REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Quezon City
December 8, 2016

REVENUE MEMORANDUM CIRCULAR NO. 129-2016

SUBJECT : Circularizing the Implementing Rules and Regulations on the Clearing of Checks via Electronic Presentment of the Bangko Sentral ng Pilipinas (BSP) Circular No. 924, Series of 2016

TO : All Internal Revenue Officials, Employees and Others Concerned

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For the information and guidance of all internal revenue officials, employees and others concerned, attached herewith, as Annex "A" hereof, is the Implementing Rules and Regulations on the Clearing of Checks via Electronic Presentment of the Bangko Sentral ng Pilipinas (BSP) Circular No. 924, Series of 2016.

All concerned are hereby enjoined to give this Circular as wide a publicity as possible.

CAESAR R. DULAY
Commissioner of Internal Revenue

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BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

Annex A

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CIRCULAR NO. 924
Series of 2016

Subject: **Clearing of Checks via Electronic Presentment**

The Monetary Board, in its Resolution No. 1451 dated 12 August 2016, approved the amendments to the pertinent sections of the Manual of Regulation for Banks to align and update the existing provisions in view of the Clearing of Checks via Electronic Presentment that shall be implemented by the Philippine Clearing House Corporation (PCHC).

Section 1. Section X206 of the Manual of Regulations for Banks (MORB) is hereby amended, to explicitly indicate the role of the PCHC in check clearing operations as well as the implementation of check clearing through electronic presentment of checks, as follows:

"Sec. X206 (2008 - X603) Clearing Operations.

"The Philippine Clearing House Corporation (PCHC) was appointed and designated by the Bangko Sentral as a processing agency and exclusive provider of nationwide Magnetic Ink Character Recognition (MICR)/Automated Clearing Facility. It shall implement Clearing of Checks via Electronic Presentment through its Check Image and Clearing System (CICS) upon receipt by the Bangko Sentral of a written notice from the PCHC that CICS is operational.

"Banks shall observe the clearing procedures in accordance with the PCHC Clearing House rules and regulations for the clearing of checks including the Banks' responsibility to verify the accuracy of reports and directly communicate with the concerned party regarding any clearing discrepancy or error noted in the course of proving their incoming/outgoing clearing items.

Section 2. Other sections of the MORB are hereby amended as follows:

"Sec. X202 Temporary Overdrawings; Drawings Against Uncollected Deposits. The following regulations shall govern temporary overdrawings and drawings against uncollected deposits (DAUDs).

a. Temporary overdrawings.

Temporary overdrawings against demand deposit account (DDA) shall not be allowed, unless caused by normal bank charges and other fees incidental to handling such accounts.

"Banks which violate these regulations shall be subject to a fine of one-tenth of one percent (1/10 of 1%) per day of violation, computed on the basis of the amount of overdrawing or fines in amounts as may be determined by the Monetary Board, but not to exceed P30,000 a day for each violation.

"Technical overdrawings arising from x x x. Items to be lodged under this account shall consist only of in-clearing checks which may result in "technical overdrawn" accounts.

(1) Clearing under MICR

The RCOCI shall be immediately reversed the following day, value dated on date of original presentation of Checks and Other Cash Item (COCI) to PCHC for Integrated Greater Manila local exchanges (Integrated GM LX) or to Regional Clearing Center (RCC) for regional local exchanges (RLX).

The checks lodged under "RCOCI" which were dishonored due to insufficiency of funds shall be returned not later than 7:30 a.m. on the clearing day immediately following the original date of presentation of the COCI to PCHC or RCC.

(2) Clearing through CICS

In case a check clearing item is dishonored under the CICS, the Drawee bank shall generate the pertinent electronic documents[1] on the dishonored clearing item due to insufficiency of funds and electronically submit the same to the Presenting Bank through the CICS within the prescribed period or not later than 7:30 a.m. on the clearing day immediately following the original date of presentation for clearing of the check clearing item through the CICS.

"Peso DDAs maintained by foreign correspondent banks with UBs/KBs shall not be subject to the above-mentioned regulations: Provided, That:

"xxx

"b. DAUDs
" x x x

[1] Such as but not limited to the Return Image Cash Letter (Return ICL) containing the dishonored Regular Clearing Item (i.e. electronically generated document showing a Check Image with Electronic Payment Information transmitted via Check Image Clearing System (CICS) to the Drawee bank for collection of the amount). Image Cash Letter (ICL) is an ANSI standard interface file specifications (X9.100-187) for electronic exchange of check and image data. It is generated by the front-end system of a Presenting Bank or Drawee Bank containing CICS items transmitted to the Drawee bank or presenting bank, respectively.

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"Sec. X203 Returned Checks

"a. For Checks Cleared through the MICR/Automated Check Clearing Facility

"The guidelines on the handling of returned checks under the MICR/Automated Check Clearing Facility are provided in Appendix 117. [2]

"b. For Checks Cleared through the CICS.

"(1) Checks without sufficient funds/ with stop payment orders.

To complement the provisions of Batas Pambansa Blg. 22, (An Act Penalizing the Making or Drawing and Issuance of a Check Without Sufficient Funds or Credit), the following regulations shall govern checks drawn against insufficient funds and checks drawn against closed accounts:

(a) The Drawee bank shall generate and transmit to the Presenting bank through the CICS, the pertinent electronic documents[1] containing information on the dishonored check or the check clearing item including the date when the check is returned and the reason for the refusal to pay the same to the holder thereof.

(b) Notwithstanding receipt of an order to stop payment, the Drawee bank shall likewise indicate that there are no sufficient funds in or credit with such bank for the payment in full of such check or the account is closed, if such be the fact. The bank shall also indicate receipt of a stop payment order.

For checks which shall be dishonored for the reason that payment has been stopped, the following shall be observed:

(i) The Drawee bank shall indicate in the electronic documents[1] the date when the check is returned and the reason for the refusal to pay the same to the holder thereof.
(ii) The Drawee bank shall indicate the remark or notation "Payment Stopped" or "With Stop Payment Order" on the pertinent electronic documents.

(c) The Presenting bank, on the other hand, shall generate the necessary documents[3] with the images of the clearing item printed

[2] These guidelines shall be in effect until 05 January 2017 or repealed and deleted once Check Clearing through CICS becomes the sole method for clearing checks through PCHC.
[3] Such as but not limited to the Return Check Advice (RCA).

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with information on the reason for the dishonor. This document together with the original check shall be handed over to the depositor which shall serve as the official notification on the return or the dishonor of the check.

(d) In front of the original check to be handed over to the depositor, the Presenting bank shall affix a return stamp, indicating therein the date when the check is returned and the reason for refusal to pay the same to the holder thereof.

(2) Checks dishonored due to technical reasons. In a similar manner, the Drawee bank shall generate and transmit to the Presenting bank, through CICS pertinent electronic document/s[1] containing information on the dishonored check or the check clearing item including the reason for the refusal to pay the same to the holder thereof. The Presenting bank, on the other hand, upon receipt of the electronic document/s, shall likewise generate the necessary documents[3] with the images of the clearing item printed with information on the reason for the dishonor. The same procedure of affixing a return stamp on the check to be handed over to the depositor shall be observed.

(3) The Drawee bank shall transmit the electronic documents[1] relative to the dishonor to the Presenting bank through CICS within the prescribed period or not later than 7:30 AM on the clearing day immediately following the original presentation for clearing of the clearing item through the CICS in accordance with the following procedures:

(a) The settlement of interbank transactions vis-à-vis covering reserve requirement/deficiency of banks' DDA is shown in Appendix 39.

(b) The AM clearing window for clearing items dishonored due to - insufficiency of funds or credit, technical reasons, closed account and/or stop payment order shall be conducted from 4:31 PM of the same day up to 7:30 AM on the clearing day immediately following the original date of presentation of the clearing item to PCHC.

(c) Returned clearing item in the AM clearing window shall be given value on the same date as the date of original presentation of the COCI to PCHC. The amount of debits and credits on the date of original presentation shall be reversed to the extent of the amount of credits and debits arising from the returned clearing item. The process restores the balances of the demand deposits of banks with the Bangko Sentral to their position prior to the settlement of the clearing

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results affected by the clearing items later returned due to insufficient funds or credit, closed account and/or stop payment order.

"Sec. **X225 Minimum Features.**

"The standards and design of the order of withdrawal form shall be in accordance with the Philippine Clearing House Corporation (PCHC) rules and regulations if said order of withdrawal form is intended to be cleared through PCHC. Otherwise, the minimum features of the pro-forma order of withdrawal shall conform with Appendix 11.

Section 3. Appendix 11 (Annex A) of the MORB is hereby amended to delete the standard size requirements on the order of withdrawal form for Negotiable Order of Withdrawal (NOW).

Section 4. Repealing Clause. The Guidelines on the Handling of Returned Checks under the Magnetic Ink Character Recognition (MICR)/Automated Check Clearing Facility (Appendix 117)(Annex B) shall be repealed and deleted once the Check Image Clearing System (CICS) becomes the sole system for the clearing of checks.

Section 5. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD

AMANDO M. TETANGCO, JR.
Governor

7 September 2016

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PRO-FORMA ORDER OF WITHDRAWAL FOR "NOW" ACCOUNTS

(Appendix to Sec. X225)

The order of withdrawal form shall be on security/check paper and contain as a minimum the features contained in the following pro-forma order of withdrawal:

FRONT

Acct. No. _____ No. _____

ORDER OF WITHDRAWAL
"NOW" ACCOUNTS

_____, 20 ____

Pay to_____the amount of PESOS_____(₱_____)

NAME OF DRAWEE BANK
Address

_____
Drawer/Depositor

BACK

Important

1. This order of withdrawal shall be payable only to a specific person, natural or juridical, and not to bearer nor to the order of a specific person.

2. Only the payee can encash this order of withdrawal with the drawee bank, or deposit it in his account with the drawee bank or with any other bank.

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APP. 117

GUIDELINES ON THE HANDLING OF RETURNED CHECKS UNDER THE MICR/AUTOMATED CHECK CLEARING SYSTEM (Appendix to Item a. of Sec.X203 Returned Checks)

a. *Checks without sufficient funds/ with stop payment orders.*

To complement the provisions of Batas Pambansa Blg. 22 (An Act Penalizing the Making or Drawing and Issuance of a Check Without Sufficient Funds or Credit), the following regulations shall govern checks drawn against insufficient funds and checks drawn against closed accounts:

1. The drawee bank shall affix to the check a return stamp, indicating therein the date when the check is returned and the reason for the refusal to pay the same to the holder thereof.

2. For checks which shall be dishonored or returned by reason of insufficiency of funds or credit, the drawee bank shall indicate the remark or notation "Drawn Against Insufficient Funds," "No Funds" or "Insufficient Funds" on the return stamp. For checks which shall be dishonored or returned for the reason that such is drawn against a closed account, the drawee bank shall indicate the remark or notation "Account Closed".

3. Notwithstanding receipt of an order to stop payment, the drawee bank shall likewise indicate in the return stamp, the remarks or notations mentioned in Item "2" hereof indicating that there were no sufficient funds in or credit with such bank for the payment in full of such check or the account is closed, if such be the fact. The bank shall also indicate receipt of a stop payment order.

For checks which shall be dishonored for the reason that payment has been stopped, the following shall be observed:

(a) The drawee bank shall affix to the check a return stamp indicating therein the date when the check is returned and the reason for the refusal to pay the same to the holder thereof.
(b) The drawee bank shall indicate the remark or notation "Payment Stopped" or "With Stop Payment Order" on the return stamp.

A Checks and Other Cash Item (COCI) dishonored for the reason that such is drawn against insufficient funds or credit, or is drawn against a closed account, or payment thereof has been stopped shall be returned by the drawee bank to the negotiating bank not later than 7:30 AM on the clearing day immediately following the original date of presentation of the COCI to PCHC or RCC.[1]

[1] See schedule of revised clearing and settlement process shown as footnote of Section X202

(1) For Local Exchanges

There shall only be one (1) clearing windows for COCIs returned due to insufficient funds or credit, closed account and/or stop payment order in the Integrated GM LX and RLX.

The settlement of interbank transactions vis-à-vis covering reserve requirement/deficiency of banks' DDA is shown in Appendix 39.

The AM returned COCI clearing window for COCIs dishonored due to insufficiency of funds or credit, closed account and/or stop payment order in the Integrated GM LX and in the RLX shall be conducted from 2:00 AM to 7:30 AM on the clearing 1 day immediately following the original date of presentation of the COCI to PCHC or RCC.

Returned COCI in the AM clearing windows shall be given value on the same date as the date of original presentation of the COCI to PCHC or RCC. The amount of debits and credits on the date of original presentation shall be reversed to the extent of the amount of credits and debits arising from the returned COCI. The process restores the balances of the demand deposits of banks with the Bangko Sentral to their position prior to the settlement of the clearing results affected by the COCI later returned due to insufficient funds or credit, closed account and/or stop payment order.

(2) For Integrated GM Outward to Region, Integrated GM Inward From Region and Region to Region Clearing Operations

A COCI dishonored by reason of insufficiency of funds or credit, drawn against a closed account and/or stop payment order shall continue to be covered by regulations issued by Bangko Sentral and relevant PCHC Clearing House rules and regulations.

(3) COCI not coursed through the Clearing System

A COCI dishonored by reason of insufficiency of funds or credit, drawn against a closed account and/or stop payment order which was not coursed through the clearing system shall be returned by the drawee bank to the holder or the negotiating bank, as the case may be, not later than the banking day following the date the COCI is presented for payment with the drawee bank.

The negotiating bank shall, in turn, return a COCI dishonored by reason of insufficiency of funds or credit, drawn against a closed account and/or stop payment order to the holder not later than the banking day following its receipt of the dishonored COCI from the drawee bank.

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b. *Checks dishonored due to technical reasons.* A COCI dishonored due to technical reasons shall be returned by the drawee bank to the negotiating bank not later than the afternoon regular clearing.

(1) For Local Exchanges

There shall be two (2) separate clearing windows for COCIs returned due to technical reasons in the Integrated GM LX and RLX.

The settlement of interbank transactions vis-à-vis covering reserve requirement/deficiency of banks' DDA is shown in Appendix 39.

(a) AM Returned COCI Clearing – The AM returned COCI clearing window for COCIs dishonored due to technical reasons in the Integrated GM LX and in the RLX shall be conducted from 2:00 AM to 7:30 AM on the clearing day immediately following the original date of presentation of the COCI to PCHC or RCC.

Returned COCI in the AM clearing window shall be given value on the same date as the date of original presentation of the COCI to PCHC or RCC. The amount of debits and credits on the date of original presentation shall be reversed to the extent of the amount of credits and debits arising from the returned COCI. The process restores the balances of the demand deposits of banks with the Bangko Sentral to their position prior to the settlement of the clearing results affected by the COCI later returned due to technical reasons.

(b) PM Returned COCI Clearing – The PM returned COCI clearing window for COCIs dishonored due to technical reasons shall coincide with the afternoon regular clearing. Such returned COCI shall be given value on the date the returned COCI was presented to PCHC for the Integrated GM LX or to RCC for the RLX.

(2) For Integrated GM Outward to Region, Integrated GM Inward from Region and Region to Region Clearing Operations

A COCI dishonored due to technical reasons continues to be covered by circulars issued by Bangko Sentral and relevant PCHC Clearing House Rules and Regulations.

(3) COCI not Coursed Through the Clearing System

A COCI dishonored due to technical reasons which was not coursed through the clearing system shall be returned by the drawee bank to the holder or the negotiating bank, as the case may be, not later than the banking day following the date the COCI is presented for payment with the drawee bank.

The negotiating bank shall, in turn, return a COCI dishonored due to technical reasons to the holder not later than the banking day following its receipt of the dishonored COCI from the drawee bank.

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