

# Treasury Management in the Philippines

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## Philippines Overview

The Philippines comprises more than 7,000 islands located in Southeast Asia.

The unit of currency is the Philippine Peso (PHP). It is divided into 100 centavos and commonly referred to as the Philippine Peso. The Peso is fully convertible with its value determined by market forces. Central bank intervention is limited to that necessary to meet program targets for net international reserves and orderly market conditions.

The Bangko Sentral ng Pilipinas (BSP) is the central bank and regulates all financial institutions in the country under the supervision of the Monetary Board. The Bankers Association of the Philippines (BAP) is an association of commercial banks which, in coordination with the BSP commits members to policies which are effectively regulatory in nature.

There are five payment and clearing systems in the Philippines that relate to cash and treasury management.

1. The Philippine Clearing House Corporation (PCHC) is a private corporation owned and operated by commercial banks which are members of the Bankers Association of the Philippines (BAP). The PCHC is supported and regulated by the BSP and operates a MICR encoded check clearing system within the metropolitan Manila area. Checks are bundled by participant banks and presented to the PCHC which sorts them and posts the net amount due to/from each bank to the bank's account with the BSP. The posting takes place on the day following clearing for value on the day of clearing.
2. The PCHC also accepts electronic media, such as magnetic tapes, from member banks. If the medium contains PHP transactions the settlement takes place across the participant's account with the BSP and if it contains USD transactions the settlement takes place across the participant's account with Citibank Manila which operates the Domestic Interbank US Dollar Funds Transfer System. In both cases the settlement is posted on the day following the clearing for value on the day of clearing.
3. The BSP operates regional clearing units for transactions drawn on regional and provincial banks not covered by PCHC operations. Participants present bundled checks to the clearing unit which debits or credits the bank's head office account with the BSP for value on the same business day.
4. The Domestic Interbank US Dollar Funds Transfer System is operated by Citibank Manila under the supervision of the BAP. Participants send domestic US dollar transfers through an electronic messaging system call MTIS. Transfers are processed in real time and settlement is final in this RTGS system.
5. A high value Interbank payment system called MIPS (multi-transaction interbank payment system) is operated by the PCHC for BAP members. It is a Designated Time Gross Settlement System (DTGS)

## Weblinks

**Background information from the [USCIA](#), [US State Department](#), and [Library of Congress](#)**

**Country profile information from [Ernst&Young](#)**

**Summary tax information from [DTT WorldTax](#)**

**News and policies of the [Central Bank of ThePhilippines](#)**

**Other government information [Department of Finance](#), [NEDA](#), and [Philippine House of Representatives](#)**

**Commercial banking websites of [Bank of the Philippine Islands](#), [Citibank](#), [Equitable PCI Bank](#), [Far East Bank](#), [International](#)**

where participants transmit instructions to the PCHC which settles these transactions three times a day against the participant's account with the BSP for value that day.

Corporations in the Philippines are categorized as being domestic or foreign with foreign corporations further subdivided into resident and non resident corporations. A corporation is considered to be domestic if it is incorporated under Philippine law. Domestic corporations are taxed on worldwide net income. Foreign corporations with physical presence in the Philippines are considered to be resident while all others are considered non resident. Resident foreign corporations are taxed on net taxable income from Philippine sources while non resident foreign corporations are taxed on gross income from Philippine sources. For 1999 the tax rate on all categories of corporation is 33%.

## **Treasury Management**

The Philippines was regional headquarters to many MNCs but lost this role with the emergence of Hong Kong, Singapore, and Tokyo as financial centers. The trend towards establishing SSCs for administrative functions and an excellent English speaking labor force is creating new regional opportunities for the Philippines. From a domestic cash management perspective the principal challenge in the Philippines is efficiently collecting and clearing receivables - principally checks - given a relatively inefficient mail and check clearing system. The interface between the domestic cash management system in the Philippines and a regional system is generally manual in nature.

All common treasury management techniques are permitted in the Philippines including leading/lagging, re-invoicing, sweeping, and cash concentration. Multilateral netting is permitted with prior approval from the BSP. Prohibitions on overdrafts effectively preclude notional pooling but the use of zero balance accounts can offer a functional alternative.

Strict regulation of Philippine Peso activity limits its use in global treasury activities making the U.S. dollar, the Euro, or the Yen more effective currency tools. Foreign exchange (FX) spreads and commissions are a major revenue source for foreign and domestic banks.

Multiple PHP accounts can be held to facilitate accounting objectives or as part of an overall treasury strategy. Sweeping of PHP funds within the country is permitted and is the principal technique deployed in liquidity management.

## **Accounts**

The basic PHP operating account is referred to as a current account and may be held by resident or non-resident corporations. Banks are permitted to pay interest on current accounts maintained by corporations. Overdrafts are not permitted for resident or non resident corporations.

Resident and non-resident corporations may hold accounts in the Philippines that are denominated in currencies other than the Philippine Peso and US dollar.

There are a number of short term investment options for resident or non-resident corporations including overnight deposits, savings accounts, and government bills.

[Exchange Bank](#),  
[Metrobank](#), [Phil Bank](#), [United Coconut Planters Bank](#), and [Urban Bank](#)

**Online editions of** [Business World](#), [Manila Bulletin](#), [Philippine Daily Inquirer](#), [The Manila Times](#), and [The Philippine Star](#)

**Special information from** [AmCham](#), [Makati Business Club](#), [EDINet](#), and [FTSurvey](#)

Overdrafts are not permitted in the Philippines. Commercial paper, short term local currency loans, and foreign currency loans are funding options with bank finance being the major source of funding.

### **Payments and Receipts**

Checks and cash are widely used in retail settlements. Electronic alternatives are beginning to emerge but are not yet fully the standard. Many banks now offer systems to handle to make payments for their clients.

Lockbox type arrangements are permitted but not common business practice as use of the mail for negotiable instruments is not considered safe and private courier arrangements are expensive. A functional alternative is an arrangement with an indigenous financial institution to automatically sweep funds deposited at any of the financial institution's branches to a single account.

Controlled disbursement is not present in the Philippines because there is no delay between check presentment and the end of the day's clearing. A functional alternative is to have a disbursement account that is covered by book transfer from a surplus account at the same bank.

### **Technology and Marketplace**

Electronic banking products including access systems and balance reporting, are available and commonly used. Manila has a developing telecommunications system including copper cable and analogue switches. Telephone density is lower than in other parts of the region but data bandwidth is reasonably priced and readily available. Electronic balance reporting and transaction initiation are in common use and other forms of e-commerce are increasing in use.

The Philippine banking system comprises almost 1,000 institutions of which a much smaller fraction offer commercial banking services to MNCs. Major indigenous banks offering cash management services include Far East Bank and Trust, Bank of the Philippine Islands, United Coconut Planters Bank, and the Philippine National Bank. These banks are aggressive in check disbursement and collection services where their branch network is an advantage over foreign banks. Liberalization in 1994 increased the number of foreign banks licensed to do business in the Philippines. The major players in the foreign banking market are Citibank, Bank of America, and Standard Chartered Bank with additional competition from Deutsche Bank, ABN-AMRO, and HSBC.

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