

ADVISORY TO CUSTOMERS: Frequently Asked Questions on Various Circulars Issued by the Philippine Clearing House Corporation Related to the Check Image Clearing System

SINCE DECEMBER 2015, the Philippine Clearing House Corporation (PCHC) has issued certain policies and regulations related to the Check Image Clearing System (CICS), non-acceptance of erasures and alterations on checks, non-acceptance of old format checks, and reminders and clarifications on writing information on checks. These policies and regulations are consolidated in the following Frequently Asked Questions (FAQs).

PART I: GENERAL INFORMATION ON CHECK IMAGE CLEARING SYSTEM OR CICS

1) WHAT IS CICS?

A: CICS is an electronic payment system by the PCHC where the image and information on the check is digitally captured by the bank receiving the check for deposit (presenting bank) and presented electronically to the paying (drawee) bank.

2) HOW WILL CICS BENEFIT THE BANKING CUSTOMER?

A: CICS will benefit the banking customer by the following:

- Shorter clearing cycle enables faster crediting of funds to your account the next banking day, compared to 3-5 banking in a non-CICS setup;
- Quicker feedback if check is funded or not—regardless of location of the paying bank/branch;
- Better customer service as check deposits cut-off can be better managed by the banks;
- Improved security against losing checks in transit as CICS eliminates the physical transport of checks;
- CICS-compliant checks with new design standards are more secure, reducing the chances of fraud.

3) WHAT ARE THE CHANGES UNDER CICS?

A: The changes under CICS are as follows:

- As a preparation for CICS migration, starting January 4, 2016, checks with ALTERATION OR ERASURE, even if countersigned and checks with INCOMPLETE INFORMATION will no longer be accepted for clearing;
- When writing a check, necessary information should include the following:
 - i. Date of the Check
 - ii. Name of Payee
 - iii. Amount Payable in Figures
 - iv. Amount Payable in Words
 - v. Signature of the Drawer
- The use of a “check-writer” which affixes numbers in the amount in words line will no longer be accepted for clearing;
- An essential requirement for CICS is the Authorization and Waiver Statement:
“I/We allow the electronic clearing of this check and hereby waive the presentation for payment of this original to (Drawee Bank).”

4) WILL THE CUT-OFF TIMES FOR DEPOSIT OF CHECKS BE STANDARDIZED UNDER THE CICS ENVIRONMENT?

A: Deposit cut-off times are set at the sole discretion of the depository banks. With the introduction of electronic clearing under CICS however, banks may be able to better manage the cut-off times for acceptance of checks.

5) ARE THERE ANY CHANGES TO THE CURRENT CHECK CLEARING TIMELINES?

A: One of the key objectives of CICS is to achieve faster clearance of check payments. It is envisioned that all checks deposited in any of PCHC’s participating bank/branches within normal banking hours irrespective of the region in which the check is deposited will be cleared on the next banking day. However, during the initial stages of implementation (Migration Run), availability of funds would still take 3-5 clearing days.

6) WILL I STILL GET THE ORIGINAL CHECK IN CASE OF DISHONORED CHECK?

A: Yes, the original of the dishonored check shall be returned to its depositor. The returned Check with the reason for return stamped on it together with the Returned Check Advice (RCA), shall serve as the official notification to the depositor of the return or dishonor of the check deposited.

7) CAN I STILL RE-CLEAR A DISHONORED CHECK?

A: The depositor of a dishonored check may re-clear it but there are some cases where the returned check can no longer be re-cleared, like when the check is dishonored for having been drawn against a "closed account". In any case, the Depository/Collecting Bank shall indicate in its return notification of the eligibility or ineligibility of a returned check for re-clearing.

8) WHO WILL HAVE THE CUSTODY OF THE PAID/HONORED CHECK?

A: Following are the PCHC guidelines on paid/honored checks:

- Paid/honored checks shall not be returned to the Drawer/Issuer;
- The physical items will be kept by the Presenting/Collecting Bank for one and a half years;
- The monthly account statement to be sent to the Drawer/Issuer will only include the image reproduction of the negotiated checks.

9) HOW ABOUT IN CASE OF CONCERNS OR QUESTIONS ON PAID/HONORED CHECKS, CAN I STILL SEE THE ORIGINAL?

A: The original of a paid/honored check can be made available to the Drawer/Issuer but within a certain period only. Within 14 months from date of clearing, the original of the paid/honored checks can be requested by the Drawer/Issuer from their respective Drawee/Paying Bank. After said period, the originals of the paid/honored checks will no longer be available and only the image of the check can be provided.

10) WHY DO SOME BANKS ASK REPLACEMENT OF POST-DATED CHECKS RECEIVED PRIOR TO JANUARY 4, 2016? WE THOUGHT THEY ARE EXEMPTED?

A: While PDCs received and under custody of the banks prior to January 4, 2016 cut-off are still acceptable for clearing if it bears signed erasure/alteration under PCHC CHOM No. 15-460, the same policy provides that the Presenting Bank will be held liable for damages if the drawer complains about any irregularities arising from the erasures and/or alterations on a check. This risk compels presenting banks to ascertain the authenticity of any erasures and alterations on checks before accepting these for deposit/clearing. Thus, Presenting Banks have the prerogative to seek replacement of stamped check received prior to January 4, 2016.

11) WILL A CHECK AFFIXED WITH RUBBER-STAMP, CHOP AND PERSONAL SEAL BE ACCEPTED FOR CLEARING UNDER CICS? IF NOT, WHY?

A: Under CICS, only images will be presented for payment thru the Clearing House. For protection, the new check design carries security features that help the presenting bank determine the authenticity of the check as well as its integrity. The use of rubber-stamp, chop and personal seal is strongly discouraged by PCHC under CICS due to the challenges it entails to verifiers that will be relying on the images of the check.

12) WHAT HAPPENS TO THE EXISTING MANUAL CLEARING OF REGIONAL LOCAL EXCHANGES (RLX) UNDER THE CICS ENVIRONMENT?

A: The main impediment that prevents RLX from being integrated in GMA Clearing is the inability of flights that will transport the physical checks from the regions to Manila. With the use of Images under CICS, any region throughout the country that has network connectivity can be able to participate in clearing. Thus, the existing manual exchanges will be converted to image clearing.

PART II: CHECK ALTERATIONS, ERASURES AND DEFICIENT INFORMATION

1) WHAT KINDS OF ERASURE OR ALTERATION WILL BE COVERED?

A: Erasures or alterations of the following on the face of the check are covered:

- date
- name of the payee (whether indicated as "Cash" or "Bearer" or "Holder" or a specific name or any other word or phrase of identification)
- amount in figures
- amount in words
- signature/s of the Drawer/s or the Drawer's signatory/ies
- account name
- account number
- check number
- MICR characters.

regardless of any signature or initials that appear to indicate authorization of the alteration or erasure.

2) ARE DETAILS ON THE DORSAL SIDE OF THE CHECK COVERED BY THE REGULATION?

A: No, details on the dorsal side of the check are not covered by the new regulation on non-acceptance of checks with erasure/alteration/deficient information (PCHC Memo Circular No. 3060).

3) ARE PARENTHESES CONSIDERED AN ALTERATION WHEN INDICATED AS PART OF THE PAYEE NAME?

A: No, appearance of parenthesis as part of the Payee Name to uniquely indicate branch or location or service is not considered an alteration. Example: *Pay to the order of: ABC Refining Company (Alabang Branch)*.

4) WHEN IS A CHECK CONSIDERED TO HAVE A “DEFICIENCY” UNDER THIS NEW REGULATION?

A: A check is deemed to have a deficiency if one or more of the following is missing on the face of the check:

- date
- payee
- amount payable in figures
- amount payable in words -- except for checks issued by banks (Manager's or Cashier's Checks, Demand Drafts) using a check writer; or
- signature/s of the Drawer/s.

5) WHAT ARE OTHER CONDITIONS IN WHICH A CHECK MAY NOT BE ACCEPTED BASED ON APPEARANCE?

A: A check may not be accepted for negotiation due to the following reasons:

- folded
- written using felt tip pen, erasable ink pen, gel pen or pencil
- mutilated checks (torn)
- defaced by liquid (water, soda, coffee etc.)

6) WHEN CAN USING A CHECK WRITER RESULT TO A CHECK HAVING A DEFICIENCY?

A: Using ‘machine check writers’ to indicate figures in the amount in words is no longer allowed for corporates/customers, but not for checks issued by banks *Manager’s or Cashier’s Checks (MCs or CCS), Demand Drafts (DDs) However, under PCHC Memo Circulars 3043 and 3045, corporates/customers who insist on still using machine check writers when they issue checks **must**, along with the affixed numbers, **indicate below them the amount in words**. It is likewise recommended to use computer printers instead of numeric check writers to print the legit amount in words in the appropriate space/line of the check. This is to comply with the Negotiable Instruments Law (NIL).

7) WILL MY POST-DATED CHECKS (PDCs) BE AFFECTED BY THE NEW REGULATION?

A: **The following are the conditions in which PDCs can still be accepted for clearing:**

- PDCs received and warehoused by the bank prior to January 4, 2016 and bearing the stamp ‘Warehoused Check’. Nevertheless, these checks will still be subject to verification by the Drawee Bank which has the authority to decide a ‘pay’ or ‘no pay’ if it deems that the alteration/erasure is unauthorized. Likewise, effective January 4, 2016, any PDC you issue has an alteration or erasure, or deficiency (as specified in question 1 above) will be returned.
- PDCs with ‘Check Writer’ affixed amounts that were warehoused and stamped ‘Warehoused Check’ by banks prior to January 4, 2016. With the acceptance, the receiving Drawee Bank is likewise responsible in verifying/confirming with the Drawer, the final disposition on checks negotiated/stamped with ‘Warehoused Check’.
- PDCs that are currently in the custody/warehouse non-bank entities like Realty, Lending Institutions, etc.; provided that the PDCs were received/warehoused prior to January 4, 2016. The Depository/Paying Bank is duly responsible for any amounts of claim that may arise in case of misuse of the ‘Warehoused Check’ stamp.

8) SHOULD I REPLACE THE PDCs I ISSUED?

A: No, you need not replace the PDCs you issued if they have already been accepted and warehoused prior to December 31, 2016.

9) CAN A CHECK THAT WAS RETURNED DUE TO INCOMPLETE OR MISSING RELEVANT INFORMATION BE RE-CLEARED?

A: Yes, a check that was returned due to incomplete or missing relevant information may be re-cleared, provided that the missing information is indicated by the Drawer/Issuer as required.

10) WHAT IS THE PENALTY IF A COLLECTING/PRESENTING BANK ACCEPTS A CHECK WITH ERASURE, ALTERATION OR DEFICIENCY THAT IS SUBSEQUENTLY RETURNED BY THE PAYING/DRAWEE BANK?

A: A Collecting/Presenting Bank that accepts a check with erasure, alteration and/or deficiency that is subsequently returned by the Paying/Drawee Bank, shall be penalized Php1,000.00 per return item. The corresponding penalty will be debited from the account of the Drawer/Issuer of the returned check.

PART III: WRITING A CHECK

1) IS THERE A NEW RULE ON WRITING THE AMOUNT IN WORDS DUE TO CICS?

A: No, there is no change in the way the amount in words is written. Hence, writing the centavo/s like "01/100" in the amount in words line is still very much acceptable. Example: Pesos Two thousand and 05/100 or Pesos Ten Thousand Five Hundred Fifty & 50/xxx.

2) ARE THERE ONLY CERTAIN TYPES OF PENS ACCEPTABLE IN WRITING CHECKS?

A: Using other types of pens is not prohibited. However, the use of dark colored ink pens such as blue or black is strongly recommended and encouraged as well to prevent the risk of being altered/erased. Furthermore, the use of non-impact printing techniques to complete a check is discouraged. As the industry is gearing towards the implementation of Check Image Clearing System (CICS), it is advised that banking customers let go of the practice of writing checks using light colored pens or affixing rubber stamps or holograms as these may posed potential problems in the internal processes of banks.

3) WHAT ABOUT THE USE OF RUBBER STAMPS, PERSONAL CHOPS OR HOLOGRAM?

A: The use of rubber stamps to fill out date and payee is not prohibited neither the use of personal chops or hologram in the signature line. But some if not most banks particularly those implementing image processing discourage these practices as signature and verification process tend to be more challenging when viewing check images with these rubber stamped/hologram information.

PART IV: NEW CHECK FORMAT

1) HOW CAN AN OLD FORMAT CHECK BE RECOGNIZED?

A: An old format check can easily be recognized due to the absence of the waiver and authorization statement (also called "Drawer's Conformity Statement"), i.e., "I/We allow the electronic clearing of this check and hereby waive the representation for payment of this original to Postbank".

2) WHAT IS THE 'AUTHORIZATION AND WAIVER STATEMENT' FOR?

A: An essential requirement for a CICS check is the provision in it of an Authorization and Waiver statement, also known as Drawer's Conformity Statement. Specifically, it provides as follows:

"I/We allow the electronic clearing of this check and hereby waive the presentation for payment of this original to (Drawee Bank)"

Explanation:

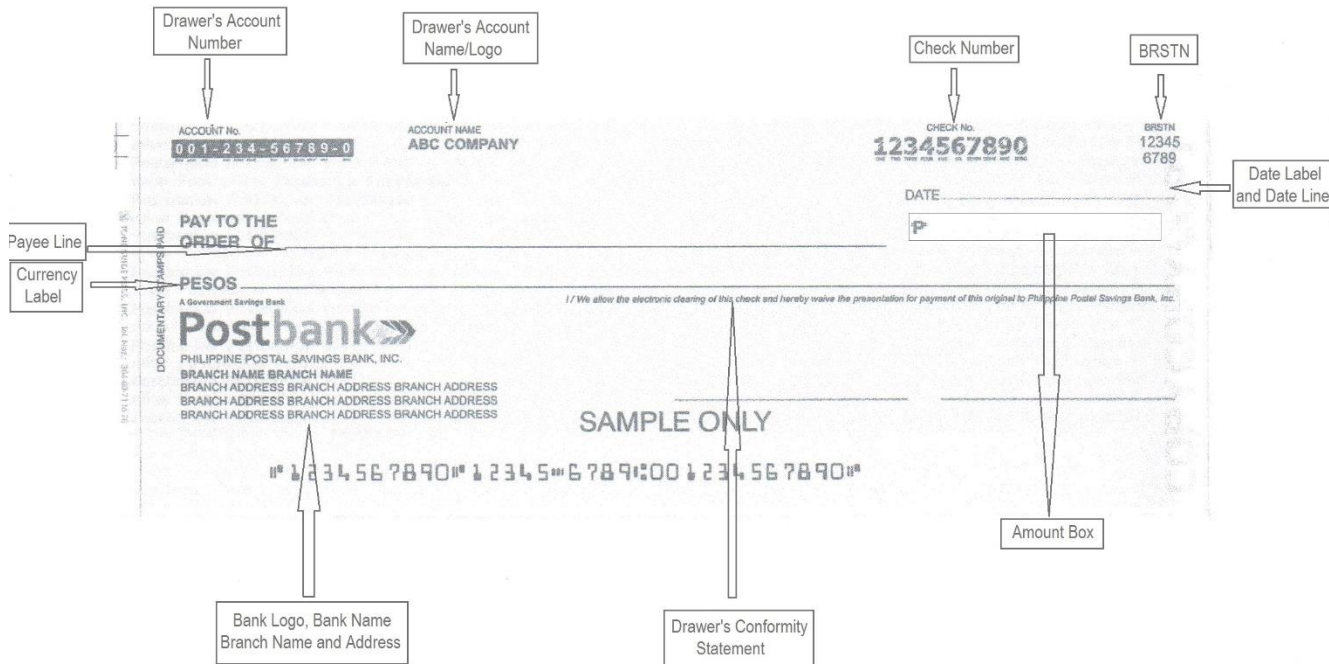
A. Authorization for Electronic Clearing – with this authorization, the Depository/Collecting Bank is allowed by the Drawer/Issuer of the deposited check to present to/clear the check with the Drawee/Paying Bank through transmission of its digital image and information and for the Drawee/Paying Bank to decide on its payment (or non-payment) on the basis of the transmitted image and information.

B. Waiver of Presentation of the Original – this expresses the agreement of the Drawer/Issuer of the deposited check to waive/set aside the requirement under Sec. 74 of the Negotiable Instruments Law for the presentation or exhibition of the original of the deposited check to the Drawee/Paying Bank for the collection of its amount. Sec. 82 of said law provides that presentment for payment may be waived.

In a nutshell, the above Statement means that the Drawer/Issuer is allowing his/her Presenting (depository) Bank to submit his/her check/s electronically to the Drawee Bank. This would result to improved efficiencies as physical transport of checks from the presenting bank to PCHC is eliminated.

3) WHAT ARE THE OTHER FEATURES OF A NEW FORMAT CHECK?

A: Below is an example of a new format check with its features labeled:



4) MY CURRENT CHECK IS CUSTOMIZED BASED ON MY REQUIREMENTS. CAN I STILL REQUEST FOR THE SAME DESIGN?

A: Under the new regulation issued by the PCHC on new check design standards, checks must comply with the prescribed requirements effective January 2015. Customized checks can be accommodated as long as the design conforms to the required check format, under the regulation. Please note that accredited check printers have been instructed by the PCHC to stop printing checkbook reorders that do not comply with the new check design standards by January 2015. Kindly coordinate with your branch of account for any customization requirements. All check customization requests shall be subject to the approval of the Bank.

5) CAN I INCLUDE A LOGO OF MY COMPANY IN THE NEW CHECK DESIGN?

A: Yes. The logo may be inserted on the Account Name portion of the check. Logos to be positioned outside the allowable area will be considered a customized design, and shall be subject to the approval of the Bank.

6) I PREFER THAT MY ACCOUNT NAME IS NOT PRINTED ON THE CHECK; CAN I JUST INDICATE MY ACCOUNT NUMBER IN THE ACCOUNT NAME PORTION?

A: No, printing of account name is mandatory and all banks are obliged to follow the new check design. This is in compliance with the Anti Money Laundering Law. However, per PCHC Memo Circular No. 2610 issued on April 8, 2014 for checkbooks that will be initially issued during account openings, each bank may seek clearance from their respective Compliance Officer if it can print the account number in lieu of account name considering that under Section 9 (a) of the Anti-Money Laundering Act of 2001 (RA 9160), as amended, and Rule 9.1.g of its Implementing Rules and Regulations, only non-checking accounts (peso and foreign currency) are mentioned as allowed to be numbered accounts.

7) ARE POST-DATED CHECKS COVERED UNDER THIS REGULATION?

A: Post-dated Checks which are warehoused by banks up to December 31, 2016 are not covered by this regulation. These warehoused PDCs must bear the "Warehoused Check Postbank" stamp at the "Reserved for Other Details" box at the back of the check (refer to Exhibit No. 1) in order to qualify for clearing.

8) IS THERE A PENALTY FOR NEGOTIATING AN OLD FORMAT CHECK?

A: Except for warehoused old format checks, a penalty of Php500.00 per item shall be imposed on a Presenting/Receiving Bank (i.e., the bank where you deposited the check to) that sends old format checks for clearing on or after 01 July 2017. The penalty shall be collected from the Presenting Bank.

9) SHOULD I REPLACE THE OLD FORMAT PDCs I ISSUED?

A: No, you need not replace the old format PDCs you issued if they have already been accepted and warehoused as of December 31, 2016.

10) WILL POSTBANK CHECKS THAT BEAR THE OLD FORMAT AND ARE DEPOSITED OR ENCASHED AT POSTBANK BRANCHES BE AFFECTED BY THE REGULATION?

A: Yes, starting July 1, 2017, old format Postbank checks for over-the-counter encashment or deposit in any Postbank Branch will not be allowed.

PART V: OTHERS

1) WHAT IF A CHECK IS DEPOSITED IN A BANK THAT IS NOT YET READY FOR CICS ON CUT-OVER DATE?

A: A Bank that is not ready on day 1 implementation may still participate in the new clearing system and it will be categorized as a Non-CICS Bank. What it will have to do is to bring all their outward Checks to PCHC established front-end backup station and do the capture of images and electronic payment information. Checks captured at the PCHC station will be settled the next day's clearing session.

2) WHAT IF A CHECK IS DRAWN AGAINST A BANK THAT IS NOT YET READY FOR CICS ON CUT-OVER DATE?

A: PCHC shall provide the Non-CICS Bank images for its inward items processing/verification and all the necessary electronic check clearing system (ECCS) data which it can upload to its core banking system as presently being done.

Non-CICS Bank/s must however inform their clients that funds availability or the number of days to clear a check deposited with or drawn against them will not change (*still 3-5 clearing days*).

For inquiries or clarifications, please call Postbank at 527-0053 or send us an email at customer.care@postbank.gov.ph or call or visit your branch of account.

Postbank is supervised by the Bangko Sentral ng Pilipinas with telephone number (02) 709 7087 and email address: consumeraffairs@bsp.gov.ph

References:

PCHC CHOM No. 15-461
PCHC CHOM No. 15-460A
PCHC Memo Circular 3134
PCHC Memo Circular 3126
PCHC Memo Circular 3093
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