (d)(3) of the NPSA.

- b. In cases of change of name due to change in civil status and change of residential address of a director or officer whose election/appointment is subject to Bangko Sentral confirmation, the ODPS shall submit to the appropriate oversight department of the Bangko Sentral their updated bio-data within twenty (20) business days from the date the change has occurred.
- c. All OPS shall submit to the appropriate oversight department of the Bangko Sentral, a duly notarized list of the incumbent members of the board of directors and officers (president or equivalent rank down the line, format attached as Appendix 401-2), within twenty (20) business days from the annual election of the board of directors as provided in the OPS' by-laws.
- d. The ODPS shall not be required to submit their bio-data to the Bangko Sentral for appointment of other officers below the rank of SVP other than the heads of internal audit, risk management, and compliance functions regardless of rank.

All OPS, however, shall maintain a complete record of the bio-data of all their directors and officers and shall be made available during on-site examination or when required by the Bangko Sentral for submission for off-site verification.

If after evaluation, the appropriate oversight department of the Bangko Sentral finds grounds for disqualification, the director/officer so elected/re-elected/appointed/promoted may be recommended for removal from office even if he/she has assumed the position to which he/she was elected/re-elected/appointed/promoted pursuant to Section 6 (d)(3) of the NPSA. In the aforementioned case, all actions or decisions executed by the officer/director removed from office prior to receipt of the Bangko Sentral's notice shall be valid and binding "de facto". The effect of Bangko Sentral's issuance of notice of the removal of such officer/director shall take effect upon receipt of the OPS of such notice.

401.12 Enforcement Action. Enforcement Action under Subsection 401.12 was transferred to Part 15 of the Manual.

(Circular No. 1127 dated 17 September 2021)

PART FIVE LICENSING AND REGISTRATION

501 ELECTRONIC PAYMENT AND FINANCIAL SERVICES

501.1 Policy Statement. The Bangko Sentral recognizes that electronic payment and financial services contribute to economic growth by facilitating the transfer of funds which are necessary for all productive activities. Thus, the Bangko Sentral promotes a safe, efficient, reliable, affordable, and inclusive national payment system to support the delivery of said services.

501.2 Classification of EPFS. For the purpose of authorizing BSFIs to render EPFS, such services shall be classified as follows:

- a. *Basic EPFS* - These are limited to services allowing only receipt of funds or access to information (e.g., account balance, statement of account, etc.).
- b. *Advanced EPFS* - In addition to basic services, advanced EPFS enable customers to send funds and initiate other financial transactions.

501.3 Requirements for the Grant of Authority to Offer EPFS²⁵. Pursuant to Section 111 of the MORB on the Bangko Sentral Policy and Regulations on Licensing, BSFIs that intend to offer EPFS shall obtain the appropriate authority/license, as follows:

Classification	Category of License/Authority
Advanced EPFS	Type A ²⁶ /B ²⁷
Basic EPFS	Type C

BSFIs shall observe the “Guidelines on Licensing of Electronic Payment and Financial Services” shown in Appendix 501-1.

501.4 Compliance with Relevant Regulations. A BSFI that has been granted an advanced EPFS authority shall at all times comply with the following relevant regulations:

²⁵ The BSFI shall re-register their EPFS by accomplishing the re-registration form with covering certification (Annex B of Appendix 136). The re-registration form shall be electronically submitted with the subject “EPFS Re-registration--” to epfs-licensing@bsp.gov.ph not later than 31 March 2019 while the covering certification shall be sent to the Financial Technology Sub-sector of the Bangko Sentral. Failure to submit the re-registration form by 31 March 2019 shall result in the revocation of the issued license/s.

²⁶ This applies to BSFIs that *can* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These applicants must have been examined by the Bangko Sentral.

²⁷ This applies to proponents that *cannot* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These include newly-established BSFIs and new applicants for an authority to operate as “Electronic Money Issuer-Others”.

- a. Oversee its EPFS through an appropriate top-level committee to ensure that concerns on these services are timely and properly addressed;
- b. Make its EPFS with funds transfer functionality interoperable by participating in an Automated Clearing House;
- c. Integrate EPFS in its overall strategic plan to ensure that these services do not put undue strain on its systems, financial performance, and risk management capability;
- d. Promote EPFS by implementing appropriate marketing strategies;
- e. Ensure that it satisfies the legal and regulatory requirements for Anti-Money Laundering/Combating Financing of Terrorism; and
- f. Comply with the relevant regulations on payments, Information Technology (IT) Risk Management Standards, Guidelines on Electronic Products and Services, Business Continuity Management regulations, and Consumer Protection Standards of Conduct for BSFIs.

501.5 Enhancements and other Changes in EPFS. BSFIs shall seek prior Bangko Sentral approval for the following enhancements and changes in their licensed EPFS:

- a. Replacement of platform;
- b. Upgrade in EPFS from purely informational to transactional services; and
- c. Change in system architecture, altering the risk score or assessment on the system or the other systems related to it.

501.6 Reportorial requirements. BSFIs shall provide the Bangko Sentral with the required data and updates on their EPFS.

- a. *Required Reports.* The following reports shall be submitted to the appropriate supervising department of the Bangko Sentral in the manner prescribed under Appendix 501-1:
 - (1) EPFS Transactions and Indicators; and
 - (2) Changes and Enhancements in EPFS.
- b. *Sanctions.* Failure to comply with the reportorial requirements shall subject the concerned BSFI to applicable sanctions for “Erroneous/Delayed/Erroneous and Delayed/Unsubmitted reports” as prescribed under Part 1 of the MORPS.

501.7 Enforcement actions. Enforcement Action under Subsection 101.6 was transferred to Part 15 of the Manual.

(Circular No. 1033 dated 22 February 2019)

502 RULES AND REGULATIONS ON THE REGISTRATION OF OPERATORS OF PAYMENT SYSTEMS

502.1 Policy Statement. The Bangko Sentral recognizes the crucial role of payment systems in maintaining a stable financial system and facilitating the realization of monetary policy objectives. It is thus important for the operation of payment systems to be safe, efficient and reliable.

502.2 Coverage. All OPS as defined under R.A. No. 11127 and clarified in this Section shall register with the Bangko Sentral. For this purpose, an OPS shall be a person that performs any of the following functions:

- a. Maintains the platform that enables payments or fund transfers, regardless of whether the source and destination accounts are maintained with the same or different institutions;
- b. Operates the system or network that enables payments or fund transfers to be made through the use of a payment instrument;
- c. Provides a system that processes payments on behalf of any person or the government; and
- d. Such other activities similar to the foregoing, as may be determined by the Monetary Board.

The examples of activities performed by an OPS under the functions set forth above are found in Appendix 502-1.

502.3 Requirements for Registration. The following rules shall apply to the registration of an OPS pursuant to Section 10 of R.A. No. 11127.

OPS that have yet to commence operations. The following requirements shall apply to an OPS that have yet to commence operations:

- a. *Application for Registration.* An OPS shall submit the following documents and information to the appropriate department of the Bangko Sentral:
 - (1) Duly accomplished Application for Registration (Appendix 502-2 signed by the president, chief executive officer, or a senior officer holding an equivalent position;
 - (2) Business Plan, which includes the description of its existing business, business model and target markets; and
 - (3) Copy of the business registration/permit indicating the line of business of the OPS, from the city or municipality that has territorial jurisdiction over the principal place of business of the OPS for the current period.

The Bangko Sentral may, in the course of the evaluation of the application for registration, require submission of documents and information in addition to those listed above.

- b. *Fees for Registration.* Upon the issuance of the Certificate of Registration (COR), an OPS shall pay a registration fee of P 20,000.00. A fee of P 1,000.00 shall be assessed and collected for the replacement of a COR for whatever reason.

- c. *Date of Registration.* All OPS that have not commenced operations shall register with the Bangko Sentral within one (1) month from the start of their operations except in the following instances where registration is required prior to commencement of operation:
- (1) A regulator or government agency requires appropriate action from the Bangko Sentral prior to the start of the OPS business;
 - (2) The OPS offers remittance services as well as other similar activities performed by money service businesses; and
 - (3) Such other circumstances, as may be determined by the Monetary Board.

OPS that are currently operating. The following requirements shall apply to an OPS that is already operating:

- a. *Application for Registration.* An OPS that has already commenced operations by September 2019 shall submit the following documents and information to the appropriate department of the Bangko Sentral:
- (1) Duly accomplished Application for Registration (Appendix 502-2) signed by the president, chief executive officer, or a senior officer holding an equivalent position;
 - (2) Business Plan, which includes a description of existing business, business model, and target markets; and
 - (3) Copy of the business registration/permit indicating the line of business of the OPS, from the city or municipality that has territorial jurisdiction over the place of establishment and operation of the OPS for the current period.

The Bangko Sentral may, in the course of the evaluation of the application for registration, request submission of documents and information in addition to those listed above.

- b. *Fees for Registration.* Upon the issuance of the COR, an OPS shall pay a registration fee of P 20,000.00. A fee of P 1,000.00 shall be assessed and collected for the replacement of a COR for whatever reason.
- c. *Date of Registration.* An OPS that is currently operating at the time of the effectivity of R.A. No. 11127 shall register with the Bangko Sentral by complying with the registration requirements prescribed under this Section not later than three (3) months from effectivity of this Circular.

502.4 Banks and EMIs. The following requirements shall apply to banks and electronic money issuers (EMIs) that are currently operating, or will later operate, as an OPS as defined under R.A. No. 11127 and clarified in this Section:

- a. *Registration through Notification.* A Bank or an EMI shall submit to the appropriate department of the Bangko Sentral, a notification of its activities as an OPS. It shall include a description of its existing business as an OPS, business model, and target markets. The submission shall be signed by the president, chief executive officer, or a senior officer holding an equivalent

position. The Bangko Sentral may, in the course of the evaluation of said submission, require additional documents and information in relation to said notification.

- b. *Date of Submission.* A bank or an EMI shall submit the notification with the supporting documents prescribed under this Section within one (1) month from the start of their operations as OPS, as appropriate.

502.5 Issuance of Bangko Sentral Certificate of Registration (COR). Upon receipt of the duly accomplished Application for Registration (OPS Form 1) found in Appendix 502-2 and the required documents, or Notification, as the case may be, from the OPS, the Bangko Sentral shall issue a provisional COR (PCOR). It shall be valid for the period stated therein unless indicated otherwise in the List of PCORs published on the Bangko Sentral website. Thereafter, the Bangko Sentral shall issue a COR to the OPS, if warranted, and provided that the submitted documents satisfy the regulatory requirements.

502.6 Notice Requirements for Registered Operators of Payment Systems. Registered OPS, except for banks or EMIs registered as OPS, shall give notice to the appropriate department of the Bangko Sentral of the following events within five (5) business days from the date of occurrence.

- a. Commencement of operations for OPS required to register prior to operations.
- b. Change of ownership or control of the OPS that will result in ownership or control of at least twenty percent (20%) of the voting shares of stock by any person or which will enable such person to elect, or be elected as, a director of the OPS. The notice shall indicate the details of the change of ownership or control. The change in ownership also be subject to the approval requirements as may be required by RA No. 11127 and its implementing rules and regulations.
- c. Suspension or revocation of permits, licenses or other authorities issued to the OPS by other government agencies. The notice shall include the ground/s for the suspension or revocation, and the action taken or to be taken by the OPS relative to the suspension or revocation. Thereafter, the OPS shall provide bi-weekly updates on the status of the suspension or revocation of its permits, licenses, or other authorities issued by other government agencies.
- d. Change in key officers or representatives authorized to officially communicate to the Bangko Sentral.
- e. Change of registered/business name.

In case of change in the registered/business name, the Bangko Sentral shall issue a new COR indicating the new registered/business name of the OPS upon its payment of a replacement fee of P 1,000.00, submission of the amended Articles of Incorporation (AOI) or equivalent document reflecting the new registered/business name and return of the COR issued by the Bangko Sentral to the OPS.

502.7 Operating a Payment System Without Registration. When an OPS required to be registered under this Section is found to be operating a payment system without registration, the Monetary Board shall issue a directive to such OPS to comply with the registration requirements under this Section. If the OPS remains unregistered, the Monetary Board shall issue an order to such OPS to stop from operating a payment system without registration and to take immediate action to register. The Bangko Sentral may coordinate with other regulators and concerned government agencies to inform them that the said OPS is operating a payment system without registration from the Bangko Sentral. The above is without prejudice to the enforcement actions by the Bangko Sentral, as may be applicable, under existing laws, rules and regulations.

502.8 Enforcement Action. Enforcement Action under Subsection 502.8 was transferred to Part 15 of the Manual.

(Circular No. 1049 dated 09 September 2019)

503 OPS THAT ENGAGE IN MERCHANT PAYMENT ACCEPTANCE ACTIVITIES

503.1 Policy Statement. The Bangko Sentral recognizes that enabling merchants to accept different forms of payments for the sale of goods and/or services in a safe and efficient manner is vital in facilitating the smooth flow of funds in the economy and contributing to the wider adoption of digital payments in the country. For digital payments to thrive, minimum standards and good practices must be established to: (i) safeguard the funds received from customers of merchants; and (ii) protect the rights and interests of end-users (i.e., merchants) that deal with operators of payment systems (OPS) that engage in merchant payment acceptance activities (MPAA).

Pursuant to Republic Act No. 11127, or the National Payment Systems Act (NPSA), the National Retail Payment System (NRPS) Framework, and the Payment System Oversight Framework, the Regulatory Framework for MPAA ensures that OPS that engage in MPAA adopt commensurate governance structures and appropriate measures to effectively manage risks attendant to their business model, including risks related to settlement, operations, information technology (IT), anti-money laundering and countering terrorism and proliferation financing (AML/CTPF), and end-user protection.

503.2 Scope and Applicability. This policy covers any OPS engaged in or intending to engage in MPAA in the Philippines (OPS-MPAA). For avoidance of doubt, MPAA includes merchant acquisition services. As OPS, all OPS-MPAA shall comply with the pertinent provisions of this Section, and laws, rules, and regulations applicable to OPS.

An OPS is considered engaged in MPAA in the Philippines if the OPS, merchant, or both are located in the Philippines.

For Banks and Electronic Money Issuers-Non-Bank Financial Institutions (EMI-NBFI). An OPS engaged in or intending to engage in MPAA that has a concurrent banking or EMI-NBFI license is expected to adhere to the more stringent requirements between the guidelines in this policy and the applicable provisions of the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBF), as applicable, to satisfy the overall regulatory expectations of the Bangko Sentral.

Banks and EMI-NBFIs engaged in MPAA shall comply with the provisions on payments to merchants, pricing mechanism, and reportorial requirements in this framework.

For OPS-MPAA under the Regulatory Jurisdiction of Other Local or Foreign Authorities or Overseers of Payment Systems. An OPS-MPAA that is under the regulatory jurisdiction of other local or foreign authorities or overseers of payment systems shall comply with the requirements of this framework, particularly the provisions on payments to merchants, pricing mechanism, and reportorial requirements.

For the requirements in this Section that are also imposed by other local or foreign authorities or overseers of payment systems, the OPS-MPAA may submit to the Bangko Sentral proofs of compliance with the similar requirements by said authorities. The Bangko Sentral may consider the documents submitted by the OPS-MPAA in evaluating compliance with requirements in this Section and direct the OPS-MPAA to submit additional documents to substantiate the proof of compliance, as necessary.

503.3 Governance and Risk Management Measures Applicable to OPS-MPAA.

OPS-MPAA shall observe governance and risk management measures commensurate to the activities they perform, subject to compliance with the requirements under Section 401 for Governance, Section 903.1 on Outsourcing, Section 903.2 on Information Technology Risk Management (ITRM), Section 1003 on AML/CTPF and Section 1103 on End-User Protection of the Manual.

503.4 Authority to Engage in Merchant Acquisition. An authority from the Bangko Sentral must be obtained prior to engaging in merchant acquisition in the Philippines. Regardless of the status of its compliance with the registration requirement under Section 502 of this Manual, an OPS that intends to engage in merchant acquisition shall secure a Merchant Acquisition License (MAL) with the appropriate supervising department of the Bangko Sentral.

An OPS granted with MAL by the Bangko Sentral, herein referred to as OPS-MAL, is not required to register as OPS and is considered compliant with the rules and regulations on the registration of OPS under Section 502 of this Manual.

The guidelines on application for MAL are set out in Appendix 503-1 of this Manual. The appropriate supervising department of the Bangko Sentral may request submission of additional documents and information during the evaluation of the application for MAL. The application for MAL shall be processed only upon receipt of the complete documents. Applying for a MAL authorizes the Bangko Sentral to conduct onsite verification of the documents and/or representations stated in the application filed in connection with the license or authority applied for. Any misrepresentation in the documents submitted may be used as ground for denial of the MAL application.

Banks and EMI-NBFIs that intend to engage in merchant acquisition as part of their normal or allowed business operations need not apply for a separate license from the Bangko Sentral. Prior notification (Appendix 503-5) to the appropriate supervising department of the Bangko Sentral shall suffice.

503.5 Registration for Engagement in Other MPAA. An OPS engaged in or intending to engage in MPAA other than merchant acquisition shall register with the Bangko Sentral in accordance with Section 502 of this Manual.

503.6 Capital Requirement. The minimum required capital for OPS-MAL shall be based on the following MAL categories:

Category	Average monthly value of collected	Minimum
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	funds transferred to merchants in the applicable period	Required Capital
A	Less than ₱100 million	₱5 million
B	₱100 million and above	₱10 million

In case of application for license, the category shall be based on the expected average monthly value of collected funds to be transferred to merchants while engaged in merchant acquisition in the first twelve (12) months of operation by the OPS. The capital requirement shall be complied with on the date of application.

When the average monthly value of collected funds transferred to merchants for two (2) consecutive calendar years while operating as an OPS-MAL warrants a change in category, the corresponding minimum required capital shall apply. In case there is a need to increase the minimum required capital pursuant to a change in category, the OPS-MAL shall comply with the revised capital requirement within sixty (60) business days after the start of the calendar year.

The minimum required capital shall be computed as paid-in capital stock plus additional paid-in capital, deposit for stock subscription, retained earnings, and undivided profits, less intangible assets.

For OPS-MAL that are banks and EMI-NBFIs, the minimum required capital shall be the highest among: (a) the required minimum capitalization for banks depending on bank category, (b) the required minimum capitalization based on EMI category, or (c) the minimum capitalization under the categories in this Subsection, as applicable.

503.7 Governance for Merchant Acquisition Services. For OPS-MAL, the following provisions shall govern merchant acquisition services:

- a. *Merchant Management.* An OPS-MAL shall have prudent merchant payment acceptance criteria and procedures for managing its relationship with merchants approved by its board of directors.
 - (1) *Merchant Due Diligence (MDD).* A risk-based approach shall be undertaken depending on the type of merchant, business relationship or nature of transaction or activity and risk profile. An OPS-MAL shall formulate a risk-based and tiered MDD that involves reduced MDD for potentially low-risk merchants and enhanced MDD for higher-risk merchants, which shall include:
 - (a) *Merchant Identification.* An OPS-MAL shall establish and record the true identity of their merchants based on official documents. They shall maintain a proportionate system of verifying the true identity of their merchants and, in the case of corporate clients, require a system of verifying their legal existence and organizational structure, as well as the authority and identification of all persons purporting to act on

their behalf.

- (b) *Merchant risk assessment.* An OPS-MAL shall understand, evaluate, analyze, and periodically assess the overall potential risk of a merchant, such as risks related to its financial capacity, legitimacy, operations, money laundering/terrorism financing/proliferation financing, cybersecurity, and consumer protection, among others, using reliable documents, information, or any other appropriate measures to undertake the background verification. When applicable, additional controls may be instituted to manage the potential risk of a merchant.
 - (c) *Merchant monitoring.* An OPS-MAL shall ensure periodic monitoring of its merchants in terms of adherence to their agreement and the merchant's business activities and shall keep records of these monitoring activities. In an existence of a valid ground based on the suspension or termination clause in the governing agreement, an OPS-MAL shall immediately suspend or terminate any merchant payment acceptance relationship with a merchant.
- (2) *Governing agreement.* A written agreement between the merchant and the OPS-MAL shall be executed to govern the relationship, which, at the minimum, shall cover the following:
- (a) Account maintenance, such as information on:
 - (i) business ownership and/or management,
 - (ii) business office and/or store address, and
 - (iii) nature of business;
 - (b) Timing and manner of the transfer to the merchant of the funds collected by the OPS-MAL, including the designation by the merchant of the means of receiving payment and merchant account where the funds will be transferred, as applicable;
 - (c) Disclosures and stipulations on the sharing of risks associated with merchant acquisition;
 - (d) Roles and responsibilities of each party, procedures and timelines on:
 - (i) Liability management in case of negligence/security breaches/fraud, among others;
 - (ii) Reconciliation process;
 - (iii) Safeguards against unauthorized disclosure of customer data and other protected information, data loss, fraud, and cyber threats; as well as to facilitate the secure and efficient sharing of data among authorized entities;
 - (iv) Handling and resolving complaints, refund/failed transactions, or customer returns; and
 - (e) Suspension and termination clauses, where the grounds include the following:
 - (i) for suspension, breach of the agreement or a merchant is suspected to be involved in fraudulent or illegal activity based on

- information obtained from a reliable source, a complaint from an aggrieved party or a finding under its own systems, and
- (ii) for termination, merchant's involvement in fraudulent or illegal activity substantiated by adequate and appropriate evidence after the investigation or assessment of the OPS-MAL or conviction with finality by a court of law.

(3) *Dispute resolution.* An OPS-MAL shall have in place a dispute resolution framework to ensure prompt and effective resolution of cases with its merchants and cases with its third-party service providers. It shall contain details, such as the transaction life cycle, a detailed explanation of types of disputes, the process of dealing with them, the responsibilities of all parties, the procedure for addressing the grievance, and the turnaround time for each stage.

- b. *Payment to Merchants.* The OPS-MAL shall maintain designated account/s with a Bangko Sentral Supervised Financial Institution (BSFI) where funds received or collected on behalf of merchants are held separate from the OPS-MAL's own funds and shall be properly accounted for. The funds in the designated deposit account/s shall only be used for settlement purposes with the merchants and/or transfers related to merchant acquisition, such as chargebacks to payment instrument issuers or the charging of merchant fees. In case there is a need to shift the designated account from one BSFI to another, the said change shall be effected in a time-bound manner without impacting the payment cycle for the merchants.

OPS-MAL shall ensure timely and complete funds settlement with merchants. The settlement period shall be agreed upon by the OPS-MAL and the merchant, but shall not be longer than two (2) business days from the day the funds are received by the OPS-MAL for transfer to a merchant.

In the event that the payment cycle stated in the merchant agreement is more than the agreed maximum number of days as stated above, an OPS-MAL shall submit justification, including supporting documentation, to the appropriate supervising department, subject to prior approval of the Bangko Sentral. Without such approval, the OPS-MAL shall undertake safeguarding measures, which may include placing the outstanding funds in a trust account or securing a bank guarantee against it in a BSFI or any other measures acceptable to the Bangko Sentral.

OPS-MAL shall be liable to provide the collected funds to merchants in the event the issuer of payment instruments or any other parties involved in the handling of such funds fail to fulfill their settlement obligations, regardless of dispute with other parties.

- c. *Pricing Mechanism.* Notwithstanding the consumer pricing rules under the NRPS Framework and subsequent relevant issuances, OPS-MAL shall adopt a pricing mechanism whereby merchant fees may be charged to merchants availing of merchant payment acceptance activities. Such pricing

mechanisms shall be reasonable, transparent, market-based, and proportional to the cost of the services offered in order to sustain the business operations of the parties involved.

503.8 Commencement of Merchant Acquisition Service. An OPS-MPAA granted a MAL shall commence actual engagement in merchant acquisition within six (6) months from the date of issuance of the license, unless a longer period has been approved by the Bangko Sentral. Failure to commence actual merchant acquisition within the six (6) month period shall render the license automatically revoked.

Within five (5) business days from the actual start of merchant acquisition service, the OPS-MAL shall notify in writing the appropriate supervising department of the Bangko Sentral of the actual start date. Such notification shall be duly acknowledged by the appropriate supervising department of the Bangko Sentral.

503.9 OPS Without the Appropriate License from the Bangko Sentral. When an OPS required to be licensed under this Section is found to be engaging in merchant acquisition without a prior license, the Monetary Board shall issue a directive to such OPS to comply with the licensing requirements under this Section. If, after notice to the concerned OPS, the OPS continues to engage in said activities without the requisite license, the Monetary Board shall issue an order to such OPS to cease engaging in said activities and to take immediate action to apply for a license. The Bangko Sentral may coordinate with other regulators and concerned government agencies to inform them that the said OPS do not have the required license from the Bangko Sentral to engage in such activities. This procedure is without prejudice to the enforcement actions that may be deployed by the Bangko Sentral, as may be applicable, under existing laws, rules, and regulations.

503.10 Continuing Compliance. OPS-MAL shall continuously comply with the operational standards and requirements set out in this Section and other relevant sections of this Manual. Any deviation or non-compliance after securing a license shall be a basis for the imposition of appropriate enforcement actions. Bangko Sentral authorized personnel shall have the authority to conduct an assessment, examination, and/or systems and operational review pursuant to Section 101 of this Manual.

503.11 Voluntary Termination of Merchant Acquisition Service. Any OPS-MAL that wish to cease engaging in merchant acquisition shall secure prior approval of the Bangko Sentral on the termination and ensure compliance with the following procedures:

- a. At least three (3) months prior to intended date of termination, submit to the appropriate supervising department of the Bangko Sentral a request for approval, signed by the president or officer of equivalent rank, stating the details and justification for the voluntary termination, and submitting the Board or stockholders' approval of the same;

- b. Upon receipt of the notice of the Bangko Sentral approval: (i) send written notice of termination to merchants by personal service, or registered mail/other mail couriers wherein proof of receipt of notice by the merchants shall be kept on file and made available upon request of the Bangko Sentral; and (ii) publish notice in a newspaper of general circulation and post the same in the official website of the OPS-MAL, if applicable; and
- c. Submit to the appropriate supervising department of the Bangko Sentral within five (5) business days from date of termination, a certification signed by the president or officer of equivalent rank, stating that the: (i) termination was implemented, (ii) notification requirement under Item “b” above has been complied with, and (iii) the OPS-MAL has no remaining obligations to its merchants.

503.12 Reportorial Requirements. The guidelines on reporting under Section 103 of this Manual shall apply to OPS-MPAA. As such, OPS-MPAA shall comply with the reportorial requirements for OPS. In addition, OPS-MPAA shall submit the following secondary report to the appropriate supervising department of the Bangko Sentral:

Report Title	Frequency	Submission Deadline
Annual audited financial statement	Annually	120 business days after end of reference year

In addition to above, an OPS-MAL shall submit the following secondary reports to the appropriate supervising department of the Bangko Sentral:

Report Title	Frequency	Submission Deadline
Statistics related to MPAA (Appendix 503-2)	Quarterly	15 business days after end of reference quarter
Notice to the Bangko Sentral of significant changes (Appendix 503-3)	As needed	30 business days prior to effective date of proposed change
Notice to the Bangko Sentral of change in average monthly value of collected funds to be transferred to merchants that would change license category (Appendix 503-4)	As needed	60 business days after occurrence

For this purpose, significant changes include:

- a. Changes in ownership, directors, and/or key officers or representatives authorized to officially communicate to the Bangko Sentral; and
- b. Any proposed changes to merchant payment acceptance model of the

OPS-MPAA that are significant or change the risk profile of the business model, which includes but is not limited to any changes in target market, mode of payment acceptance, as well as payment and settlement flow.

The guidelines for the preparation and electronic submission of the reports required in this Section will be covered by a separate issuance.

Statistics related to MPAA shall apply to OPS-MAL that are not required to submit the monthly report on Electronic Payments and Financial Services pursuant to Section 501.6 of this Manual.

Failure to comply with the provisions of this Subsection shall cause the concerned OPS-MPAA to applicable sanctions for Erroneous, Delayed, Erroneous and delayed, or Unsubmitted Reports, as prescribed under Subsection 103.5 of this Manual.

503.13 Enforcement Actions. Failure to comply with the requirements of this Section shall subject the OPS-MPAA to the appropriate enforcement action provided under Part Fifteen of this Manual.

**PART SIX
RESERVED**

PART SEVEN SETTLEMENT

701 SETTLEMENT OF ELECTRONIC PAYMENTS UNDER THE NATIONAL RETAIL PAYMENT SYSTEM (NRPS) FRAMEWORK

701.1 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.

701.2 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, unless otherwise allowed with prior BSP approval;
- 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.

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. Use of the DDA instead of the established distinct DDAs may be allowed, subject to prior BSP approval;
- f. 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
- g. 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.

701.3 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 of the MORB/MORNBFI.

701.4 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 of the MORB/MORNBFI.

701.5 Enforcement Action. Enforcement Action under Subsection 701.5 was transferred to Part 15 of the Manual.

(Circular No. 1000 dated 23 April 2018 and Circular No. 1135 dated 21 January 2022)

**PART EIGHT
RESERVED**

PART NINE OPERATIONAL RISK

903 SPECIAL RULES FOR MERCHANT PAYMENT ACCEPTANCE ACTIVITIES

903.1 Outsourcing. OPS engaged in or intending to engage in merchant payment acceptance activities (MPAA) in the Philippines (OPS-MPAA) shall remain responsible and accountable for the services outsourced to third-party service providers. As applicable, it shall be the responsibility of the OPS-MPAA to:

- a. Conduct appropriate due diligence review of the third party to assess the legitimacy and capability of the third party in performing the service to be outsourced prior to entering into an outsourcing arrangement;
- b. Ensure that the relationship/arrangement is supported by a written contract that should contain, at a minimum, business continuity and disaster recovery arrangements of the third party to ensure continuity of operations;
- c. Ensure that the third party employs a high degree of professional care in performing the outsourced activities as if these were conducted by the OPS-MPAA itself. This would include, among others, making use of monitoring and control procedures to ensure compliance at all times with applicable Bangko Sentral rules and regulations;
- d. Ensure that the third party adheres to international standards on information technology (IT) governance, information security, and business continuity in the performance of its outsourced activities and complies with all laws and Bangko Sentral rules and regulations covering the activities outsourced, especially on compliance with AML/CTPF requirements;
- e. Undertake operational review of the third party at least on an annual basis as part of risk management. This review should be documented as part of the OPS-MPAA's monitoring and control process;
- f. Identify, delineate and document the responsibilities and accountabilities of each party as regards the outsourcing arrangement, including planning for contingencies. Notwithstanding any contractual agreement between the OPS-MPAA and third party on the sharing of responsibility, the OPS-MPAA shall be responsible to its merchants; without prejudice to further recourse, if any, by the OPS-MPAA to the third party;
- g. Review and monitor the security practices and control processes of the third party on a regular basis, including commissioning or obtaining periodic expert reports on adequacy of security to maintain the confidentiality and integrity of data, and compliance with internationally recognized standards in respect to the operations of the third party. Considering that the third party may service more than one OPS-MPAA, the OPS-MPAA should ensure that records pertaining to its transactions are segregated from those of other OPS-MPAA; and
- h. Maintain necessary documentation to show that outsourcing arrangements are properly reviewed, and the appropriate due diligence has been undertaken prior to implementation. The OPS-MPAA shall keep in its file these documents and the same shall be made available to authorized representatives of the Bangko Sentral for inspection.

903.2 Information Technology Risk Management (ITRM). OPS-MPAA shall design and implement an ITRM that is risk-based, commensurate with the size, nature, types of products and services, and complexity of its information technology (IT) operations. There shall be a robust and effective information technology and security risk management framework and processes, including corresponding governance structures and controls, to ensure financial stability, operational resilience, and end-user protection, which, at a minimum, shall include the following:

- a. Organizational structure that has well-defined roles and responsibilities for information, business processes, applications, IT infrastructure, and fraud prevention;
- b. Policies and procedures on the identification, measurement, monitoring and controlling of data security and IT risks on a periodic basis;
- c. Appropriate IT and security infrastructure and systems for prevention and detection of cybersecurity and fraud, including processes and procedures on prevention, detection and monitoring to mitigate cybersecurity and fraud risk;
- d. Mechanism for monitoring, handling and reporting incidents and breaches related to data security, IT and fraud;
- e. Effective business continuity plan and disaster recovery plan for, at a minimum, all critical business functions;
- f. Independent assessment of risk management process and controls;
- g. Sufficient resources to hire and train employees to ensure that they have the necessary capacity and expertise to meet the requirements for IT and the business lines it supports;
- h. Baseline technology-related recommendations, latest encryption standards, transport channel security, among others, based on international standards and recognized principles of international practice for ITRM; and
- i. Measures to ensure compliance with applicable data storage and privacy requirements, such as not storing the customer card credentials within their database or the server accessed by the merchant.

PART TEN
ANTI-MONEY LAUNDERING / COUNTERING TERRORISM AND
PROLIFERATION FINANCING (AML/CTPF)

1003 SPECIAL RULES FOR MERCHANT PAYMENT ACCEPTANCE ACTIVITIES

OPS engaged in or intending to engage in merchant payment acceptance activities (MPAA) in the Philippines (OPS-MPAA) shall adhere to the applicable provisions under the Anti-Money Laundering Act, as amended, The Terrorism Financing Prevention and Suppression Act of 2012, and targeted financial sanctions (TFS)-related laws and their respective Implementing Rules and Regulations (IRR).

PART ELEVEN END-USER PROTECTION

1103 SPECIAL RULES FOR MERCHANT PAYMENT ACCEPTANCE ACTIVITIES

OPS engaged in or intending to engage in merchant payment acceptance activities (MPAA) in the Philippines (OPS-MPAA) shall be considered a Bangko Sentral Supervised Institution (BSI) for the purposes of this Section and shall have mechanisms in place that ensure the safety of end-users (i.e., merchants) availing of its service. Such mechanisms shall comply with existing financial consumer protection laws under the Financial Products and Services Consumer Protection Act (RA No. 11765) and related implementing rules and regulations.

1104 CONSUMER REDRESS MECHANISM STANDARDS FOR ACCOUNT-TO-ACCOUNT ELECTRONIC FUND TRANSFERS UNDER THE NATIONAL RETAIL PAYMENT SYSTEM FRAMEWORK

1104.1 Policy Statement. The use of electronic payments continues to expand and is expected to steadily grow. With the increased adoption of digital payment services, the Bangko Sentral recognizes the need to ensure that Bangko Sentral-Supervised Institutions (BSIs) that offer electronic fund transfers (EFTs) through their participation in the Automated Clearing House/s (ACH) provide appropriate and timely consumer recourse mechanisms on issues lodged by consumers. Defined industry-wide actions and expectations on clearing switch operators (CSOs) and ACH participants for the timely resolution of consumer concerns relating to EFTs build trust and confidence in the use of digital payments.

1104.2 Scope. The regulation shall apply to all CSOs and ACH participants which provide domestic account-to-account EFTs as defined under the National Retail Payment System (NRPS) Framework, which include Person-to-Person (P2P), Person-to-Merchant (P2M), and Person-to-Biller (P2B) payments as provided in the ACH clearing rules. This regulation does not cover dispute resolution involving the delivery of products and/or services underlying the payment transaction.

1104.3 Minimum requirements. The following shall be observed by concerned parties:

a. Notification on EFTs

The NRPS framework requires immediate credit to the account of the beneficiary after receipt of the clearing advice from the clearing switch operator (CSO). Consistent with applicable Bangko Sentral rules and regulations, the timeframe of immediate credit to the beneficiary's account for near-real time EFTs is within 2 to 3 seconds from receipt of clearing advice by the RFI from the CSO. For batched EFTs, turnaround time for credit to the beneficiary's account shall not exceed two (2) hours from receipt of the

clearing advice by the RFI from the CSO or not later than the next settlement cycle for multiple settlement cycles.

Correspondingly, the ACH operating guidelines must clearly define the following guidelines on notifications:

- (1) The OFI shall timely provide notification to inform the sender about the accurate status of the EFT. Subsequent notifications must likewise be provided for updates or resolution.
- (2) The RFI shall timely provide notification to the beneficiary about the funds received in the beneficiary account.

The OFIs and RFIs shall utilize effective mode/s of notification that will ensure the receipt by the sender and/or beneficiary of the required information under this provision. Both OFI and the RFI must include relevant transaction details that will allow both sender and beneficiary to easily identify the EFT. Common language must be observed by all ACH participants in the notification message, particularly in relaying the actual status of the EFT.

b. Return of Funds

For instant retail payments and corresponding use cases, the amount debited from the sender's account shall be returned to the sender's account within one (1) hour from receipt of sender instruction. This shall apply to rejected transactions, returned transactions, and timed-out transactions.

For batch clearing and settlement of electronic payments and corresponding use cases, the amount debited from the sender's account shall be returned to the sender's account within two (2) hours from receipt of settlement report from the CSO for rejected transactions and returned transactions.

With regard to multiple-debit transactions and unsuccessful transactions as a result of lapses in controls of the OFI, the amount debited from the sender's account shall be returned to the sender's account under the following guidelines:

- (1) Within one (1) hour from receipt of sender instruction for instant payments and corresponding use cases; and
- (2) Within two (2) hours from receipt of settlement report from the CSO for batch clearing and settlement of payment items and corresponding use cases.

The provisions of this section shall not apply to unauthorized or erroneous transactions.

c. Collection and Return of EFT Fee

The parameters when to collect EFT fee, as well as the criteria as to when to return the collected EFT fee must be clearly established in the ACH operating guidelines.

For EFTs that warrant return of collected EFT fees to the sender, the OFI must return the same to the sender in accordance with the timelines specified in item “b” of this Section on the “Return of Funds”.

The sender shall not bear fees for unsuccessful transactions as well as for EFTs that did not materialize due to disruption of operations of either the CSO or ACH participants. The ACH operating guidelines shall provide parameters to determine the entity-at-fault who will shoulder any cost related to the EFTs affected by such circumstances.

In all cases, the rules on collection and return of EFT fees must be clearly communicated to consumers by disclosing such information in various channels and publicly available materials, pursuant to existing Bangko Sentral regulations on Disclosure and Transparency.

d. Disruption of Services and Operations

The respective ACHs operating guidelines shall clearly define the action/s required from the parties involved in an EFT (i.e., OFI, RFI, CSO) during disruptions that affect the efficient delivery of EFTs. The guidelines shall include the necessary actions from each party involved that ensures prompt notification to end-users regarding the disruption.

The ACH operating guidelines shall provide as follows:

- (1) CSO notification to the appropriate supervising department of the Bangko Sentral, and the ACH participants on the occurrence of scheduled and unscheduled downtime which shall include the timeline and manner of notification, and on subsequent notifications for updates or resolution;
- (2) ACH Participants notification to consumers on the occurrence of scheduled or unscheduled downtime:

- (a) Initial notification: Notice on the scheduled downtime or occurrence of the unscheduled downtime. In the case of the latter, the ACH operating guidelines shall identify the notification period to consumers.
- (b) Periodic notification: Subsequent notification to provide updates and information on the status, reason, expected period and eventual resolution of the downtime.

The actions and obligations that will be required under the ACH operating guidelines during disruptions that affect the efficient delivery of EFTs shall be separate and in addition to those required under the rules and regulations on disruptions of financial services and operations that are covered by applicable Bangko Sentral regulations.

e. Consumer Protection

OFIs have the primary responsibility of communicating to the sender, as their own accountholders, the status and updates on investigations, and resolution of unauthorized and/or erroneous transactions.

Meanwhile, all ACH participants shall conform with applicable Bangko Sentral regulations, such as but not limited to provisions set forth under Circular No. 1160 dated 28 November 2022 on the Regulations on Financial Consumer Protection to Implement Republic Act No. 11765, otherwise known as the “Financial Products and Services Consumer Protection Act.” Circular No. 1160, and other relevant regulations shall be referred to in handling unauthorized and/or erroneous transactions.

The ACH operating guidelines shall provide industry-level standards, procedures, and information sharing mechanism, as applicable, from relevant stakeholders, in handling possible root causes of unauthorized transactions (e.g., social engineering, phishing, among others).

1104.4 Enforcement Action. Refer to Section 1501 of the MORPS.

PART TWELVE EFFICIENCY AND EFFECTIVENESS

1201 ADOPTION OF A NATIONAL QUICK RESPONSE (QR) CODE STANDARD

1201.1 Policy Statement. In line with its thrust of ensuring the safety, efficiency, and reliability of payment systems in support of inclusive economic growth, the Bangko Sentral requires the adoption of a National QR Code Standard.

1201.2 Adoption of a National QR Code Standard. The adoption of this standard shall conform to the following guidelines:

- a. The National QR Code Standard shall be established through a collaborative undertaking where the Payment System Management Body²⁸ (PSMB) takes the lead in a consultative exercise involving the Payment Service Providers²⁹ (PSPs), operators of payment systems, and Automated Clearing House (ACH) participants.
 - (1) The PSMB shall, at the minimum, consider the following principles in approving the National QR Code Standard:
 - (a) Interoperability to allow acceptance of multiple payment schemes through the National QR Code;
 - (b) Simplicity to encourage usage of QR-enabled payment and financial services; and
 - (c) Accessibility where an open infrastructure is adopted to facilitate the acceptance of payments from various transaction accounts.

The PSMB shall approve the National QR Code Standard and inform the Bangko Sentral of the approved Standard within ten (10) calendar days from the date of approval or from the effectivity of this regulation (17 October 2019).

 - (2) PSPs shall adopt the National QR Code Standard approved by the PSMB, within thirty (30) calendar days from the date the PSMB notified the BSP of said approval.
 - (3) The National QR Code Standard shall be aligned with the globally recognized standard to support interoperability not only on a domestic but also on broader regional or global scale.
 - (4) To build public trust, PSPs shall give utmost priority to the safety of the payers and the payees making use of QR-enabled payment and financial services.

²⁸ The Philippine Payments Management, Inc. (PPMI) is the PSMB in the Philippines.

²⁹ PSPs are entities that provide payment and financial services to end users. These entities include banks and non-bank electronic money issuers.

- (5) PSPs shall ensure that QR-enabled payment and financial services are accorded appropriate treatment in the determination of applicable fees.
- (6) PSPs shall ensure that the threats and vulnerabilities arising from their QR-enabled payment and financial services are identified, measured, monitored, and controlled accordingly.
- (7) The PSMB shall maintain the document which contains among other information, the following details on the National QR Code Standard:
 - (a) National QR Code specifications, such as the prescribed structure and design of merchant-presented and customer-presented QR and the conventions that apply to both of these modes;
 - (b) Technical operating guidelines on the use of the standard;
 - (c) Flow of settlement between the PSPs; and
 - (d) Minimum security features and functionalities of QR-enabled payment and financial services.

Upon request by the Bangko Sentral, the PSMB shall make this document available for review. The PSMB shall also inform the BSP of changes to this document not later than ten (10) days after the approval of the changes by the PSMB Board.

1201.3 Enforcement Action. Enforcement Action under Subsection 1201.3 was transferred to Part 15 of the Manual.

(Circular No. 1055 dated 17 October 2019)

PART THIRTEEN
RESERVED

PART FOURTEEN

LARGE VALUE PAYMENT SYSTEM RULES

1401 PESO REAL TIME GROSS SETTLEMENT (RTGS) RULES

1401.1 Policy Statement. The Peso Real Time Gross Settlement Payment System (RTGS PS) is critical for maintaining price and financial stability, as well as preserving public interest. This payment system ensures the smooth flow of funds between financial institutions that maintain settlement accounts (SAs) with the Bangko Sentral. It also facilitates funds transfers in financial markets where these institutions trade securities and foreign currencies for business and risk management purposes. By providing the settlement facility for the open market operations of the Bangko Sentral, the RTGS PS also supports the Bangko Sentral's mandate of maintaining price stability. Moreover, this system plays an indispensable role in upholding public welfare, enabling the efficient and low-risk settlement of retail payments in central bank money. In this regard, the Bangko Sentral adopts rules in its capacity as owner and operator of the RTGS PS to govern the operation of this designated payment system. These rules shall apply to the participants of the RTGS PS, including banks and other financial institutions, financial market infrastructures (FMIs), clearing switch operators (CSOs), and critical service providers (CSPs).

1401.2 Governance³⁰. The Bangko Sentral's Peso RTGS Management Committee (ManCom) shall manage the operation of the RTGS PS, which has been designated by the Monetary Board (MB) as a Systemically Important Payment System (SIPS). The ManCom is composed of officers of concerned Bangko Sentral units and departments, which are involved in sustaining the smooth functioning of the payment system. The ManCom reports to the Monetary Board through the Governor of the Bangko Sentral. In performing its function, the ManCom may seek guidance from the Bangko Sentral Deputy Governor who is responsible for payments and currency management.

The ManCom shall be responsible for sustaining the safe, efficient, and reliable operation of the RTGS PS and ensuring compliance of this payment system with regulatory expectations. In accomplishing this mandate, the ManCom performs the following key functions:

- a. Review and endorse for MB approval the policy proposals and/or amendments pertaining to the operation of the payment system;
- b. Oversee the implementation of programs, policies, and procedures, which are aimed at ensuring that the operation of the RTGS PS aligns with global standards or best practices and complies with laws, regulations, and MB directives on payment systems;

³⁰ The Bangko Sentral publishes a Primer on the Operation of the RTGS PS. The Primer covers Governance, Business Continuity Management, and Transaction Fees, among other matters pertaining to the RTGS PS.

- c. Take initiatives or evaluate recommendations in response to the issues on the operation of the RTGS PS and the evolving needs of the payment participants; and
- d. Collaborate with the industry, local regulators, and foreign central banks, as applicable, on major RTGS PS rules and initiatives that can be successfully accomplished through partnership with them.

Consistent with the Bangko Sentral's Governance Policy for Operators of Payment Systems under Part 4 of the MORPS, the Bangko Sentral shall adopt the governance arrangement requirements to the extent applicable in the context of a payment system that is owned and operated by a central bank.

1401.3 Compliance with Laws, Regulations, and Standards. The RTGS PS, which includes its participants, shall comply with laws and regulations on payment systems. The operation of the RTGS PS shall be aligned with the relevant principles for FMIs. Should there be a conflict between local and foreign laws or regulations in so far as the RTGS PS operation is concerned, the Philippine laws and regulations shall prevail.

1401.4 Participants. The participants in the RTGS PS are, as follows:

- a. *Participants with SAs.* These include banks, non-bank financial institutions with quasi-banking functions, non-bank electronic money issuers, and government agencies, as well as Bangko Sentral departments that conduct monetary operations and those responsible for disbursing and receiving funds on behalf of the Bangko Sentral. The participating financial institutions may sponsor other entities into settlement.

Except for the Bangko Sentral departments, a Participation Agreement mutually executed with the Bangko Sentral shall document and govern the participation of these entities in the RTGS PS.

- b. *Sponsored Participants.* These are financial institutions sponsored into settlement through the RTGS system.

Any sponsorship into settlement shall comply with the following guidelines:

- (1) The transactions of a sponsored participant shall be considered as the sponsoring participant's own transactions. As such, the sponsoring participant shall be held responsible for any loss, liability, or damage caused by the sponsored participant insofar as settlement is concerned.
- (2) The sponsorship shall be covered by a formal contract between the sponsoring and sponsored participants. The contract shall include a provision addressing settlement default situations caused by either or both the sponsoring and the sponsored participants.

- (3) The sponsorship terms and conditions should promote access to the RTGS PS without compromising the safety and efficiency of the system.
 - (4) The sponsoring participant shall adopt risk-mitigating measures to ensure that the risks it assumes as sponsor are kept at manageable level. These measures include the performance of due diligence to ensure that the participant it sponsors complies with the RTGS PS rules.
 - (5) The sponsorship contract shall require the sponsored participant to submit pertinent information, if any, to the sponsor for risk management purposes.
 - (6) The sponsoring and sponsored participants shall comply with the Bangko Sentral's reporting requirements pertaining to the sponsorship.
- c. *FMI/s*. These are infrastructures that are interlinked with the RTGS system to enable settlement of security, foreign exchange (FX), and other financial market transactions in accordance with the Delivery versus Payment (DvP) and Payment versus Payment (PvP) mechanisms, which minimize the principal risk associated with such transactions.

The business between the Bangko Sentral and the operator of an FMI that interfaces with the RTGS PS shall be conducted in accordance with a contract in an appropriate form (e.g., Terms of Reference, Memorandum of Agreement, Memorandum of Understanding, etc.), the provisions of which shall be compliant with these rules.

- d. *CSOs*. These are clearing organizations that are permitted to interconnect with the RTGS system for purposes of settling retail payments in accordance with the National Retail Payment System regulatory framework.

The interlinkage of the CSOs with the RTGS PS shall be in accordance with operating guidelines or a formal agreement between the Bangko Sentral and the CSO. The provisions of the guidelines or agreement shall be consistent with these rules.

- e. *CSPs*. These are technology companies that provide solutions which are vital to the operation of the RTGS PS.

Prior to providing services to the RTGS PS, a CSP shall enter into a service contract with the Bangko Sentral, the provisions of which shall be aligned with these rules.

1401.5 Participation Requirements and Procedure. The Bangko Sentral adopts fair and risk-based criteria for determining the entities that can participate in the RTGS PS. While participation is open regardless of the size of a prospective participant and the complexity of its business, the Bangko

Sentral considers the applicants' capacity to fulfil operational, financial, legal, and regulatory pre-requisites to manage participant-induced risks for the safety and efficiency of the payment system:

- a. *Operational requirements.* The participants shall comply with the Bangko Sentral's connectivity requirements, which enable even small financial institutions to participate in the RTGS PS. As required under Section 1401.12 below, the participants shall also have a comprehensive risk management system, which shall include system access controls, information security measures, and business continuity plan.
- b. *Financial requirements.* The participants shall manage their daily liquidity positions and credit exposures in order not to cause settlement failure, which may have systemic impact on the payment system.
- c. *Legal and regulatory requirements.* The participants shall possess the necessary licenses, authorities, and membership(s) to be able to participate in the payment system.

The institutions applying to settle transactions through the RTGS PS shall comply with the requirements and undergo the process shown in Appendix 1401-1. The Bangko Sentral department that is responsible for evaluating the application may gather relevant information from other Bangko Sentral department(s).

1401.6 Cessation of Participation. Participation in the RTGS PS may be terminated through any of the following modes, as applicable to the case of the concerned participant:

- a. *Voluntary Withdrawal* – refers to a mode where the participant voluntarily ends its participation or surrenders its secondary license (e.g., banking license), subject to the approval of the Bangko Sentral;
- b. *Closure of Operation* – results from a decision of the MB or any lawful authority to order the dissolution, revocation of license, or prohibit a participant from doing business in the Philippines;
- c. *Merger or consolidation* – terminates the participation of the merged or acquired entity after the approval of the merger or consolidation by the MB or any lawful authority; or
- d. *Placement under insolvency, bankruptcy or rehabilitation by a competent court or quasi-judicial agency* – results in the deactivation of a participant's account upon receipt by the Bangko Sentral of a notification from the participant, which is required to inform the Bangko Sentral on the day of the participant's receipt of the order or resolution issued by the court or quasi-judicial agency.

The Bangko Sentral shall issue an Advisory on the cessation of participation of any of the participants.

The process involved in the cessation of participation through voluntary withdrawal is provided in Appendix 1401-2.

1401.7 Messaging Channels and Communication Standards

- a. *Messaging Channels.* A participant may use one or more of the following payment messaging channels:
- (1) *Society for Worldwide Interbank Financial Telecommunication (SWIFT) messaging system* – an internationally accepted messaging system that runs through a leased line;
 - (2) *Participant Browser* – a web-based messaging system provided by the Bangko Sentral to certain RTGS PS participants; and
 - (3) *Virtual Private Network - Straight Through Processing (VPN-STP) Gateway* – a communication module that provides a means of financial message exchanges between the central node and the participants' platforms using a VPN connection.

Due to changes in the operating environment of the Peso RTGS PS, the Bangko Sentral may terminate or enhance any of the above channels, as well as provide additional means of system access. A transitory period shall be set out to ensure the smooth implementation of any of these changes.

- b. *Communication Standards.* The participants shall comply with the payment messaging standards, including the mandatory message contents, required by the Bangko Sentral³¹. They shall refer to pertinent Bangko Sentral issuances, such as the Rulebook PH-ISO 20022³² Standard on Payment Messages, for guidance on compliance with this rule.

1401.8 Types of Transactions. The RTGS system shall settle Peso-denominated funds transfers. These transfers represent time-critical and high-value payments, which include:

- a. Movements of funds between the individual participants' proprietary accounts;
- b. Interbank/inter-institution transfers for proprietary transactions;
- c. Interbank/inter-institution transfers for further credit to customer accounts;
- d. Government collections;

³¹ Bangko Sentral Circular Letter (CL) No. 2019-053 dated 5 August 2019

³² Universal Financial Industry Message Scheme

- e. Withdrawals from and deposits into the accounts maintained with the Bangko Sentral;
- f. Transactions with the Bangko Sentral - Financial Markets, including placements in deposit facilities and maturities of deposits, availments and maturities of the Overnight Lending Facility, and purchase or sale of FX and securities;
- g. Settlements related to the Bangko Sentral's Intraday Settlement Facility (ISF);
- h. The money settlement leg of security trades;
- i. The Peso leg of FX trades;
- j. Clearing results for checks, automated teller machine (ATM) transactions, digital payments, and other types of retail payments; and
- k. Other large value transactions or those that are not considered as retail payments under Bangko Sentral regulations.

1401.9 Settlement. Money settlements through the RTGS system shall comply with the following rules:

- a. *Operating hours.* The Bangko Sentral shall prescribe the normal operating hours of the RTGS PS. Exceptions to regular business hours shall be in accordance with the Bangko Sentral regulation on Public Sector Holidays and other announcements of the Bangko Sentral.
- b. *SA balances.* Before the opening of the RTGS PS, the Statements of Account (SOAs) as of the immediately preceding business date shall be released to the participants that maintain SAs with the Bangko Sentral. The system shall be able to display the real-time account balances of these participants at any time during the system's business hours.
- c. *Required Levels of SA balances.* The concerned participants shall maintain an appropriate level of SA balances to cover their outgoing payments in a timely manner. To prevent settlement risk arising from an unreasonable number of transactions that cluster towards the end of the business day, the participants that habitually schedule their settlements near the close of business to take undue advantage of funding from incoming payments shall be subject to appropriate penalties and sanctions under Section 1401.20 below.
- d. *Execution of settlement instructions.* The execution of settlement instructions shall be done following the guidelines set out below:
 - (1) The processing of any settlement instruction shall be subject to the sufficiency of funds in the SA of the sending participant.

- (2) Settlements shall be based on a set of business priority codes assigned to payment transactions. Payments to participating government institutions shall be prioritized over all other transactions.
 - (3) Settlement shall be allowed only if the sender and receiver maintain SAs with the Bangko Sentral. In case of sponsored participation, the sponsoring participant is construed to be the sender of the outgoing payments and receiver of the incoming settlements of the sponsored participant.
 - (4) Electronic notifications on the status of settlement shall be sent to the sending participant if the payment were rejected or queued, or to both the sending and receiving participants if the transaction were settled.
 - (5) Except for settlements of clearing results, which are subject to the rule under the next item, the RTGS system shall place the amount to be settled in the queue if the account balance of a sending participant were insufficient, until the:
 - (a) SA balance increases to a level that adequately addresses the shortfall;
 - (b) participant cancels the transactions; or
 - (c) RTGS PS has closed for business.
 - (6) Clearing results, except for ATM transactions, shall be settled on an “all or nothing” basis.
 - (7) The RTGS system shall have a gridlock resolution mechanism to ensure continuous flow of settlements.
 - (8) The RTGS system shall reject all transactions that remain in the queue at close of business.
- e. *Manual Settlements.* Participants requesting manual settlements i.e., the encoding of settlement instructions by the concerned Bangko Sentral department, may be accommodated under the following circumstances:
- (1) Settlement of transactions cannot be completed due to technical and/ or connectivity issues, as validated by the Bangko Sentral’s IT Support Team; or
 - (2) A payment has been erroneously credited to any of the SAs of the Bangko Sentral departments, giving rise to the obligation of the Bangko Sentral to make another transaction for the return of the erroneous funds transfer.

To instill discipline in the participants, the Bangko Sentral may impose penalties and sanctions on a sending participant that requests a manual adjustment to correct its error.

Requests for manual transfers from a participant to a non-participant, or vice versa, shall not be accommodated.

The manual settlement process is provided in Appendix 1401-3.

- f. *Extension of Business Day.* The Bangko Sentral may extend end of day (EOD) upon confirmation of unforeseen events, which give rise to abnormal RTGS PS conditions that hamper real-time settlement. These conditions refer to delays, disruptions, and other operational problems and issues, including those pertaining to ancillary systems that connect to the Peso RTGS system. The Bangko Sentral shall issue an Advisory to announce an extended EOD not later than the normal close of business.
- g. *Finality of settlement.* When a payment is transmitted by a participant, FMI, or CSO to the RTGS PS and the SAs of the paying and receiving participants have been debited and credited, respectively, in the RTGS system, said payment shall become final and irrevocable and shall not be subject to reversal for any reason whatsoever: provided, that, if it is shown and established that the payment was not legally due, the settlement shall remain valid and the return of the amount transferred shall constitute a new monetary obligation between the receiving participant and the sending participant.

The settlement of an ISF drawdown and the subsequent return of the amount drawn shall be deemed final and irrevocable once the SA of the concerned participant has been credited or debited in the RTGS system.

The RTGS PS shall not allow backdating of settlements except in extraordinary circumstances where the RTGS PS needs to invoke extended EOD operation.

- h. *Exchange-of-value settlements.* To manage principal risk, the RTGS PS, in coordination with the other FMIs that interface with it, shall adhere to the DvP mechanism where it shall settle the money leg of a security transaction only when the security involved has been delivered or at least earmarked by the concerned FMI in favor of the buying participant. The RTGS PS shall also adopt the Pvp mechanism, where it shall settle the Peso leg of an FX trade only when it has received a settlement instruction from the FMI on the other end.
- i. *Automatic rejection of settlement instructions.* Any instruction received by the RTGS system before the activation of the payment receipt functionality of the system and after the close of business shall be automatically rejected.
- j. *Payment returns.* The return of any erroneous settlement, such as a payment to the wrong participant, a duplicate funds transfer, or an over-payment, shall be requested by the sending participant from the receiving participant. If the receiving participant that has control over the funds at the time of the request fails to return the funds until the next

business day, the sending participant is entitled to claim compensation in accordance with the following rules:

- (1) The claim for compensation shall be covered by an indemnity or written undertaking by the sending participant and shall be made within five (5) business days from the date of the erroneous settlement. Otherwise, such claim for compensation may not be honored by the receiving participant.
- (2) The claim for compensation shall be computed based on the following formula:

$$\text{Compensation} = (\text{Amount of Payment}) \times (\text{average Bangko Sentral Overnight Deposit Facility rate}) \times (\text{No. of Days of Delay}) / 360$$

- k. *Housekeeping.* EOD procedures such as maintaining back-up files and releasing statement messages shall be performed after the RTGS PS business hours.
- l. *Reconciliation.* Each participant shall be responsible for the reconciliation of the SA balances between the participant's record and that of the RTGS system. Any discrepancy noted during reconciliation shall be reported for resolution to the concerned Bangko Sentral department within seven (7) days from receipt of the statement of account.

1401.10 Settlement Guarantee Mechanisms. The RTGS PS shall implement the settlement guarantee mechanisms that the Bangko Sentral prescribes for payments that are settled following the DNS scheme.

1401.11 Settlement of Disputes Between Participants. Disputes that may arise between participants on matters pertaining to their RTGS transactions shall be resolved by the ManCom. Final decisions of the ManCom shall be binding on all parties to the dispute.

1401.12 Comprehensive Management of Risk. In line with the Bangko Sentral's regulatory expectations from institutions subject to its supervision and oversight, the Bangko Sentral expects that the management of risks arising from participation in the RTGS PS is an integral part of the participants' operation. To ensure that risks are comprehensively addressed, the participants shall establish policies, procedures, and controls, which are aimed at mitigating legal, credit, liquidity, general business, and operational risks. The participants shall consider not only the risks to themselves but also those that they pose to the RTGS PS.

1401.13 Reporting Requirements. A participant shall submit reports that the Bangko Sentral may require on a periodic or on call basis. These reports, which include an annual Attestation Report certifying that the participants

continue to comply with the terms and conditions on participation, should be accurate, complete, and timely³³.

1401.14 Intraday Settlement Facility (ISF). The Bangko Sentral provides an ISF to eligible participants to ensure smooth flow of payments through the RTGS PS and timely execution of interdependent settlements to manage systemic risk.

The operation of the ISF shall be in accordance with Appendix 1401-4.

1401.15 Incident Management. Given the crucial role of the RTGS PS in the financial system and the economy in general, the participants shall manage adverse incidents in collaboration with the Bangko Sentral. In particular, the participants shall:

- a. Report immediately any problem on system access, report generation, transaction monitoring, receipt of settlement notifications, and other relevant issues after determining that the problem is attributable to external factors based on investigation and support conducted by their IT teams;
- b. Coordinate with the Bangko Sentral in addressing the problem after receiving Bangko Sentral notifications and instructions through email, advisory, and the official social media platform which has been created by the Bangko Sentral exclusively for the RTGS PS participants;
- c. Make available any assistance and resources expected on their end to contribute to efficient problem resolution; and
- d. Inform the Bangko Sentral as soon as they have noted that the problem has been addressed.

1401.16 Business Continuity. The participants shall operate with a resilient, documented, and tested business continuity plan (BCP), which shall be compliant with the requirements of Section 149 of the MORB and Section 148-Q of the MORNBF on Business Continuity Management, as applicable, and shall provide for the following contingency measures:

- a. *Primary fallback facility(ies).* Back-up facilities which are located at the main site;
- b. *Remote recovery site(s).* Places which are sufficiently distant from the main site and can be readily accessed for resumption of operation;
- c. *Connectivity back up(s).* Secondary lines and network connections; and
- d. *Alternative operating procedure(s).* Measures enabling settlement processing, should a disruption prevent the performance of business-as-usual procedures.

³³ Should be free from error and submitted with supporting information, as necessary, within the timeline prescribed by the Bangko Sentral

To strengthen their BCPs, the participants may have multiple access channels in place. These channels include SWIFT, RTGS Participant Browser, and VPN-STP.

In the case of FMIs and CSOs that interface with the RTGS system, a joint BCP between the Bangko Sentral and the FMIs/CSOs shall be adopted to ensure end-to-end continuity of interlinked clearing and settlement.

The participants shall review their BCPs at least annually to keep their plans attuned to evolving market and payment system developments, as well as technology advancements or enhancements. The BCPs shall also be tested, on an annual basis, at a minimum, to ensure that they remain effective despite changes in operating conditions.

Should the Bangko Sentral conduct a BCP test involving external stakeholders, the concerned participants shall take part in said test.

1401.17 System Enhancement and Testing. The Bangko Sentral may implement system enhancements in response to the participants' needs. The proposed system enhancements that require coordination between the Bangko Sentral and the participants are those that involve alterations to system functionalities, operational timelines, settlement procedures, access controls, and other significant system modifications.

System enhancements shall undergo rigid testing before these are promoted to the production environment. Should testing involve the participants, they shall cooperate and make the required resources available for the successful conduct of the tests.

The participants shall implement any operational and/or technical changes required on their end to maintain compatibility of their respective environments with the RTGS system.

1401.18 Settlement Fees and Other Charges. Payments made through the RTGS system are subject to settlement fees and other charges, which shall be automatically debited from the SAs of the participants. The fees and charges shall support the operation and development of the RTGS PS.

The pricing methodology shall be reviewed periodically to determine any necessary adjustment in response to internal and external developments. The fees and charges may be waived as a relief measure or an incentive for the participants.

1401.19 Supplementary Rules. The participants shall comply with the supplementary rules that the Bangko Sentral may issue to properly implement certain provisions of these rules, including, but not limited to, procedural guidelines for settlement of disputes, reporting requirements, fees and other charges, and business day schedule.

1401.20 Penalties and Sanctions. Depending on the gravity of the offense committed by a participant, the Bangko Sentral may impose penalties and

sanctions, which may include fines, suspension of the participant's privilege to avail of the ISF, and suspension or termination of the participant's access to the RTGS PS. Repeat offenders shall be meted with stiffer penalties and sanctions.

(Memorandum No. M-2022-049 dated 17 November 2022 and BSP Circular 1181 dated 10 November 2023)

PART FIFTEEN – SANCTIONS AND ENFORCEMENT FRAMEWORK

1501 SANCTIONS

The Bangko Sentral may deploy enforcement actions to promote adherence with the requirements set forth under this Manual and bring about timely implementation of preventive and/or corrective measures. Any violation of the provisions under this Manual shall subject the operators of payment systems (OPS) and payment system participants, and/or their respective directors, officers, and/or employees to the monetary and non-monetary sanctions set forth in Sections 36 and 37 of R.A. No. 7653, as amended, and Sections 19 and 20 of R.A. No. 11127, as appropriate.

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 BSP-supervised entity. Further, depending on the gravity of the violation committed and the circumstances attendant thereto, sanctions may include but not limited to the following:

- a. Suspension of offering new electronic financial products and services;
- b. Suspension/revocation of authority to provide electronic financial products and services; and
- c. Suspension/revocation of authority to settle through the Philippine Payment and Settlements System.

For OPS and payment system participants that are banks and non-bank financial institution subject to the provisions of the Manual of Regulations for Bank (MORB) or the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), the provisions on Supervisory Enforcement Policy under Section 002 of the MORB and Section 002-Q/001-N of the MORNBFI shall apply, as appropriate. Likewise, monetary penalties may be imposed on these BSP-supervised financial institutions and/or their erring directors, officers and/or employees pursuant to Section 1102 of the MORB and Section 1102-Q/806-N of the MORNBFI, as appropriate.

GLOSSARY OF TERMS

ACH Participant - a financial institution duly licensed by the BSP that is a PSMB member, and undertakes clearing in and is a signatory to at least one (1) ACH.

ACH Participant Group (ACH-PG)- a group organized by ACH participants for a payment stream or a group of similar payment streams for the purpose of approving and implementing the clearing rules and agreements applicable to a specific payment stream. It also liaises and consults with other parties in relation to clearing.

Automated Clearing House (ACH) - a multilateral agreement among ACH participants governing the clearing and settlement of payment orders for a specific payment stream.

Bangko Sentral-Supervised Institution (BSI) refers to a person, natural or juridical, that provides financial products or services under the jurisdiction of the Bangko Sentral, as provided in existing laws, rules and regulations.

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.

Beneficiary refers to a natural or juridical person or entity named as the recipient of the electronic fund transfer sent to the beneficiary account.

Beneficiary account refers to a deposit account or e-money account maintained by the beneficiary with the receiving financial institution.

Channel - the means by which an electronic financial product or service is delivered (e.g., internet, phone, ATM).

Clearing - the process of transmitting, reconciling and, in some cases, confirming payment orders prior to settlement, and the establishment of the final obligations for settlement.

Clearing participants - shall refer to direct clearing participants, as defined below.

Clearing switch operator (CSO) refers to the party designated which provides clearing switch services by acting as the operator of payment system to be used by the ACH participants in accordance with the guidelines and principles set forth in related ACH documents.

Critical Service Provider (CSP) - an entity that provides process arrangements, technology, service or infrastructure that is critical³⁴ in ensuring the operational reliability of an FMI, an operator of a designated payment systems (ODPS) or, in some cases, multiple FMIs/OPSs. This does not include entities that provide utilities and activities not directly related to the essential operations of an FMI/OPS.³⁵

Deferred Net Settlement (DNS) - a settlement mechanism which settles on a net basis at the end of a pre-defined settlement cycle³⁶

Delivery versus Payment (DvP) - a securities settlement method that guarantees the transfer of securities only after payment has been made³⁷

Delayed Report - A report that is compliant with the Bangko Sentral reporting standards but was submitted after the prescribed deadline shall be classified as "Delayed". Submission of a compliant report beyond the deadline prescribed by the Bangko Sentral shall be considered as willful delay in the submission of reports.

Designated Payment System (DPS) - a payment system that is designated by the Bangko Sentral either as a: (1) SIPS, or (2) PIPS.

Direct clearing participant - a financial institution that is: (a) duly licensed by the BSP and is authorized to provide Electronic Payment and Financial Services; (b) engaged in holding of funds of customers in the form of accounts (bank account or electronic money account); (c) clears transactions through an ACH and is the participant ultimately responsible for obligations generated from cleared transactions; and (d) has a demand deposit account with the BSP and a PhilPaSS^{plus} member, or is sponsored into settlement by a qualified sponsor which is a member of PhilPaSS^{plus} and maintains a DDA with the BSP, to settle its clearing obligations.

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.

Electronic Payment and Financial Services (EPFS) - products or services offered by BSP-supervised Financial Institutions (BSFIs) to enable customers to receive payments or initiate financial transactions and other related

³⁴ Critical service refers to a service delivered to an FMI/ODPS wherein the Capability of the FMI/ODPS to perform its functions will be impaired if the service is not rendered. Assessment of criticality of service shall consider substitutability, wherein a service may be considered critical if there is no substitute for said service or, if substitute is available, transition shall require significant resources (time and financial resources).

³⁵ BIS, "Assessment methodology for the oversight expectations applicable to CSPs" (December 2014)

³⁶ *'bid'*, Retrieved from <https://www.bis.org/cpmi/publ/d00b.htm?&selection=24&scope=CPMI&c=a&base=term>

³⁷ In *bis.org glossary*. Retrieved from <https://www.bis.org/cpmi/publ/d00b.htm?&selection=26&scope=CPMI&c=a&base=term>.

services through an electronic device such as a computer, mobile phone, Automated Teller Machine (ATM), and other devices. In particular, EPFS allow customers to electronically access information on their transaction accounts, move or receive funds from one account to another, or avail of credit, investment, trust, or other banking products and/or services (e.g., online or mobile loan application, electronic placement of funds in certain investment outlets, etc.).

Erroneous Report – A report that was submitted within the prescribed deadline, but is found to be non-compliant with the Bangko Sentral reporting standards described in this Section shall be classified as “Erroneous”. Submission of an Erroneous Report shall be considered as willful failure to comply with the regulation.

Erroneous Transaction refers to an incorrect EFT as a result of any of the following circumstances: (i) sending to an incorrect beneficiary account due to the erroneous encoding of account number by the sender; and (ii) sending to a beneficiary account an incorrect amount due to erroneous encoding by the sender.

Financial Market Infrastructure (FMI) - a multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives or other financial transactions.³⁸

Fund - any unit of value that forms the consideration or object of transactions.

Gridlock – a situation that can arise in a funds or securities transfer system, in which the failure of some transfer instructions to be executed (because the necessary funds or securities balances are unavailable) prevents a substantial number of other instructions from other participants from being executed³⁹.

Gridlock resolution – the optimizing mechanism automatically initiated by the RTGS system to resolve a gridlock.

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.⁴⁰

Interoperability - enables financial products and services belonging to a particular scheme or business model to be used or interoperated between other schemes or business models usually of another institution. While interoperability often times require technical compatibility between

³⁸ Committee on Payments and Market infrastructures (CPMI) – International Organization of Securities Commission (IOSCO) “Principles for Financial Market Infrastructures” (2012)

³⁹ *ibid.* Retrieved from https://www.bis.org/cpmi/glossary_030301.pdf

⁴⁰ Bank for International Settlements. (2016, November). *Fast payments – Enhancing the speed and availability of retail payments*. <https://www.bis.org/cpmi/publ/d154.pdf>

systems, it can only take effect once commercial/business interconnectivity agreements have been completed.

Merchant – for Section 503 of the MORPS, refers to an end-user that avails of merchant payment acceptance activities.

Merchant account - refers to a transaction account where funds from merchant payment acceptance activities are received by merchant.

Merchant acquisition – refers to the service of accepting and processing payment transactions on behalf of a merchant under an agreement, resulting in a transfer of funds to the merchant.

Merchant fee – refers to the fee paid by the merchant to an operator of a payment system for merchant acquisition services. This may be composed of merchant discount rate, scheme fees, rental and maintenance charges for terminals, among others.

Merchant payment acceptance activities (MPAA)– refers to the set of services provided to a merchant to receive payment for sale of goods and/or services. In general, services include merchant acquisition; providing the means to accept various payment instruments and collect, secure, transmit and process payment information; and providing support services related to the payment.

Multiple-Debit Transaction refers to a single EFT initiated by the sender that is erroneously debited more than once by the originating financial institution from the sender's account. The debited amount includes the amount of the EFT and/or charges pertaining to the EFT.

National Payment System (NPS) - refers to all payment systems and components including instruments, services, processes, schemes, procedures, infrastructures and participants that ensure the circulation of money or movement of funds in the Philippines.

National Retail Payment System (NRPS) - a policy and regulatory framework that aims to establish a safe, efficient, and reliable retail payment system in the Philippines.

Operator of a Payment System (OPS) – as defined under Section 502 of the MORPS.

Originating Financial Institution (OFI) refers to an ACH participant that sends an EFT. It is also where the originating account of the sender is maintained.

Payment instrument - any instrument, whether tangible or intangible, that enables a person to transfer funds.

Payment order - an order or message requesting the transfer of funds to the order of the payee.

Payment Service Provider (PSP) - an entity that provides payment services to end-users, such as consumers, merchants, and billers, including government institutions.

Payment system - the set of payment instruments, processes, procedures and participants that ensures the circulation of money or movement/transfer of funds.

Payment System Management Body (PSMB) - a private industry-led self-governing body that is duly recognized by the BSP to develop and enforce rules and agreements pertaining to members' clearing and settlement activities in accordance with the NRPS Framework and applicable BSP regulations. The body shall be comprised of retail payment industry participants which are direct clearing participants. This body shall be a juridical entity that is not-for-profit and with the power to set and implement rules pertaining to members' clearing activities.

Payment System Management Body (PSMB) - a body organized by participants of a DPS for self-regulation and accredited by the Monetary Board for the purpose of managing and governing participants of the relevant DPS.

Payment versus Payment (PvP) - a process which ensures that the final transfer of a payment in one currency occurs if and only if the final transfer of a payment in another currency or currencies takes place⁴¹

Person-to-Person (P2P) payments refer to payments made by an individual consumer to another individual consumer.

Person-to-Merchant (P2M) payments refer to payments made by an individual consumer to a merchant for products purchased or services rendered.

Person-to-biller (P2B) payments refer to payments made by an individual consumer to a business classified as billers by the ACH participant (e.g., water utility company) for utilities it provides, products purchased and/or services rendered to the individual consumer.

Point of Interaction (POI) - a hardware and/or software whereby a customer or user is able to query or initiate a transaction from his account. Examples of POI include kiosk, smart device, etc.

Prominently Important Payment System (PIPS) - a payment system which may not trigger or transmit systemic risk but could have a major economic

⁴¹ *'bid.* Retrieved from <https://www.bis.org/cpmi/publ/d00b.htm?&selection=50&scope=CPMI&c=a&base=term>

impact or undermine the confidence of the public in the NPS or in the circulation of money.⁴²

Real-Time Gross Settlement (RTGS) - a system that provides real time settlement of payments, transfer instructions, or other obligations individually on a transaction-by-transaction basis⁴³

Receiving Financial Institution (RFI) refers to an ACH participant that receives an EFT. It is also where the beneficiary account is maintained.

Rejected Transaction refers to an EFT that is not credited to the beneficiary account because it was rejected by the CSO for reasons stipulated under the respective ACH operating guidelines.

Retail payments - payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government, and government-to-person/business payments.

Returned Transaction refers to an EFT that is not credited to the beneficiary account because it was returned by the RFI for reasons such as but not limited to, invalid account number, beneficiary account restrictions, excess in allowable limit, and fraud or anti-money laundering and terrorist financing and other concerns related to fraud, money laundering, and terrorist financing.

Sender refers to any persons who originally initiates the instruction to pay.

Settlement - an act that discharges obligations in respect of fund transfers between two (2) or more parties.

Settlement account (SA) - account maintained with the Bangko Sentral and used by a participant for settling financial transactions through the RTGS system.

Settlement Reports refer to reports provided by the CSOs to ACH participants pertaining to the EFTs covered in a settlement cycle.

Settlement sponsor bank or Sponsoring bank - PSMB members who undertake settlement directly through PhilPaSS^{plus}.

⁴² European Central Bank (ECB), "Oversight standards for retail payments" (June 2003) as cited in the Bank for International Settlements (BIS) "Central Bank Oversight of Payment and Settlement Systems" (May 2005).

⁴³ In *bis.org glossary*. Retrieved from <https://www.bis.org/cpmi/publ/d00b.htm?&selection=56&scope=CPMI&c=a&base=term>

Sponsored into Settlement Member - PSMB members who undertake settlement in at least one (1) ACH by engaging the settlement services of an ACH participant that can directly settle transactions through PhilPaSS^{plus}.

Successful Transaction refers to an EFT initiated by the sender and which EFT was credited to the correct beneficiary account.

Systemically Important Payment System (SIPS) - a payment system which poses or has the potential to pose systemic risk that could threaten the stability of the NPS.

Timed-out Transaction refers to an EFT that may or may not be successful where no response was received from the CSO and/or the RFI within the allowable response time set under related ACH operating guidelines.

Transaction account - an account (e.g., deposit account, e-money, electronic wallet, etc.) held or maintained with a BSFI, which could be a bank or a non-bank.

Unauthorized Transaction refers to an EFT initiated by any natural or juridical person without the actual or imputed knowledge and consent of the sender.

Unsuccessful Transaction refers to an EFT that is not credited to the beneficiary account for reasons such as but not limited to EFT did not reach the CSO, non-transmittal of the EFT to the RFI, or other scenarios stipulated under the respective ACH operating guidelines.

Unsubmitted - A report that was not submitted, or was submitted but do not comply with the Bangko Sentral reporting standards by the time the next report becomes due or upon lapse of thirty (30) business days from the report's submission deadline, whichever comes first, shall be classified as "Unsubmitted". Non-submission of required reports shall be considered as willful refusal to comply with the regulation.

Working Group - In the context of an ACH, it is a group organized for a specific payment stream under an ACH Participant Group. The ACH Working Group is responsible for drawing up, reviewing or revising the rules and agreements applicable to a specific ACH.

LIST OF ANNEXES / APPENDICES:

Label	Title
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Appendix 401-1	Required Certifications and Supporting Documents for the Confirmation of the Election/Appointment of Directors/Officers
Appendix 401-2	Bio-data of Directors and Officers
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Appendix 1401-4	INTRADAY SETTLEMENT FACILITY

**Applicability of Principles for Financial Market Infrastructures
(PFMI)¹ to Designated Payment Systems² (DPS)**

Principle	SIPS³	PIPS⁴
General Organization		
<i>Principle No. 1 – Legal Basis</i> A DPS should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.	✓	✓
<i>Principle No. 2 – Governance</i> A DPS should have governance arrangements that are clear and transparent, promote the safety and efficiency of the DPS, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.	✓	✓
<i>Principle No. 3 – Framework for the comprehensive management of risks</i> A DPS should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.	✓	✓
Credit & Liquidity Risk Management		
<i>Principle No. 4 – Credit risk</i> A DPS should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes.	✓	
<i>Principle No. 5 – Collateral</i> A DPS that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. A DPS should also set and enforce appropriately conservative haircuts and concentration limits.	✓	

¹ International standards for financial market infrastructures, i.e., payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories, issued by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) in April 2012

² A payment system may be designated by the Bangko Sentral either as a: (1) Systemically Important Payment System (SIPS), or (2) Prominently Important Payment System (PIPS) pursuant to the Payment System Oversight Framework and the National Payment Systems Act.

³ Principles for mandatory adoption of Systemically Important Payment System (SIPS).

⁴ Principles for mandatory adoption of Prominently Important Payment System (PIPS). Key considerations for principles not requiring mandatory adoption may be considered by the Bangko Sentral in holistically assessing the principles for mandatory adoption.

Principle	SIPS³	PIPS⁴
<p><i>Principle No. 7 – Liquidity risk</i> A DPS should effectively measure, monitor, and manage its liquidity risk. A DPS should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation in the DPS in extreme but plausible market conditions.</p>	✓	
Settlement		
<p><i>Principle No. 8 – Settlement Finality</i> A DPS should provide clear and certain final settlement. at a minimum by the end of the value date.</p>	✓	✓
<p><i>Principle No. 9 – Money Settlements</i> A DPS should conduct its money settlements in central bank money where practical and available.</p>	✓	✓
<p><i>Principle No. 12 – Exchange-of-value settlement systems</i> If a DPS settles transactions that involve the settlement of two linked obligations (e.g., securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.</p>	✓	
Default Management		
<p><i>Principle No. 13 – Participant-default rules and procedures</i> A DPS should have effective and clearly defined rules and procedures to manage a participant default.</p>	✓	✓
General Business & Operational Risk Management		
<p><i>Principle No. 15 – General business risk</i> A DPS participant should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize.</p>	✓	✓
<p><i>Principle No. 16 – Custody and investment risks</i> A DPS should safeguard its own and its participants.</p>	✓	✓

Principle	SIPS³	PIPS⁴
assets and minimize the risk of loss on and delay in access to these assets.		
<i>Principle No. 17 – Operational risk</i> A DPS should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls.	✓	✓
Access		
<i>Principle No. 18 – Access and participation requirements</i> A DPS should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.	✓	✓
<i>Principle No. 19 – Tiered participation arrangements</i> A DPS should identify, monitor, and manage the material risks to the DPS arising from tiered participation arrangements.	✓	✓
Efficiency		
<i>Principle No. 21 – Efficiency and Effectiveness</i> A DPS should be efficient and effective in meeting the requirements of its participants and the markets it serves.	✓	✓
<i>Principle No. 22 – Communication procedures and standards</i> A DPS should use, or at a minimum accommodate relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.	✓	✓
Transparency		
<i>Principle No. 23 – Disclosure of rules, key procedures, and market data</i> A DPS should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the DPS. All relevant rules and key procedures should be publicly disclosed.	✓	✓
Total No. of Principles	18	14

BANGKO SENTRAL ASSESSMENT METHODOLOGY AND RATING FRAMEWORK

The Bangko Sentral shall adopt the PFMI assessment methodology¹ (AM) to evaluate the observance of the relevant principles by a designated payment system (DPS) as well as identify possible risks and induce changes in the national payment system (NPS). In line with this, the Bangko Sentral shall also utilize the pertinent AM's rating scale and language in communicating the assessment against the relevant principles identified in Appendix 102-1:

Rating Scale²	Description
Observed	The DPS observes the principle. Any identified gaps and shortcomings are not issues of concern and are minor, manageable, and of a nature that the DPS could consider taking up in the normal course of its business.
Broadly Observed	The DPS broadly observes the principle. One or more issues of concern have been identified that the DPS is enjoined to address and follow up to better manage risks or improve operations. The DPS should pursue such improvements in a defined timeline.
Partly Observed	The DPS partly observes the principle. The assessment has identified one or more issues of concern that could become serious if not addressed in a timely manner. The DPS should accord a high priority to address these issues.
Not Observed	The DPS does not observe the principle. The assessment has identified one or more serious issues of concern that warrant immediate action. Therefore, the DPS must accord the highest priority to address these issues in a timely manner.
Not Applicable	The principle does not pertain to the type of DPS being assessed because of the particular legal, institutional, structural, or other characteristics of the DPS.

¹ As set forth in the Principles for Financial Market Infrastructures, Bank for International Settlements (BIS) and IOSCO, 2012.

² The rating scale is built on the gravity and urgency to remedy identified "issues of concern." For the purpose of this scale, an "issue of concern" is a risk management flaw, a deficiency or lack of transparency or effectiveness that needs to be addressed.

NATIONAL RETAIL PAYMENT SYSTEM (NRPS) FRAMEWORK

A. NRPS Framework

The NRPS is a policy and regulatory framework that aims to establish a safe, efficient, and reliable electronic retail payment system in the Philippines. Given that retail payment systems contribute to the stability and efficiency of the financial system as a whole, the attainment of the NRPS vision will help achieve higher economic growth and enhance overall competitiveness of our economy.

With the rapid evolution of retail payments due to advancements in technology, retail payments related activities of Bangko Sentral ng Pilipinas Supervised Financial Institutions (BSFIs) introduced a complex interplay of different types of risks. Thus, while the Bangko Sentral promotes the modernization of the country's retail payment system in accordance with the NRPS Framework, it is critical to ensure that enabling policies and a multifaceted approach to strengthening risk management are timely adopted, and greater attention is devoted to retail payments activities of BSFIs such as clearing and settlement.

In carrying out these activities, BSFIs are expected to adhere to the NRPS Framework and measures aimed at strengthening risk management as set forth in Section 201 of the MORPS and this Appendix. Hence, the retail payment system and activities that BSFIs participate in should establish the following:

- a. Strengthened risk management through a better, holistic and multi-stakeholder approach to governance, and an enhanced transparency of clearing and settlement transactions classified according to risk profile.
- b. Augmented efficiencies and effectiveness in the retail payment system by minimizing duplicative efforts, promoting interoperability among retail payment system participants, standardizing clearing and settlement rules, and harmonizing various initiatives towards the achievement of the shared goals of safe, reliable and efficient retail payment system.
- c. Continued compliance with Bangko Sentral rules and regulations particularly on information technology, consumer protection, and anti-money laundering/combating the financing of terrorism (AML/CFT)

Retail payments under the NRPS Framework are payments that meet at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment. This definition of retail payment includes person-to-person, person-to-business, business-to-person, business-to-business, person/business-to-government,

and government-to-person/business payments.¹ On the other hand, large-value payments refer to payments, generally of very large amounts, which are mainly exchanged between banks or between participants of financial markets and that usually require urgent and timely settlement.

The Bangko Sentral, as a central bank, generally plays a variety of essential roles in the payment system by being an operator of the real-time gross settlement system (RTGS), an overseer in core payment arrangements, a user and participant of payment services, and, most critically, a catalyst for payment system reform. It is through the performance of these roles that the Bangko Sentral seeks to acquire a broader and holistic perspective on the role and the status of the payment system in the financial system and the economy in accordance with one of the pillars of central banking of promoting safe and efficient payment systems in the country.

a. Key Principles

- (1) Governance of the payment system shall be separate and distinct from the actual clearing operations to enable the retail payment system participants to effectively and efficiently deploy resources to focused and specialized activities. The governance of the payment system includes the establishment and implementation of standards and rules among payment system participants.
- (2) Sound governance shall be performed by an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.
- (3) All qualified BSFIs may apply to be direct clearing participants and, as such, participate in the governance structure.
- (4) All clearing participants shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system.
- (5) All clearing shall be done within the NRPS governance structure. Bilateral clearing arrangements outside of the NRPS governance structure are considered as undertakings that carry risks that cannot be identified, measured, monitored and/or controlled, nor can said undertakings be properly considered in attaining a holistic perspective and improving governance of the retail payment system. Hence, bilateral arrangements outside of the NRPS governance structure shall not be allowed and failure to comply therewith shall result in deployment of appropriate supervisory actions from the Bangko Sentral.
- (6) All significant retail payment streams shall be covered by an ACH.
- (7) Non-discriminatory participation shall be espoused in the retail payment system by allowing all qualified direct clearing participants to participate in the formulation of standards and rules, as well as participate in business arrangements.
- (8) A reasonable market-based and transparent pricing mechanism shall be adopted by all BSFIs which are clearing participants. Reasonable service fees shall be allowed only for actual services rendered directly

¹ Developing a comprehensive National Retail Payments Strategy, Financial Infrastructure Systems Policy and Research, World Bank, October 2012

related to the delivery of Electronic Payment and Financial Services to clients of a BSFI.

- (9) Bangko Sentral policies and supervisory actions, not directly involving payments governance within the scope of the PSMB, shall be addressed directly to the individual payment system participants as BSFIs.

b. Objectives:

- (1) To enable effective and efficient interface and interoperability using shared and resilient infrastructure;
- (2) To foster innovation and new business models;
- (3) To promote fair access and competition amongst NRPS participants;
- (4) To facilitate the provision of a wide range of payment products and services with needed certainty, affordability (based on a reasonable market-based pricing methodology) and trust; and
- (5) To make relevant information on retail payment system available to concerned stakeholders.

The NRPS Framework espouses the cooperation of different competitors, or what is known as “coopetition”, in the domestic retail payments by delineating areas to be covered between the cooperative and the competitive spheres.

It is recognized that certain areas are dedicated for cooperation and collaboration among BSFIs participating in the retail payment system towards the common goals of safety, efficiency, reliability and resiliency. This cooperative sphere centers on the clearing and settlement activities of BSFIs which shall collaborate through the formulation and implementation of clearing and settlement standards, rules, and agreements under a formal governance structure that conforms to the NRPS principles.

To complement the cooperative sphere is the competitive sphere where the NRPS principles promote competition through innovation in the delivery of quality and cost-effective financial products and services, the creation of new business models customized to the needs of target consumers, and the development of services with a higher level of security, among others. The competitive sphere shall be governed by reasonable, transparent and effective consumer pricing mechanisms to allow BSFIs cost-recovery and fair financial returns. Each BSFI shall be responsible for prescribing its pricing mechanisms for its financial products and services taking into consideration, among others, the nature of the product or service, the market segment to be served and the costs incurred to provide such product or service.

B. Governance - Payment System Management Body (PSMB)

The PSMB is an industry-led self-governing body that is duly recognized and overseen by the Bangko Sentral.

To attain a holistic perspective and multi-stakeholder organized structure that would bring about good governance in the retail payment system, BSFIs shall adhere to the following key principles when engaging in clearing activities and must do so only within the NRPS governance structure.

a. Key Principles

- (1) The retail payment transactions covered under the NRPS governance structure shall be as follows:
 - (a) For card-based instruments, the card shall be both issued and acquired locally; and
 - (b) For online, mobile, or other electronic payment instructions/instruments, the account of payer (sender) and account of payee (recipient) shall be both maintained with BSFIs that are licensed to offer EPFS.
- (2) The PSMB shall be a not-for-profit juridical entity.
- (3) The PSMB shall adopt a Charter in consultation with the Bangko Sentral.
- (4) The PSMB membership criteria shall, at all times, be consistent with the NRPS Framework and Bangko Sentral regulations, in addition to the following principles:
 - (a) All qualified direct clearing participants should be members of the PSMB.
 - (b) To be a PSMB member, a BSFI shall be a participant in at least one (1) ACH and actively participate in an ACH within one (1) month of joining the PSMB.
 - (c) Each PSMB member shall be entitled to only one (1) vote.
- (5) The PSMB shall be funded by the members on an agreed basis.
- (6) The PSMB shall be governed by a PSMB board which shall observe the following principles:
 - (a) The PSMB board shall have multi-stakeholder representation in accordance with the volume of the risk-taking activities, such as clearing volume, within a specified time frame [e.g. immediately preceding twenty-four (24) months]. The basis for computing the clearing volume across all ACHs or payment streams shall include all payment streams with clearing activities as of the date when the election of the PSMB board is called, except if a valid reason is shown to limit the parameters.
 - (b) The PSMB board shall also abide by sound corporate governance practices which may include, but is not limited to, allocating seat/s for independent board member/s or board member/s that represent/s the broader public interest and has/have competence and experience in the payments field.
 - (c) The PSMB board members shall appoint as official representative their chief executive officer (CEO) and designate a formal alternate who can act with full authority (e.g., voting, approval, decision-making, and others).
 - (d) Each PSMB board member shall have one (1) vote.
 - (e) No two (2) PSMB board members shall come from the same group of companies where one is majority-owned or controlled by the other company.
 - (f) The Chairperson shall be elected among PSMB board members and shall not serve for two (2) successive terms.
- (7) The PSMB shall be independent from the clearing switch operator/s with respect to business operations.
- (8) All BSFIs that are part of the NRPS governance structure shall subscribe to and comply with the PSMB-formulated principles, policies, and business rules that will govern the payments system

provided such PSMB-formulated principles, policies and business rules are in conformity with the NRPS Framework and principles as well as applicable laws and regulations.

b. Objectives

- (1) The PSMB will provide sound governance to the retail payment system and serve as a forum of collaboration for ensuring appropriate conditions for retail payments in the country. Towards this end, the PSMB will perform these functions with respect to its members:
 - (a) Ensure compliance by PSMB members with criteria, standards and rules promulgated and adopted by the PSMB's membership and PSMB board, as applicable.
 - (b) Set policies and standards on clearing activities of PSMB members.
 - (c) Standardize retail clearing agreements across payment streams, which may include minimum guideline on the content of service level agreements with CSOs.
 - (d) Manage members' conformance to multilateral retail clearing agreements.
 - (e) Review applications for establishment of ACHs and to accordingly approve the formation thereof to ensure, among others, that the NRPS principle of a payment stream falling only under one (1) ACH is observed by PSMB members.
 - (f) Prescribe policies and rules to promote visibility of retail clearing and resulting settlement positions to manage risks resulting from or associated with clearing and settlement activities.
 - (g) Set forth policies, rules and/or standards to ensure that no anti-competitive activities occur in clearing operations of PSMB members.
 - (h) Promote fair access to the payment system amongst PSMB members.
 - (i) Enable effective and efficient interface and interoperability using shared and resilient infrastructure.
 - (j) Establish a dispute resolution mechanism for PSMB members on matters not covered or cannot be resolved under the ACH dispute resolution framework.
 - (k) Provide a clearing environment that will support payments innovation and the adoption of new business models by the payment system participants.

C. Automated Clearing House (ACH)

The ACH is a multilateral legally binding agreement amongst clearing participants. The ACH shall govern clearing and settlement determination.

To promote interoperability and standardize clearing and settlement rules and procedures, BSFIs are expected to observe the following key principles in forming and participating in ACHs under the NRPS governance structure.

a. Key Principles

- (1) ACHs shall be created and differentiated based on payment streams, which comprise of payment instruments or instructions, business rules, clearing activities and risk considerations which are of similar nature or which create similar risk profiles.
- (2) A payment stream can fall under only one (1) ACH.
- (3) The formation of and participation in an ACH shall be open to all qualified clearing participants.
- (4) The formation of an ACH shall be considered a business arrangement to be agreed upon between participants of an ACH.
- (5) An ACH shall engage the services of only one (1) clearing switch operator.
- (6) PSMB members may be part of more than one (1) ACH Participant Group and/or participate in more than one (1) ACH, provided the PSMB member meets the requirements for participating in such ACH.
- (7) At least two (2) direct clearing participants can initiate the creation of an ACH subject to the recognition of the PSMB Board, or in the absence of a PSMB, the Bangko Sentral.

b. Salient Features

- (1) ACH participants shall elect representatives to an ACH Participant Group, which once recognized by the PSMB, shall draw up and implement ACH rules and agreements and contract a qualified clearing switch operator. To assist in drafting the ACH agreements, the Participant Group may nominate a Working Group to formulate draft agreements subject to the former's approval.
- (2) The assignment of a new ACH to an existing or new ACH Participant Group shall be approved by the PSMB Board.
- (3) Where a new ACH Participant Group has to be formed, it shall be recognized by the PSMB Board once its charter has been accepted by the ACH participants and meets the PSMB criteria for an ACH Participant Group.

d. Clearing Switch Operator (CSO)

The CSO provides clearing switch services.

To augment efficiencies in the retail payment system while ensuring a robust and resilient infrastructure underlying retail payment transactions of BSFIs, BSFIs should observe the following key principles in engaging the services of CSOs relative to the delivery of a retail payment product or service within the NRPS governance structure.

c. Key Principles

- (1) The operations of the CSO that services an ACH shall be limited to the provision of clearing and other services that do not compete with services offered by BSFIs participating in the ACH.
- (2) Clearing switch operations shall be conducted effectively and efficiently consistent with international standards as this is a critical prerequisite for the functioning of all the various systems supporting and underlying retail payment services.

- (3) The CSO shall have a reliable, resilient, robust, and secure infrastructure to ensure consistency and continuity of services under different operating conditions.
- (4) The CSO shall be a duly licensed entity in the Philippines. Entities organized under the laws of countries other than the Philippines shall secure a license to do business in the Philippines and comply with the Foreign Investments Act of 1991 as well as other applicable laws and regulations.
- (5) A CSO can extend service to multiple ACHs.
- (6) Each ACH, through their designated CSO, shall individually settle their clearing results through the RTGS system operated by the Bangko Sentral

**REQUIRED CERTIFICATIONS AND SUPPORTING DOCUMENTS FOR THE
CONFIRMATION OF THE ELECTION/APPOINTMENT OF
DIRECTORS/OFFICERS**

(Appendix to Section 401.11 on Confirmation of Election/Appointment of Directors and Officers)

Directors	Chief Executive Officers and Other Officers enumerated in Section 401.11¹
<ul style="list-style-type: none"> Letter-request for Bangko Sentral confirmation signed by an authorized officer² with an affirmative statement that the institution has conducted fit and proper test on the director/s concerned 	<ul style="list-style-type: none"> Letter-request for Bangko Sentral confirmation signed by an authorized officer with an affirmative statement that the institution has conducted fit and proper test on the officer/s concerned.
<ul style="list-style-type: none"> Secretary's Certificate attesting to the resolution of the stockholders or board of directors approving the election 	<ul style="list-style-type: none"> Secretary's Certificate attesting to the resolution of the stockholders or board of directors approving the appointment
<ul style="list-style-type: none"> Bio-data with a photograph (2" x2") taken within the last six (6) months 	<ul style="list-style-type: none"> Bio-data with a photograph (2" x2") taken within the last six (6) months
<ul style="list-style-type: none"> Certification under oath of the director concerned that he/she possesses all the qualifications and none of the disqualifications to become a director 	<ul style="list-style-type: none"> Certification under oath of the officer concerned that he/she possesses all the qualifications and none of the disqualifications to become an officer
<ul style="list-style-type: none"> Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the director concerned per Appendix 401-3 	<ul style="list-style-type: none"> Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the officer concerned per Appendix 401-3
<ul style="list-style-type: none"> Certification under oath of compliance with Bangko Sentral-prescribed syllabus on corporate governance 	

¹ E.g., Heads of internal Audit, risk management and compliance functions and other officers with rank of senior vice-president and above (or equivalent ranks) of an OOPS.

² Authorized signatory is the Chief Executive Officer (CEO) of the institution, except for appointments of CEOs, in which case the authorized signatory shall be the Chairman of the Corporate Governance Committee or of the board of directors, as may be applicable.

orientation program	
<ul style="list-style-type: none"> • Certification under oath of that the director has received copies of the general responsibility and specific duties and responsibilities of the board of directors and of a director that he/she fully understands and accepts the same 	<ul style="list-style-type: none"> • Brief description of the officer's duties and responsibilities
<ul style="list-style-type: none"> • For independent directors, certification under oath that he/she is an independent director defined in Bangko Sentral regulations 	<ul style="list-style-type: none"> • For foreigners appointed as officers, Alien Employment Permit issued by the Department of Labor and Employment
<ul style="list-style-type: none"> • For re-elected directors, Secretary's Certificate on the attendance by the director concerned to the board meetings held for the last twelve (12) months covering the term of service, indicating percentage of attendance to board meetings 	

Appendix 401-2

Appendix to Section 401.11 on Bio-data of Directors and Officers

DEADLINE: 20 business days from the annual election of the board of directors/trustees

SUBMISSION: Original copy to the appropriate oversight department of the Bangko Sentral

(Name of Operator of Payment System)

List of Members of the Board of Directors and Officers

As of _____

Name	Position	Department (if applicable)
Directors:		
Officers with rank of senior vice-president and above (or equivalent rank):		
Officers below the rank of senior vice president:		

REPUBLIC OF THE PHILIPPINES
(_____) S.S.

I solemnly swear that all matters set forth in this report are true and correct, to the best of my knowledge and belief.

(Signature of Authorized Signatory)

SUBSCRIBED AND SWORN TO BEFORE ME this ____ day of 20__,
affiant exhibiting to me his/her (valid identification document) No. _ issued
at ____ on _____ 20__.

Notary Public
Until December 31, 20____
PTRNo. _____
Place _____

Doc No. _____

Page No. _____

Book No. _____

Series of _____

**AUTHORIZATION FORM FOR QUERYING THE BANGKO SENTRAL RECORDS FOR
SCREENING APPLICANTS AND CONFIRMING APPOINTMENTS OF DIRECTORS
AND OFFICIALS
(Appendix to Section 401.8 on Watchlisting)**

AUTHORIZATION

I, _____ after being sworn in accordance with law, do hereby authorize the following, pursuant to the provisions of 401.8 of the Manual of Regulations for Payment Systems (MORPS):

- a. *(Name of Operator of Payment System)*, to conduct a background investigation on myself relative to my application for or appointment to the position of *(position)* in *(Name of Operator of Payment System)* which includes, among others, inquiring from the Watchlist Files of the Bangko Sentral; and
- b. The Bangko Sentral to disclose its findings pertinent to the aforementioned inquiry on its records, including the Watchlist Files to *(Name of Operator of Payment System)*.

With the above authorization, I hereby waive my right to the confidentiality of the information that will be obtained as a result of the said inquiry, provided that disclosure of said information will be limited for the purpose of ascertaining my qualification or non-qualification for the said position.

IN WITNESS WHEREOF, I have here unto set my hand this *(Date of Undertaking)*.

(Signature Over Printed Name)

SIGNED IN THE PRESENCE OF:

WITNESS

WITNESS

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES}
_____ CITY }

BEFORE ME, this _____ day of _____ 20_ in _____ personally
appeared the following person:

Name	Community Tax Certificate	Place	Date
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known to me to be the same person who executed the foregoing instrument and
he acknowledged to me to be the same person who executed the foregoing
instrument and he acknowledged to me that the same is his free act and deed.

This instrument, consisting of two (2) pages, including the page on which
this acknowledgment is written, has been signed on the left margin of each and
every page thereof by _____, and his witnesses, and sealed with my notarial seal.

IN WITNESS WHEREOF, I have here unto set my hand, the day, year and
place above written.

Notary Public

Doc. No.: _____
Page No.: _____
Book No.: _____
Series of 2 _____

GUIDELINES ON LICENSING OF ELECTRONIC PAYMENT AND FINANCIAL SERVICES (EPFS)

A BSFI intending to provide EPFS shall comply with the following requirements in conjunction with the Guidelines on the Granting of License/Authority provided in Appendix 124 of the MORB and Appendix N-14 of the MORNBF.

a. Advanced EPFS

A BSFI that offers advanced EPFS shall undergo the licensing process and provide the documentary requirements, as follows:

Processing and Documentary Requirements	Type A ¹	Type B ²
<p>(1) Eligibility Test and Self-Assessment</p> <p>A BSFI must conduct a self-assessment vis-à-vis the defined prudential criteria described in Section 111 of MORB and Section 101-N of the MORNBF (Prudential Criteria)</p> <p>Should the BSFI meet the prudential criteria, it shall submit a letter of intent with a certification signed by its president or officer of equivalent rank, and chief compliance officer (CCO) stating that the BSFI satisfies said requirements.</p> <p>If the Bangko Sentral concurs with the certification, the BSFI shall receive a confirmation of eligibility (COE) to offer EPFS.</p>	✓	
<p>(2) Application for the license</p> <p>The BSFI shall formally submit the following application documents to the appropriate department of the Bangko Sentral within six (6) months from the date of the COE.</p>		

¹ This applies to BSFIs that *can* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These applicants must have been examined by the Bangko Sentral.

² This applies to proponents that *cannot* be assessed against the prudential criteria provided in the Policy and Regulations on Licensing. These include newly-established BSFIs and new applicants for an authority to operate as "Electronic Money Issuer-Others".

Processing and Documentary Requirements	Type A ¹	Type B ²
(a) Application letter signed by the president or officer of equivalent rank specifically indicating the justification/reason for the application to provide EPFS	✓	✓
(b) Notarized Secretary's Certificate (or equivalent document in the case of foreign bank branches) attesting that the Board of Directors (or equivalent management committee in the case of foreign bank branches) has approved the application to provide EPFS	✓	✓
<p>(c) Certification signed by the president (or officer of equivalent rank) and the CCO to the effect that the BSFI has met the following minimum pre-conditions:</p> <p>(i) An adequate risk management process is in place to identify, assess, monitor, and control the risks arising from the proposed EPFS;</p> <p>(ii) Appropriate policies and procedures in the following areas have been adopted to address all security risks and concerns affecting the EPFS platform and application system/s:</p> <ul style="list-style-type: none"> • <i>Authentication</i> - establishes the identity of both the sender and the receiver; uses trusted third parties that verify identities in cyberspace; • <i>Non-repudiation</i> - ensures that transactions cannot be repudiated or presents undeniable proof of participation by both the sender and the receiver in a transaction; • <i>Authorization</i> - establishes and enforces the access rights of entities (both persons and/or devices) to specified computing resources and application functions; also locks out unauthorized entities from physical and logical access to the secured systems; • <i>Integrity</i> - assures that data has not been altered; • <i>Confidentiality</i> - assures that no one except the sender and the receiver of the data can gain access to clear data; and • <i>Availability</i> - assures that the system is operating properly during the time it is expected to be available; <p>(iii) The EPFS system has been tested prior to</p>	✓	✓

Processing and Documentary Requirements	Type A¹	Type B²
its implementation and that the test results are satisfactory. As a minimum standard, appropriate system testing and user acceptance testing should have been conducted; and (iv) A documented business continuity planning process covering EPFS, among other areas of operation, has been adopted.		
(d) Details of the features and functionalities of the proposed EPFS, including the security controls and measures	✓	✓
(e) Process flow/brief narration of how transaction and data flow through the network	✓	✓
(f) Diagram of the configuration of the system supporting the proposed EPFS, showing the linkage between the host systems and network infrastructure	✓	✓
(g) Pro-forma client application form and terms and conditions for the availment of and/or use of the EPFS	✓	✓
(h) Brief discussion of the following topics in relation to the particular EPFS being applied for: <ul style="list-style-type: none"> • Oversight management process; • Business continuity plan/disaster recovery plan; • Incident response/problem management; • Consumer protection/awareness program; and • Information security policies and security features of the proposed EPFS 	✓	✓
(i) Results of the user acceptance test (UAT)	✓	✓
(j) Report on the independent assessment on the proposed EPFS, if applicable.	✓	✓
(k) Articles of Incorporation/By-Laws of the BSFI		✓
(l) Photocopy of the marketing materials for the proposed EPFS		✓
(m) Pro-forma agreements with accredited agents for the delivery/issuance of EPFS;		✓
(n) Anti-Money Laundering (AML) Policy/Manual of Procedures; and		✓

Processing and Documentary Requirements	Type A ¹	Type B ²
(o) Latest Audited/Interim Financial Statements		✓

b. Basic EPFS

The BSFI shall notify the appropriate department of the Financial Supervision Sector (FSS) by submitting the following documents 30 days prior to the launch/implementation of its EPFS:

- (1) Notification letter signed by the institution's president or officer of equivalent rank;
- (2) Details of the features and functionalities of the EPFS, including security controls and measures adopted relative to the offering of the EPFS; and
- (3) Process flow/brief narration of how transaction and data flow through the network including the clearing switch in case the service involves participation in an Automated Clearing House (ACH).

c. Fees

A BSFI applying for an advanced EPFS shall pay processing and licensing fees as shown below:

Type of Fee	Classification				
	Banks			Non-banks	
	Universal and Commercial Banks	Thrift Banks	Rural and Coop. Bank	EMI- Others	Other Financial Inst.
Processing	50,000	20,000	10,000	20,000	10,000
Licensing	100,000	60,000	25,000	60,000	25,000

The assessment and collection of fees shall be made in accordance with the guidelines on fees provided in *Appendix 124* of the MORB.

<Name of BSFI>
**CERTIFICATION ON
COMPLIANCE WITH THE CONDITIONS FOR
PARTICIPATION IN AN AUTOMATED CLEARING HOUSE**

We, <Name of Officer>, President (or Officer of Equivalent Rank) and <Name of Officer>, Compliance Officer, on behalf of the <Name of BSFI> with head/principal office address at <complete address of Head/Principal Office>, after having been duly sworn to in accordance with law, hereby certify to the best of our knowledge, that <Name of BSFI>:

- a Has satisfactorily met the prudential criteria provided under Sec. 111 of MORB and Section 101-N of the MORNBF (Prudential criteria);
- b Obtained a satisfactory assessment in the areas of Information Technology (IT), Anti-Money Laundering (AML), and Consumer Protection, as applicable, in the last examination conducted by the Bangko Sentral; and
- c. Is capable of complying with the specific rules applicable to transactions performed under the National Retail Payment System Framework as provided in Sec. 201.4 (Specific rules applicable to transactions performed under the NRPS Framework).

We certify further that <Name of BSFI> as a BSFI licensed to offer electronic payment and financial services (EPFS), has complied with the provisions under Sec. 501 detailed further in Appendix 501-1 (Guidelines on Licensing of Electronic Payment and Financial Services).

We also certify that all relevant documents in support of the foregoing statements are kept on file and are readily available for verification by examiners of the Bangko Sentral during onsite verification/examination or when a written request is made to verify compliance.

This certification executed on <date of execution> is being submitted in compliance with the requirements of the Bangko Sentral.

Signed:

Signed:

Name of President
President (or Officer of Equivalent
Rank)

Name
Compliance Officer

SUBSCRIBED AND SWORN to before me, this ____ day of _____
at _____, with affiant exhibiting their valid identifications indicated below:

Name Government ID/Passport No. Date/Place Issued

Notary Public

<Name of BSFI>

**CERTIFICATION ON
THE RE-REGISTRATION OF
ELECTRONIC PAYMENT & FINANCIAL SERVICES**

We, <Name of Officer>, President (or Officer of Equivalent Rank) and <Name of Officer>, Compliance Officer, on behalf of the <Name of BSFI> with head/principal office address at <complete address of Head/Principal Office> after having been duly sworn to in accordance with law, hereby certify that to the best of our knowledge, all the information contained in the attached documents supporting the institution's re-registration for electronic payment and financial services (EPFS) are hereby true and correct.

We certify further that <name of BSFI> complies with the provisions under Section 501 (*Documentary requirements*) except for: <enumerate provisions that have not yet been complied with>. Aforementioned provision/s shall be complied by <target date for compliance>.

We also certify that all relevant documents in support of the EPFS activities and operations are kept on file and are readily available for verification by examiners of the Bangko Sentral during onsite verification/examination or when a written request is made to determine compliance.

This certification executed on <date of execution> is being submitted in compliance with the requirements provided in the BSP Circular No. ____

Signed:

Signed:

Name of President
President (or Officer of Equivalent
Rank)

Name
Compliance Officer

SUBSCRIBED AND SWORN to before me, this ____ day of _____
at _____, with affiant exhibiting their valid identifications indicated below:

<u>Name</u>	<u>Government ID/Passport No.</u>	<u>Date/Place Issued</u>
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Notary Public

Not. Reg. No. _____
Doc. No. _____
Page No. _____
Series of _____

Examples of Activities Performed by an Operator of a Payment System

Maintains the platform that enables payments or fund transfers, regardless of whether the source and destination accounts are maintained with the same or different institutions

- Owns or operates a computer application system that enables payments or fund transfers
- Sets rules by which payments may be made or funds may be transferred
- Allows customers to fund their accounts by submitting to the operator cash or its equivalent in exchange for the value to be stored in their account
- Allows accounts of system users to be linked to their accounts with other financial institutions (FIs) (e.g., deposit account, e-money account, credit card account)

Operates the system or network that enables payments or fund transfers to be made through the use of a payment instrument

- Provides a system or network infrastructure that enables payments and financial services of FIs
- Sets rules, functions, procedures, arrangements or devices that enable an account holder or holder of the payment instrument to transact with a third party
- Transfers payment information (e.g., card transaction details) to and from participating institutions
- Provides network participants with a listing of the amounts due to/from other participants
- Offers service/s to more than one (1) FI and enables them to perform payments or fund transfers among each other
- Enables the acceptance of specific payment instrument/s by institutions such as government, commercial establishments, and other merchants/billers

Provides a system that processes payments on behalf of any person or the government

- Receives payment for or on behalf of the sellers of goods, providers of services, or creditors/billers in accordance with a written agreement
- Sets rules, provides arrangements or facilities to collect funds from the public and transmits the same to sellers of goods, providers of services, or creditors/billers in accordance with a written agreement
- Allows payments to be made to more than one commercial establishment or creditor/biller

Application for Registration as Operator of a Payment System (OPS)

OPS Form 1
Page 1 of 2

APPLICATION FOR REGISTRATION AS OPERATOR OF A PAYMENT SYSTEM (OPS)

(To be completely filled up. Indicate "N/A" if an item is not applicable.)

Thru: The Office of the Director Payment System Oversight Department (PSOD)				Date:	
This form is to be accomplished by the Operator of a Payment System (OPS). An OPS refers to any person performing any of the activities as defined in Section 4(l) of R.A. No. 11127 (The National Payment Systems Act). Kindly indicate in the checklist at the back of this form the activities performed by your company.					
1. FULL COMPANY NAME			2. TIN		
3. COMPANY NAME					
4. REGISTERED BUSINESS/TRADE NAME/S					
5. COMPANY REGISTRATION NO.			6. DATE ISSUED		7. VALID UNTIL
8. BUSINESS LOCATION		If within a Building, specify stall, room, floor number	Street No. and Name		Barangay
					City/Municipality
9. BUSINESS CONTACT INFO.		Landline	Mobile No.	Email Address ¹	Website
10. BUSINESS PERMIT/NATURE or TYPE OF BUSINESS		Business Permit No.	Date Issued	Valid Until	Kind of Business
					Years in Business
11. Are you licensed to do business in the Philippines?		<input type="checkbox"/> Yes <input type="checkbox"/> No		If yes, indicate the type of license issued to the company	
12. FORM OF BUSINESS ORGANIZATION (e.g. Sole Proprietorship, Partnership, Corporation, Cooperative, etc.)		13. AUTHORIZED CAPITAL STOCK			
14. OWNERSHIP AND MANAGEMENT STRUCTURE					
14.1 List of Board of Directors/Partners/Owners					
Name	Citizenship	Address	Position	TIN	% of Ownership
14.2 List of Shareholders (with ownership of at least 10%)					
Name	Citizenship	Address	Position	TIN	% of Ownership
14.3 List of Key Officers (President, Finance Officer, Treasurer and their equivalent)					
Name	Citizenship	Address	Position	TIN	Email Address
15. BRIEF DESCRIPTION ON HOW THE BUSINESS OPERATES AND TARGET MARKET					
15.1 Primary Product/Service		15.2 Revenue Generating Activities (dropdown menu to be selected by applicant)		15.3 Target Market	
		a. Transaction-based fee b. Subscription-based fee c. License fees d. Others (please create a field that can be filled by text)			
16. NETWORK AND OPERATIONS					
16.1 Number of branches or servicing units (over-the-counter/teller assisted)		16.2 Number of payment terminals (self-service – ATM, Payment Kiosks)		16.3 Number of participants/ users	
17. TYPES OF PAYMENT INSTRUMENTS/MEDIA ISSUED		Short Description of Payment Instruments/Media	Number of payment instruments/accounts	Average monthly volume of transactions	Average monthly value of transactions

¹ Shall be considered the official e-mail address registered with BSP

APPLICATION FOR REGISTRATION AS OPERATOR OF A PAYMENT SYSTEM (OPS)

(To be completely filled up. Indicate "N/A" if an item is not applicable)

Kindly place a check mark (✓) beside the activity/ies performed by your company.

- A. Maintains the platform that enables payments or fund transfers, regardless of whether the source and destination accounts are maintained with the same or different institutions**
- ☐ Owns or operates a computer application system that enables payments or fund transfers
 - ☐ Sets rules by which payments may be made or funds may be transferred
 - ☐ Allows customers to fund their accounts by submitting to the operator cash or its equivalent in exchange for the value to be stored in their account
 - ☐ Allows accounts of system users to be linked to their accounts with other financial institutions (FIs) (e.g. deposit account, e-money account, credit card account)
- B. Operates the system or network that enables payments or fund transfers to be made through the use of a payment instrument**
- ☐ Provides a system or network infrastructure that enables payments and financial services of FIs
 - ☐ Sets rules, functions, procedures, arrangements or devices that enable an account holder or holder of the payment instrument to transact with a third party
 - ☐ Transfers payment information (e.g. card transaction details) to and from participating institutions
 - ☐ Provides network participants with a listing of the amounts due to/from other participants
 - ☐ Offers service/s to more than one (1) FI and enables them to perform payments or fund transfers among each other
 - ☐ Enables the acceptance of specific payment instrument/s by institutions such as government, commercial establishments, and other merchant/billers
- C. Provides a system that processes payments on behalf of any person or the government**
- ☐ Receives payment for or on behalf of the sellers of goods, providers of services, or creditors/billers in accordance with a written agreement.
 - ☐ Sets rules, provides arrangements or facilities to collect funds from the public and transmits the same to sellers of goods, providers of services, or creditors/billers in accordance with a written agreement.
 - ☐ Allows payments to be made to more than one commercial establishment or creditor/biller

I, [insert name], [insert designation] of [insert company name], hereby certify to the following:

1. I am authorized to sign this Application for Registration as OPS for and on behalf of [insert company name].
2. The completion of the Application for Registration as OPS was made after conduct of self-assessment whereby it was determined that [insert company name] is an OPS pursuant to R.A. No. 11127 (The National Payment Systems Act) and BSP Circular No. _____. As OPS, [insert company name] performs: [insert activities performed as an OPS].
3. [insert company name] is licensed to do business in the Philippines and has obtained the necessary authorities and permits from the relevant government agencies or units to perform the abovementioned activities.
4. By indicating in this registration form the personal information of the Board of Directors, list of partners, owners, shareholders, and key officers, said persons are aware of their rights under R.A. No. 10173 (Data Privacy Act of 2012) and they authorize the BSP to collect, process and store their personal information and share with and make available this Application for Registration to interested parties for lawful purposes and legitimate interests and to comply with legal mandate.
5. The information provided herein are true, accurate and complete.

Name
Designation of Authorized Officer

Guidelines on Application for Merchant Acquisition License

An OPS-MPAA intending to engage in merchant acquisition shall comply with the following requirements:

- a. Documentary requirements:
 1. Application for Registration as Operator of Payment System (OPS) (Appendix 502-2) signed by the president, chief executive officer, or a senior officer holding an equivalent position;
 2. Proof of financial capacity
 - i. For New Entity: Treasurer's Affidavit supported by proof of payment of subscribed capital (for partnerships, corporations, and cooperatives) or Bank Certification (for sole proprietorship)
 - ii. For Existing Entity: Latest Audited Financial Statement and Latest Interim Balance Sheet signed by the Owner/Managing Partner/President
 3. Copy of Certificate of registration from the Department of Trade and Industry (DTI), Securities and Exchange Commission (SEC) or Cooperative Development Authority (CDA), as applicable;
 4. Copy of the business registration/permit indicating the line of business of the OPS, from the city or municipality that has territorial jurisdiction over the place of establishment and operation of the OPS for the current period;
 5. Documentary requirements in compliance with the Governance Policy for OPS as stated in Section 401 of the MORPS;
 6. Organizational structure;
 7. Business plan, including but not limited to a description of business model, target markets, payment services/products offered to merchants, payment settlement process/ procedures with corresponding process flow/s;
 8. Risk management policies and procedures covering but not limited to the following critical areas: Information Technology, Information Security, Business Continuity and Operational Risk Management;
 9. Merchant management policies and procedures, including due diligence and approval criteria, onboarding and monitoring;
 10. Document/information on merchant protection, particularly redress mechanism;
 11. Expected average monthly value of collected funds to be transferred to merchants in the applicable period;
 12. Templates of agreements/contracts with merchants, settlement banks, third party providers and other entities that are necessary in the provision of merchant acquisition service, as applicable;
 13. List of settlement banks, third party providers and other entities that are necessary in the provision of merchant acquisition service, as applicable; and
 14. Schedule of fees and/or charges.

An OPS-MPAA already registered with the Bangko Sentral as OPS need not submit items a(1)-(5) above if the information from previously submitted documents during registration remain the same.

Applications with incomplete documentation will be returned without prejudice to re-submission of a complete application and collection of applicable fees.

The Bangko Sentral may request information and/or documents aside from the minimum documentary requirements prescribed above to arrive at an informed decision. It may also conduct limited inspection or validation, when warranted.

The Bangko Sentral may approve any application of an eligible applicant after evaluating the application and considering relevant factors. Likewise, the Bangko Sentral may deny applications if (a) significant supervisory or compliance concerns exist, or (b) the applicants fail to provide material information necessary to make an informed decision.

- b. Application fees. An applicant, depending on its classification, shall be assessed the following fees per application:
 - i. Filing fee – shall be charged upon filing of an application and is non-refundable. In case of re-submission of application that is returned for incomplete documentation, another filing fee shall be charged anew; and
 - ii. License fee – shall be charged to certain application upon approval.

Assessed fees shall be paid to the Bangko Sentral as follows:



Type of Fee	Category	
	A	B
Filing	₱10,000.00	₱20,000.00
License	₱25,000.00	₱60,000.00

- c. Post Decision. Unless otherwise prescribed by the Bangko Sentral, an applicant may file a new application for a denied and/or withdrawn application after the lapse of six (6) months from the date of denial/withdrawal: *Provided*, That any weaknesses, deficiencies and/or non-compliance with any laws, rules, regulations and/or directives that made the applicants ineligible have already been satisfactorily addressed.

Statistics Related to Merchant Payment Acceptance Activities (MPAA)

Name of OPS-MPAA: _____

Date: <End-Month, Year>

Transaction/Payment Instrument				Cash		Check		Payment Cards						Payment Instructions (e.g. EFT, QR code)		Others		Total	
								Debit Card (bank or e-money)		Pre-paid Card		Credit card							
				Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
	A. Via electronic channel (internet, mobile, POS, mPos, ATM, CAM/Payment Kiosk)							0	0.00	0	0.00	0	0.00	0	0.00	0	0.00		
	i. Cash-in/deposit															0	0.00		
	ii. Cash-out/withdrawal															0	0.00		
	iii. Domestic fund transfer/remittance															0	0.00		
	iv. Cross-border transfers							0	0.00	0	0.00	0	0.00	0	0.00	0	0.00		
	a. Inward															0	0.00		
	b. Outward															0	0.00		
	v. Bills payment															0	0.00		
	vi. Payment to merchants															0	0.00		
	vii. Payment to government															0	0.00		
	Other s:							0	0.00	0	0.00	0	0.00	0	0.00	0	0.00		
		-														0	0.00		
	B. Via over-the-counter			0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00		
	i. Cash-in/deposit															0	0.00		
	ii. Cash-out/withdrawal															0	0.00		
	iii. Domestic fund transfer/remittance															0	0.00		
	iv. Cross-border transfers													0	0.00	0	0.00		
	a. Inward															0	0.00		
	b. Outward															0	0.00		
	v. Bills payment															0	0.00		
	vi. Payment to merchants															0	0.00		
	vii. Payment to government															0	0.00		
	Other s:			0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00		
		-														0	0.00		

		Total	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
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Indicators				Total						
A. User Profile										
i. Number of users/accounts										
ii Number of active users										
iii. Number of tie-ups with international scheme										
iv. Number of users/accounts tied to international scheme										
B. Number of terminals				0						
i. POS										
ii. mPos										
iii. ATM										
iv. CAM										
v. Payment Kiosk										
vi. Others:				0						
C. Number of agents				0						
i. Direct agents										
ii. Agents by virtue of partnership with other OPS										
D. Number of billers/merchants				0						
i. Direct billers/merchants				0						
				a. Government						
				b. Non-government						
ii. Biller/Merchants by virtue of partnership with other OPS				0						
				a. Government						
				b. Non-government						
No. of Billers										
i. Settlement happens in less than 30 days										
ii. Settlement happens between 31 to 60 days										
iii. Settlement happens between 61 to 90 days										
iv. Settlement happens between 91 to 180 days										
v. Settlement happens after 180 days										

	F. Availability				Percentage				
	i. System Availability								
	ii. Network Availability								
	iii. Terminal Availability (Average)								
	G. Complaints Handling - No. of complaints received for the reference period								
	i. No. of complaints, beginning balance (unresolved from previous reference period)								
	ii. No. of complaints resolved within TAT								
	iii. No. of complaints resolved outside TAT								
	iv. No. of unresolved complaints as of end of reporting period								
	H. Fraud Management								
	i. No. of Fraud Incidents								
	ii. No. of Accounts/Customers Affected								
	Minimum Fee	Maximum Fee							
					-				
	i. Number of incidents (for the reference period)								
	ii. Number of incidents resolved (for the reference period)								
	iii. Total downtime due to the incidents								
	iv. Top 3 Incidents (for the reference period) - Nature of Incident				Date of Occurrence	Root Cause	Resolution	Impact	
	1								
	2								
	3								
	i. Number of incidents (for the reference period)								
	ii. Number of incidents resolved (for the reference period)								
	iii. Total downtime due to the incidents								
	iv. Top 3 Incidents (for the reference period) - Nature of Incident				Date of Occurrence	Root Cause	Resolution	Impact	
	1								
	2								
	3								

List of Delisted Merchants

No.	Name of Merchant	Reason for Delisting	Delisting Date
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Note: Template of this report will be provided in Excel format.

Notice to the Bangko Sentral of Significant Changes

Pursuant to the requirement under Section 503 of the Manual of Regulations for Payment Systems (MORPS), I, <Name of Officer>, **<President or Officer of Equivalent Rank>**, on behalf of the <Name of OPS-MAL>, with head/principal office address at <complete address of Head/Principal Office>, notifies the Bangko Sentral of the following change/s in relation to merchant payment acceptance activities as evidenced by the attached supporting document/s:

<description of significant change/s>

I also certify that all relevant documents in support of this representation are readily available for verification by the Bangko Sentral during onsite verification/examination or when a written request is made to determine compliance.

Signed:

Name of President/Officer of Equivalent
Rank
President/Equivalent Rank

Date:

Appendix 503-4

Notice of Change in the Average Monthly Value of Collected Funds Transferred to Merchants Resulting to a Change in Category of License

Pursuant to the requirement under Section 503 of the Manual of Regulations for Payment Systems (MORPS), I, <Name of Officer>, *<President or Officer of Equivalent Rank>*, on behalf of the <Name of OPS-MAL>, with head/principal office address at <complete address of Head/Principal Office>, notifies the Bangko Sentral of the change below in the average monthly value of collected funds transferred to merchants in two (2) calendar years resulting to a change in the category of license.

Reference Period (Start and End Date)	Average Monthly Value of Collected Funds Transferred to Merchants
Period of prior category:	₱
Calendar Year 1:	₱
Calendar Year 2:	₱

I also certify that all relevant documents in support of this representation are readily available for verification by the Bangko Sentral during onsite verification/examination or when a written request is made to determine compliance.

Signed:

Name of President/Officer of Equivalent
Rank

President/Equivalent Rank

Date:

Notice to the Bangko Sentral of Engagement in Merchant Acquisition

I, <Name of Officer>, <President or Officer of Equivalent Rank>, on behalf of the <Name of BSP-Supervised Financial Institution (BSFI)>, with head/principal office address at <complete address of Head/Principal Office>, notifies the Bangko Sentral of our engagement in merchant acquisition as defined in Section 503 of the Manual of Regulations for Payment Systems (MORPS) beginning **<date of commencement>** as evidenced by the attached supporting document/s:

- (1) Business plan, including but not limited to a description of business model, target markets, payment services/products offered to merchants, payment settlement process/ procedures with corresponding process flow/s;
- (2) Merchant management policies and procedures, including due diligence and approval criteria, onboarding and monitoring;
- (3) Document/information on merchant protection, particularly redress mechanism;
- (4) Average monthly value of collected funds to be transferred to merchants in a twelve (12)-month period, augmented by expected average value if the BSFI is operating for less than twelve (12) months;
- (5) Templates of agreements/contracts with merchants, settlement banks, third party providers and other entities that are necessary in the engagement in merchant acquisition, as applicable;
- (6) List of settlement banks, third party providers and other entities that are necessary in the engagement in merchant acquisition, as applicable; and
- (7) Schedule of fees and/or charges.

I also certify that all relevant documents in support of this representation are readily available for verification by examiners of the Bangko Sentral during onsite verification/examination or when a written request is made to determine compliance.

Signed:

Name of President/Officer of Equivalent
Rank
President/Equivalent Rank

Date:

Participation Requirements and Procedure⁵¹

- a. The applicant shall submit the following documents⁵² in support of its application for participation:

(1) Original copy of the following documents to be transmitted to:

The Director
Payments and Settlements Department (PSD)
Room 101, 5-Storey Building
Bangko Sentral ng Pilipinas
A. Mabini Street, Malate, 1004 Manila

(a) Application Letter;

(b) Signed and notarized Participation Agreement that defines the roles and responsibilities of the Bangko Sentral and of the Participant;

(c) Virtual Private Network (VPN) Connectivity Registration Form⁵³;

(d) Secretary's Certificate attesting to the resolution of the applicant's Board, authorizing the institution to apply for participation in the RTGS PS, providing the list of authorized officers/signatories, and certifying the specimen signatures of these authorized officers/signatories; and

(2) Electronic submission of the scanned copies of the above documents is allowed, provided that:

(a) such copies are accompanied by a duly accomplished Summary Statement Form (SSF) and each page of said documents, including the SSF, is certified by the applicant's authorized officer;

(b) emailed with a subject in this format:
<Application>underscore<RTGSPS>underscore<Applicant's
Acronym>underscore<type of submission>; and

(c) sent by a registered email sender to the Director, PSD at
RTGS@bsp.gov.ph.⁵⁴

The Bangko Sentral may require supporting documents other than those enumerated above.

- b. Applications with complete documents shall be processed by the Bangko Sentral. If the submission were incomplete or erroneous, the applicant shall receive a Notice of Deferment of the processing of its application.

⁵¹ Applicable only to institutions applying to settle transactions through the RTGS PS

⁵² Templates posted on the Bangko Sentral website (www.bsp.gov.ph)

⁵³ Connection using a leased line

⁵⁴ Bangko Sentral Memorandum No. M-2020-070 dated 21 September 2020 (e-Submission of Documents to the Payments and Settlements Office)

- c. A successful applicant shall comply with the following requirements prior to the activation of its account:
- (1) Allow the Bangko Sentral to configure and test the Participant's VPN connectivity;
 - (2) Attend a briefing on the use of the RTGS PS Participant Browser to be conducted by the Bangko Sentral; and
 - (3) Enroll its authorized user(s) by submitting the RTGS PS Participant Browser User Account Form to the PSD.
- d. The Bangko Sentral shall issue a non-transferrable *Smart Card* kit⁵⁵ to each enrolled user, who is authorized by the Participant to send payment messages to the RTGS system on its behalf. The Participant shall be accountable for the use of the *Smart Card*.
- The Participant can deactivate or lock the access of any of its registered RTGS system users by electronically submitting to the PSD a User Account Form, requesting deactivation or locking of the user's profile in the RTGS system.
- e. The Participant shall submit a duly accomplished Channel Registration Form if it intends to use SWIFT or the VPN-STP payment messaging channel.

⁵⁵ The Smart Card Kit contains the card with personal identification number (PIN) and personal unblocking key (PUK), and the reader.

Cessation of Participation in the RTGS PS through Voluntary Withdrawal

- a. The Chief Executive Officer, or its equivalent, of the Participant shall formally notify the Bangko Sentral of its voluntary withdrawal of participation from the RTGS PS. This letter shall disclose the reason for voluntary withdrawal and the effectivity date, which should not be earlier than seven (7) working days from the Bangko Sentral's receipt of such notification.
- b. The letter shall be addressed to:

The Director
Payments and Settlements Department (PSD)
Room 101, 5-Storey Building
Bangko Sentral ng Pilipinas
A. Mabini Street, Malate, 1004 Manila
- c. If the notification is electronically sent, the copies of the letter and Summary Statement Form (SSF), each page of which must bear the stamp "Certified True Copy" and the signature of the Participant's authorized officer, shall be emailed by a registered email sender to the Director, PSD, at RTGS@bsp.gov.ph.
- d. The Participant may be required to submit other documentary requirements, as deemed necessary.
- e. The Bangko Sentral shall acknowledge receipt of the Participant's letter of voluntary withdrawal and advise the Participant of the date of closure of its SA, as determined by the Bangko Sentral.
- f. The Bangko Sentral shall issue an Advisory on said termination of participation.

Procedure for Manual Settlements

- a. The Participant shall accomplish the Manual Settlement Form (MSF),⁵⁶ signed by two (2) authorized signatories as indicated in its Secretary's Certificate.
- b. If the MSF and Summary Statement Form (SSF) are electronically submitted, each page of such forms shall be stamped with "Certified True Copy" and signed by the Participant's authorized officer(s).
- c. Using the email that is registered with the Bangko Sentral Payments and Settlements Department (PSD), the Participant shall send the duly accomplished forms to RTGS@bsp.gov.ph on or before 5:30 p.m. on the value date of the settlement. Any request received after this cut-off time shall not be accommodated.
- d. The PSD shall evaluate the request. Upon approval, the PSD shall encode the corresponding entry.
- e. The PSD shall confirm the execution of the manual settlement by returning a copy of the Bangko Sentral-approved MSF to the Participant via email.
- f. The sending and receiving Participants may view the amounts posted under their SAs, through the RTGS system.

⁵⁶ Template posted on the Bangko Sentral website (www.bsp.gov.ph)

INTRADAY SETTLEMENT FACILITY
Appendix to Section 1401.14

The Intraday Settlement Facility (ISF) shall operate as follows:

- a. **Nature of the Facility.** The ISF allows eligible participants of the Peso Real-Time Gross Settlement (RTGS) Payment System (PS) to obtain funds from the Bangko Sentral through a sale and repurchase mechanism in order to prevent gridlock in the RTGS system due to timing mismatch in the settlement of large-value payments.
- b. **Eligibility.** An RTGS PS participant that meets the following criteria may register with the Bangko Sentral as an ISF participant:
 - (1) The RTGS PS participant falls under the category *Participants with Settlement Accounts (SAs)*;
 - (2) This participant owns eligible securities registered in its name in the Bureau of the Treasury's (BTr) Enhanced National Registry of Scripless Securities (NRoSS); and
 - (3) This participant is in good standing in the RTGS PS and is not otherwise disqualified to avail itself of the ISF.

Participation in the ISF shall commence on the date of approval by the Bangko Sentral of the application for ISF registration.

- c. **Access.** Access to the ISF requires the transfer of eligible securities to a specified sub-account under the BSP-ISF direct account in the NRoSS. Upon transfer, this sub-account will be automatically designated by NRoSS to record the transferred securities under the same name as that of the originating account.⁵⁷ This transfer may be done through any of the following modes:

(1) Direct ISF Participation

An ISF participant, such as a broker/dealer, that has a direct account with the NRoSS shall transfer its own securities from this account to the BSP-ISF direct account in the NRoSS.

A direct participant may transfer securities on behalf of a sponsored participant as stated below.

(2) Sponsored ISF Participation

Sponsorship is limited to the act of transferring securities in the NRoSS to enable an ISF participant without an NRoSS direct account to obtain funding through the ISF.

An ISF participant without a direct account with the NRoSS may be sponsored by its broker/dealer with a direct NRoSS account. The sponsored ISF participant must transfer its securities through its sponsor.

⁵⁷ This refers to a source account from where the securities of the account holder is debited.

The ISF transactions of a sponsored participant shall be for all intents and purposes considered as its own transactions.

- d. **Eligible Securities.** Peso-denominated scripless National Government securities that are free and unencumbered and with remaining maturity of eleven (11) days to ten (10) years may be eligible for ISF transactions. The securities must be registered in the NRoSS in the name of the ISF participant.
- e. **Valuation of Securities.** Eligible securities shall be valued using the appropriate previous day market/benchmark rates, as prescribed by the Securities and Exchange Commission (SEC)-licensed benchmark administrator, subject to a haircut.
- f. **Haircut.** This shall be determined and applied based on prevailing policies of the Bangko Sentral.
- g. **Limit.** The total amount of ISF that a participant may avail itself of is limited to the value of transferred securities subject to prescribed haircut and other applicable deductions, if any. Said value shall be reflected in the participant's ISF account in the RTGS system.
- h. **Availment of the Facility.** A participant may avail itself of the ISF by transferring funds from its ISF account to its SA through the RTGS system in order to fund its queued payments or expected outgoing payment instructions in the RTGS system.

The facility may be availed more than once during the same business day the subject securities were transferred and valued.

- i. **Nature of ISF Availment.** Each ISF availment is considered as a sale of eligible securities to the Bangko Sentral, corresponding to the amount of the ISF availed. The sale shall be coupled with a commitment to repurchase the subject securities from the Bangko Sentral within the prescribed repurchase period. The repurchase price shall be the same as the original purchase price.
- j. **Repurchase.** Any security sold to the Bangko Sentral on a given business day pursuant to the ISF shall be repurchased within the period prescribed by the Bangko Sentral on the same business day.

When the SA balance of a participant is not sufficient to cover its ISF availment, the participant shall not be allowed to partially repurchase the underlying securities to the extent of its SA balance.

The failure of the participant to repurchase the underlying securities within the period prescribed by the Bangko Sentral on the same business day that the ISF was availed shall cause the automatic conversion of the ISF availment to Extended ISF.

In the case of Extended ISF, the participant shall repurchase the security within the Bangko Sentral-prescribed period on the succeeding business day.

- k. **Fee.** In order to encourage availment and prompt repurchase of securities by the ISF participants, the Bangko Sentral shall impose no fee if the repurchase is done within the period prescribed by the Bangko Sentral on the same business day the ISF is availed. Extended ISF shall be subject to a fee at a penal rate equivalent to the Overnight Lending Facility (OLF) rate plus 600 basis points.

- l. **Finality of Transactions.** All ISF transactions that go through the RTGS system in accordance with the RTGS Rules are deemed final and irrevocable.
- m. **Statements of Account/Transaction Details.** ISF transactions and accounts may be monitored in the RTGS system. Security balances, which are updated in real time upon each sale and repurchase, may also be viewed in NRoSS. Such information and those found in related statements of accounts are available to direct NRoSS and RTGS PS participants.
- n. **Operating Hours.** The ISF is available on demand to eligible participants following the Bangko Sentral-prescribed schedule within the RTGS PS operating hours.
- o. **Applicable Rules.** Participation in the ISF shall be governed by these rules, the ISF Registration Terms and Conditions, Participation Agreement in the RTGS PS, as well as other relevant rules, regulations, and guidelines issued by the Bangko Sentral.
- p. **Penalty Clause.** Violations of the applicable rules, including repeated failure to repurchase securities sold to the Bangko Sentral under an Extended ISF availment, are governed by penalties and sanctions provided under Section 1401.20 of the MORPS, including but not limited to cancellation of ISF eligibility and pre-termination of any outstanding ISF availment availed. Extended ISF shall be subject to a fee at a penal rate equivalent to the Overnight Lending Facility (OLF) rate plus 600 basis points.
- q. **Finality of Transactions.** All ISF transactions that go through the RTGS system in accordance with the RTGS Rules are deemed final and irrevocable.
- r. **Statements of Account/Transaction Details.** ISF transactions and accounts may be monitored in the RTGS system. Security balances, which are updated in real time upon each sale and repurchase, may also be viewed in NRoSS. Such information and those found in related statements of accounts are available to direct NRoSS and RTGS PS participants.
- s. **Operating Hours.** The ISF is available on demand to eligible participants following the Bangko Sentral-prescribed schedule within the RTGS PS operating hours.
- t. **Applicable Rules.** Participation in the ISF shall be governed by these rules, the ISF Registration Terms and Conditions, Participation Agreement in the RTGS PS, as well as other relevant rules, regulations, and guidelines issued by the Bangko Sentral.
- u. **Penalty Clause.** Violations of the applicable rules, including repeated failure to repurchase securities sold to the Bangko Sentral under an Extended ISF availment, are governed by penalties and sanctions provided under Section 1401.20 of the MORPS, including but not limited to cancellation of ISF eligibility and pre-termination of any outstanding ISF availment.