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CHECK CLEARING RULES FOR THRIFT BANKS AUTHORIZED TO ACCEPT DEMAND DEPOSITS

BSP CIRCULAR NO. 163, April 08, 1998

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Pursuant to Monetary Board Resolution No. 425 dated March 20, 1998 and Resolution No. 538 dated April 6, 1998, the following policies and procedures are issued to implement Section 10(b) of Republic Act No. 7906:

1. Thrift banks authorized to accept demand deposits may participate in the clearing process conducted by the Philippine Clearing House Corporation (PCHC) in the integrated Metro Manila clearing area and by the Bangko Sentral ng Pilipinas (BSP) in regional clearing centers through either of the following modes: (a) maintenance of NOW accounts with commercial banks; (b) conduit arrangements with commercial banks; and (c) direct participation in clearing operations, at the option of the thrift bank concerned.

2. In conduit arrangements, caps shall be set on the net clearing losses to be passed on to the conduit commercial bank by the conduit thrift bank.

To address the settlement risks, the pro forma conduit agreement should include provisions setting aforementioned cap on the net clearing losses. The cap is defined as the combined value of following amounts:

a. the thrift bank's reserve deposit with BSP; and

b. the value of collateralized overdraft line that may be extended by the conduit commercial bank to the conduit thrift bank.

Parties to existing conduit arrangements shall have 30 days from date of this circular to comply with the above requirement.

3. For direct participants in the PCHC and BSP clearing, ceilings for clearing losses not covered by interbank borrowings shall be established and unwinding the clearing transactions shall be authorized when the ceilings are breached.

a. The proposed ceiling is defined as the collateralized overnight clearing line that will be extended by BSP. Every thrift bank authorized to participate directly in the clearing operations of PCHC and BSP should apply for this line with the BSP Department of Loans and Credit. The credit line shall bear interest rates of the higher of 1/10 of 1% per day or the prevailing 91 day Treasury bill rate plus 3 percentage points.

b. The unwinding process will start with the clearing centers where the registered clearing losses approximate the shortfall in the overnight clearing line.

4. Thrift banks that clear checks through either the NOW accounts or conduit arrangements may be allowed to participate directly in the clearing in PCHC and BSP regional clearing centers, subject to the following additional measures to manage the settlement risks:

a. Settlement of Outward items shall be value dated on the day the checks are cleared, net of returns. For this purpose, the "value date" or "settlement date" referred to herein shall be defined uniformly as the next clearing

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day when dishonored checks are returned within the reglementary period, reckoned from the date of presentation for local clearing in the integrated Manila Clearing area of PCHC and in all BSP regional clearing centers. For inter-regional clearing items, outward Manila clearing items and to Manila clearings items, the "settlement or value" date will be defined in clearing circulars to be issued by BSP.

b. A separate clearing session for returned items of all participants will be conducted to determine the settlement value of the thrift banks subject to the value date concept.

c. A ceiling will be set on the amount of overdraft a thrift bank may incur due to failure to cover clearing losses through interbank borrowings.

The ceiling is defined as the collateralized overnight clearing line that will be extended by BSP. The credit line shall bear interest rates of the higher of 1/10 of 1% per day or the prevailing 91 day Treasury bill rate plus 3 percentage points.

d. Should the overdraft exceed the ceiling, the BSP Accounting Department is authorized to instruct the PCHC and the BSP regional clearing centers to unwind the clearing transactions.

5. The revised clearing software in all regional clearing centers shall be developed, tested and rolled out by BSP within three (3) months from date of this Circular.

This Circular shall take effect immediately.

Adopted: 8 April 1998

(SGD.) EDGARDO P. ZIALCITA
Officer-in-Charge

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