

**APPRAISAL AND LOAN VALUATION FRAMEWORK  
FOR RIGHTS-BASED SECURE TENURE ARRANGEMENTS  
AS COLLATERAL SUBSTITUTES**  
*(Appendix to Subsec. X361.5)*

In the appraisal of real properties or rights offered as collateral substitutes under the housing microfinance program, the form of the secure tenure instrument must be considered. Generally, two (2) appraisal methodologies or approaches may be applied: the market value must be determined using the market data or sales comparison approach for properties under freehold and right to occupy and/or build (in respect of the housing unit or improvement to be used as collateral substitute), and for properties under Lease agreement and usufruct, the value of the Leasehold interest of the borrower must be determined.

**Market value**

Market value is the most probable price that a property should obtain in a competitive and open market under all conditions requisite of a fair sale, with the buyer and seller each acting prudently and knowledgeably, and assuming that the price is not affected by undue stimulus. In determining the market value of the property, the appraiser must use the Market Data or Sales Comparison approach. This approach attempts to compare the subject property's value with similar properties and adjust its value according to the presence or absence of value determining characteristics. This approach is based upon the principles of supply and demand and upon the principle of substitution.

**Valuation of leasehold**

A leasehold is the real right of the lessee acquired from an owner (the lessor) of a piece of real estate to occupy and use it for a fixed term or period at a stipulated rental rate, and subject to conditions set forth in a written document of lease. The lease may include the right of the lessee to improve the land, mortgage the building, sublet all or part of the property, and assign or sell his leasehold.

The task of the appraiser is to estimate the present worth or "market value" of the imputed rental income of the lessee derived from the property over and above the rent required to be paid by him to the lessor under the terms of the lease and his interest in any improvements made by him. In evaluating a leasehold, the appraiser must have a thorough knowledge of all the salient terms and conditions of the primary or main lease and any subleases, for these affect the value of the leasehold considerably, such as:

- a. Rental. If the rental to be paid under the terms of the lease is below the rental prevailing in the market, the leasehold may have a substantial value. Where the rental actually paid is the prevailing rental value of the property, the leasehold may have no value. Prevailing rental rates refer to the rental rates of comparable properties within comparable locations.
- b. Term of Lease. A long-term lease or the right of the lessee to renew the lease at the expiration of the original term of the lease may add value to the leasehold.
- c. Payment for Improvement
- d. Option to Purchase
- e. Leasehold Restrictions

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**Loan Valuation Based on Appraisal Valuation Framework or Methodology**

The valuation of properties under the housing microfinance loan program will be based on prevailing market values of real estate properties (freehold and right to

occupy and/or build) or prevailing rental rates (leasehold/usufruct). The standard practice of participating banks in determining the loan to collateral ratios shall be adopted. The following terms provided in the table below may be applied:

FORM OF SECURE TENURE OR PROPERTY RIGHT	NATURE AND DESCRIPTION OF ACCEPTABLE INSTRUMENT	TERMS AND CONDITIONS	APPRAISAL METHODOLOGY	LOAN VALUATION
Usufruct	<i>Usufruct agreement or contract</i> – Duly executed contract executed by the owner of the property granting the usufructuary/ beneficiary/ client the right to use, possess, and enjoy the real property including its fruits and other rights or benefits	The Term of Lease must not be less than the term of the loan.	Valuation of Leasehold Interest	70% of the appraised value of the collateral
Lease	<i>Lease agreement or contract</i> – Duly executed contract granting the lessee the right to use and possess the real property for a fixed long-term period in consideration of rental payments	The Term of Lease must not be less than the term of the loan	Valuation of Leasehold Interest	70% of the appraised value of the collateral
Freehold	<i>OCT/TCT</i> – Torrens title issued by the Register of Deeds evidencing absolute ownership of real property  <i>Interim Title, Contract to Sell or Conditional Sale</i> – Duly executed contract or other legal instrument issued by the appropriate government agency indicating full payment for the purchase of the property or its conditional sale or conveyance to be perfected upon full payment of the purchase price and/or the fulfillment of other conditions	Adjustment of appraisal value due to documentary nature or status of instrument must be taken into account	Market Data Approach	90% of the appraised value of the collateral

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FORM OF SECURE TENURE OR PROPERTY RIGHT	NATURE AND DESCRIPTION OF ACCEPTABLE INSTRUMENT	TERMS AND CONDITIONS	APPRAISAL METHODOLOGY	LOAN VALUATION
Right to occupy and/or build	(1) Certification validly issued by the appropriate government agency stating that the borrower/client has the right to occupy, build and/or acquire the property he/she is possessing being an eligible beneficiary of a public or private social housing program or a Presidential proclamation, or (2) certification or written acknowledgment from the owner of the property that the borrower/client has the owner's consent and permission to occupy and build on such property	Adjustment of appraisal value due to documentary nature or status of instrument must be taken into account	Market Data Approach (as to the improvement or housing unit)	70% of the appraised value of the collateral

*(MAB-2008-015 dated 19 March 2008)*

**FORMAT CERTIFICATION ON DEPOSIT/CASH DELIVERY SERVICES**  
*(Appendix to Sec. X266)*

\_\_\_\_\_  
Name of Bank

**CERTIFICATION**

We, \_\_\_\_\_, Executive Vice President (or its equivalent position) and \_\_\_\_\_, Compliance Officer, certify that the (Name of Bank) shall render deposit pick-up/cash delivery services beyond regular banking hours/days to the following clients:

Servicing Banking Unit <sup>1/</sup>	Client Name and Address <sup>2/</sup>	Deposit Pick-up/Cash Delivery services	
		Days	Hours

1/ The name of the branch or banking unit that will render the Deposit Pick-up/Cash Delivery Services

2/ Name and address of client requesting deposit pick-up/cash delivery services

We further certify that in the performance of deposit pick-up/cash delivery services to the above clients, the (Name of Bank) shall comply with all the conditions provided under Section X266 of the Manual of Regulations for Banks on Deposit Pick-up/Cash Delivery Services.

This certification executed on \_\_\_\_\_ is being submitted in compliance with the requirements of abovementioned regulation.

Signed:

Signed:

\_\_\_\_\_  
(Name of Executive Vice President)  
Position:

\_\_\_\_\_  
(Name of Compliance Officer)  
Position:

Subscribed and sworn to before me, this \_\_\_\_\_ day of \_\_\_\_\_, affiants exhibiting their valid identifications indicated below:

Name

Government ID/Passport No.

Date/Place Issued

Notary Public

*(Circular No. 614 dated 14 July 2008)*

**BASIC STANDARDS IN THE ADMINISTRATION OF TRUST, OTHER FIDUCIARY  
AND INVESTMENT MANAGEMENT ACCOUNTS**  
*(Appendix to Subsec. X401)*

**I. Introduction**

Trust and other fiduciary business and investment management activities have evolved with the changes in the financial market and advancement in technology. These innovations have allowed trust entities to expand the scope of trust products and services offered to customers, thus increasing their exposure to various risks. As trust entities grow more diverse, necessarily policies and procedures as well as risk management practices must keep pace. The basic standards would provide common processes for an efficient operation and administration of trust, other fiduciary and investment management activities across the trust industry.

**II. Statement of policy**

It is the policy of the BSP to provide adequate level of protection to investors who, under a fiduciary arrangement, engage the services or avail of products of trust entities which are required to observe prudence in the exercise of their fiduciary responsibility. Along this line, the BSP prescribes basic standards for the efficient administration and operation of trust and other fiduciary business and investment management activities.

**III. Standards**

The basic standards in the administration of trust, other fiduciary and investment management accounts are meant to address the significant areas of operations and provide minimum set of requirements and procedures:

A. Account acceptance and review processes

1. Pre-acceptance account review

This review must document that the trust entity (TE) can effectively administer

the account. It shall be covered by a written policy which shall contain, among other things, the types of trust, other fiduciary and investment management accounts that are desirable and consistent with the TE's risk strategies and the specific conditions for accepting new accounts, and approved by the Trust Committee, or the Trust Officer, or subordinate officer of the trust department, authorized by the board of directors or its functional oversight equivalent, in the case of foreign banks and institutions.

The review process entails the thorough and complete review of the client's/account's characteristics and investment profile, including the assets/properties to be contributed/delivered. Non-financial/non-traditional assets (i.e., real estate and the like) which are more likely to be illiquid shall be carefully reviewed prior to acceptance to ensure that the TE only accepts accounts which hold assets it may be able to properly manage.

Prior to the acceptance of a fiduciary account, the TE shall review the underlying instrument (trust agreement or contract) for potential conflicts of interest. If such conflict exists, the TE shall take appropriate action to address such condition before the account is accepted.

In cases where the TE is chosen as a successor trustee or investment manager, the TE shall perform a review and evaluation of all assets to be delivered to the TE to determine how these would serve the client's objectives, whether the TE can properly handle such assets and to assess any possible issue/problem which may arise with respect to such assets before acceptance of such assets and/or assumption of the trust, fiduciary or investment management relationship.

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2. Establishment and post-acceptance review

Acceptance policies for new accounts shall, at a minimum, include the following processes and/or requirements:

(1) *Account opening process.* This process defines the TE's policies and procedures for client/account identification, consistent with the TE's KYC policy for compliance with anti-money laundering regulations; identification of the needs of the client; the objective(s) of the engagement; the vehicle to be used; and the account's investment parameters. The trust officer or other authorized personnel of the trust department shall conduct the account opening process for trust, fiduciary and investment management accounts. In the case of UIT Funds, only authorized branch managers/officers as well as UIT marketing personnel, who have all successfully undergone the required certification/accreditation/licensing process, may perform said process for UIT Fund clients. The account opening process shall at least involve the following:

a. Client profiling shall be performed for all UIT Fund and regular trust, other fiduciary and investment management accounts (except court trusts) via a duly acknowledged Client Suitability Assessment (CSA), which aims to provide the TE with information leading to the prudent design of investment packages, suited to a particular client or investment account. The profiling process, to be documented through a CSA Form signed by the concerned parties<sup>1</sup>, shall be undertaken on a per client basis, which shall emphasize the level of risk tolerance of the client.

- Client suitability assessment

The TE shall obtain adequate information from the client to determine the appropriateness of the fiduciary product/service to be provided and ensure the suitability of the investment product/

portfolio/strategy to be recommended to each client. It shall provide prospective clients with client suitability questionnaire and require them to accomplish the same prior to the acceptance of the account and execution of a transaction.

For this purpose, the TE shall make an assessment of the client's level of financial sophistication and consider factors relevant to the creation and management of, or participation in, an investment portfolio, such as but not limited to, the specific needs and unique circumstances of the client and/or beneficiary/(ies), basic characteristics of the clients' investment and experience, financial constraints, risk tolerance, tax considerations and regulatory requirements.

The same client suitability assessment process shall be applied by the TE for directional accounts.

- Minimum information required for CSA:

i. Personal/Institutional data. Minimum personal/institutional information that are unique to a natural or juridical client, which shall also cover demographics and KYC information; the identity of beneficiaries, where applicable, and approximate portion of total assets administered/managed.

ii. Investment objective. A clear statement or definition of the client's investment goals/purposes to be achieved through a particular trust, fiduciary or investment product or service. The client may opt to open several accounts, each one with specific investment objectives separate and distinct from the other accounts.

iii. Investment experience. A list of various types of investment the prospective client is familiar with, acquired from actual/personal investment experience, or of similar investment circumstances.

iv. Knowledge and financial situation. For complex transactions where the level of risk involved is greater, the TE must take

<sup>1</sup> i.e., the client, the UIT accredited marketing personnel or the officer of the trust department conducting the client profiling. The CSA Form shall be acknowledged or confirmed by the trust officer or other officer of the trust department authorized by the board of directors.

into account the knowledge, experience and financial situation of the client or potential client to assess the level of investment sophistication. This may include the careful assessment whether the specific type of financial instrument/service/portfolio/strategy is in line with the client's disclosed financial capacity.

Such assessment is necessary as there are significant risks involved on financial investments (e.g., derivatives), the type of transaction (e.g. sale of options), the characteristics of the order (e.g., size or price specifications) or the frequency of the trading.

v. Investment time frame and liquidity requirement. The TE is able to organize the portfolio in a manner that will provide for anticipated liquidity requirement through redemption of principal contribution or earnings.

vi. Risk tolerance. Allow the TE to classify clients in accordance with its own pre-set internal risk classification.

Based on the results of the CSA, classification of clients by the TE may include, but need not be limited to the following:

i. *Conservative*. Client wants an investment strategy where the primary goal is to prevent the loss of principal at all times, and where the client prefers investment grade and highly liquid assets, government securities, Republic of the Philippines' bonds (ROPs), deposits with local banks/branches of foreign banks operating in the Philippines, and deposits with FIs in any foreign country: *Provided*, That said FI has at least an investment grade credit rating from a reputable international credit rating agency. For purposes of investing in a UIT Fund, a client wants an investment strategy where the primary objective is to prevent the loss of principal at all times and where the fund is invested in deposits with local banks/branches of foreign banks operating in the Philippines and with FI in any foreign country: *Provided*, That said FI has at least an

investment grade credit rating from a reputable international credit rating agency.

ii. *Moderate*. Client wants a portfolio which may provide potential returns on investment that are higher than the regular traditional deposit products and client is aware that a higher return is accompanied by a higher level of risk. Client is willing to expose the funds to a certain level of risks in consideration for higher returns.

iii. *Aggressive*. Client wants a portfolio which may provide appreciation of capital over time and client is willing to accept higher risks involving volatility of returns and even possible loss of investment in return for potential higher long-term results.

- Investment policy statement

The TE shall have in place a method by which suitability of investment is determined based on the results of the CSA and formulated via an Investment Policy Statement (IPS). It shall communicate to prospective clients the results of the assessment, recommend the investment product/portfolio/strategy, and explain the reasons why, on the basis of the given information, its recommendation is to the best interest of the client as of a defined timeframe. The TE shall make a recommendation only after having reasonably determined that the proposed investment is suitable to the client's and/or beneficiary's financial situation, investment experience, and investment objectives.

The IPS is a clear reference frame for investment decisions and must be based on the investment objectives and risk tolerance of the client. It must include, at a minimum, a description of the following:

- Investment objective;
- Investment strategy-indicating how assets will be allocated indicating the agreed portfolio mix;
- Investment performance review – indicating proposed market benchmarks, if any and the desired frequency of the performance review/reporting;

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iv. Investment limits – identifies any limitation which the client may have for the portfolio such as investment restrictions (e.g., prohibited investments) and client's consent for taking losses.

For UIT Fund, the IPS is equivalent to the investment objective of the fund specifically stated in the Declaration of Trust.

- Option of client to re- classification

Generally, the TE shall recommend the investment product/portfolio/strategy suitable to the client based on the results of the CSA. The TE may, however, provide a process for allowing clients to invest in investment products/ portfolio/strategy with a higher risk than those corresponding to the CSA profile results. A client who exercises the option to be re-classified outside the CSA process thereby waives some of the protection afforded by these guidelines. Such re-classification may be allowed subject to the observance of the following:

i. The client shall state in writing to the TE that -

- He does not agree with or accept the recommendation of the TE on the investment product/portfolio/strategy appropriate to the client's profile based on the results of the CSA;

- He would like to avail of the investment product/portfolio/strategy other than that which is consistent with the results of the CSA;

- He requests/intends to be re-classified, either generally or in respect to a particular investment/service/ transaction/ product; and

- He fully understands and is willing to take the risks incidental to the investment product/portfolio/strategy to be availed of.

ii. The TE shall issue a clear written warning to the client of the protections he may lose and conversely, of the risks that he is exposed to.

iii. The TE shall have taken all reasonable steps to ensure that the client

meets all relevant requirements as provided for in the TE's written policies.

- Frequency of CSA and IPS

i. The CSA shall be performed and the IPS shall be formulated and executed prior to the opening of the account;

ii. The TE shall update the CSA and the IPS at least every three (3) years except in the following instances;

- Whenever updates are necessitated by the client, upon notice/ advise to the TE, on account of a change in personal/financial circumstances or preferences, the TE shall adjust/modify its investment strategy/portfolio and recommendation, subject to the conformity of the client;

- Whenever managed trust, other fiduciary, and investment management accounts express intention to invest in complex investment products such as financial derivatives, the TE shall ensure that the CSA and the IPS are updated at least annually. Otherwise, the TE shall not make new/additional investments in complex investment products.

iii. The TE shall ensure that periodic written notices given to clients reminding them of such updates are received/ acknowledged by clients or their authorized representatives;

iv. Updated CSA and IPS shall be acknowledged by the client;

v. The frequency of review shall be included as a provision in the written agreement; and

vi. The latest CSA and IPS will continue to be applied for any subsequent principal contributions to the account, until these are amended or updated by the client.

b. Identification of degree of discretion granted by client to the TE. This process involves the determination of the extent of discretion granted to the TE to manage the client's portfolio.

1) Discretionary. The TE has authority or discretion to invest the funds/property

of the client in accordance with the parameters set forth by the client. Such authority of the TE which obtained a composite Trust Rating of "4" in the latest BSP examination will not be subject to the investment limitations provided under Subsecs. X409.2 and X409.3 for trust and other fiduciary accounts and Subsecs. X411.4 and X411.5 for investment management accounts, respectively; and

(2) Non-discretionary. Investment activity of the TE is directed by the client or limited only to specific securities or properties and expressly stipulated in the agreement or upon written instruction of the client.

(3) Documentation. The trust, fiduciary or investment management relationship shall be formally established through a written legal document such as the trust or investment management agreement. The engagement documents shall clearly specify the extent of fiduciary assignments/responsibilities of the TE and articulate the nature and limits of each party's status as trustor/principal or trustee/agent. Policies and procedures shall provide that trust or investment management agreements are signed by the trust officer or , subordinate officer of the trust department, or in the case of UIT Funds, branch managers/officers duly authorized by the board of directors.

The documentation process must also consider the following:

a. The Agreement must conform to the requirements provided under Subsec. X409.1 for trust and other fiduciary accounts and Subsec. X411.1 for investment management accounts. In addition, the Agreement shall contain the following provisions:

i. A description of the services to be provided;

ii. All charges relating to the services or instruments envisaged and how the charges are calculated;

iii. The obligations of the client with respect to the transactions envisaged, in particular his financial commitments towards the TE; and

iv. For engagements involving management of assets or properties, the degree of discretion granted to the trustee or agent must be clearly defined and stated in the agreement;

b. The Agreement shall be in plain language understandable by the client and/or personnel of the TE responsible for explaining the contents of the agreement to the client.

c. For complex investment products such as financial derivatives instruments or those that use synthetic investment vehicles, the TE shall disclose to the client and require client's prior written conformity to the following:

i. Key features of investment services and financial instruments envisaged, according to the nature of such instruments and services;

ii. The type(s) of instruments and transactions envisaged;

iii. The obligations of the TE with respect to the transactions envisaged, in particular, its reporting and notice obligations to the clients; and

iv. An appropriate disclosure bringing to the client's attention the risks involved in the transactions envisaged.

d. In order to give a fair and adequate description of the investment service or financial instrument, the TE shall provide a clearly stated and easily understood Risk Disclosure Statement to its clients, which forms part of or attached to the trust, fiduciary or investment management agreement. The Risk Disclosure Statement shall contain, among other things, the following provisions:

i. Cautionary statement on the general risks of investing or associated with financial instruments, i.e., if the market is not good, an investor may not be able to

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get back his principal or original investment. Such statement must be given due prominence, and not to be concealed or masked in any way by the wording, design or format of the information provided;

ii. If the investment outlet is exposed to any major or specific risks, a description and explanation of such risks shall be clearly stated; and

iii. Advisory statement that for complex investment products, said instruments can be subject to sudden and sharp falls in value such that the client may lose its/his entire investment, and, whenever applicable, be obligated to provide extra funding in case it/he is required to pay more later.

Additional risk disclosures may be provided as appropriate.

The TE must ensure that the trust, fiduciary and investment management agreements and documents have been reviewed and found to be legally in order.

**B. Account administration**

It is the fundamental duty of a fiduciary to administer an account solely in the interest of clients. The duty of loyalty is a paramount importance and underlies the entire administration of trust, other fiduciary and investment management accounts. A successful administration will meet the needs of both clients and beneficiaries in a safe and productive manner.

Account administration basically involves three processes, namely; (1) periodic review of existing accounts, (2) credit process and (3) investment process.

**(1) Periodic review of existing accounts**

The board of directors and Trust Committee shall formulate and implement a policy to ensure that a comprehensive review of trust, fiduciary and investment management accounts (including collective investment schemes such as UIT Funds) shall be conducted. The periodic review

of managed accounts shall be aligned with the provisions on the review and updating of the CSA and IPS. The board of directors may delegate the conduct of account review to the Trust Officer or Trust Department Committee created for that purpose. The policy shall likewise indicate the scope of the account review depending upon the nature and types of trust, fiduciary and investment management accounts managed.

A comprehensive accounts review, which shall entail an administrative as well as investments review, shall be performed on a periodic basis to ascertain that the account is being managed in accordance with the instrument creating the trust and other fiduciary relationship. The administrative review of an account is taken to determine whether the portfolio/assets are appropriate, individually and collectively, for the account, while an investment review is used to analyze the investment performance of an account and reaffirm or modify the pertinent investment policy statement, including asset allocation guidelines. Whether the administrative and investment review are performed separately or simultaneously, the reviewing authority shall be able to determine if certain portfolio/assets are no longer appropriate for the account, (i.e., not consistent with the requirements of the client) and to take proper action through prudent investment practices to change the structure or composition of the assets.

The periodic review process also involves disclosure of information on the investment portfolio and the relevant investing activities. Regardless of the degree of discretion granted by the client to the TE, the former assumes full risk on the investment and related activities, and counterparties. Relevant changes in the TE's organization or investment policies that may affect the client's decision to continue the services of the TE shall be disclosed to the client.

In the case of non-discretionary public interest accounts such as employee benefit/retirement or pension funds, due diligence review of the investment portfolio by the TE shall include providing investors with appropriate information needed to make an informed investment decision and avoid possible conflict of interest and self-dealing situations.

The TE should be able to show (in addition to the specific written directive from the client) what it has done in the exercise of due diligence and prudence on its part to protect the interest of the client and/or beneficiaries, especially for accounts of public interest like retirement/pension fund accounts.

The TE shall keep its clients informed of the investment and related activities by rendering periodic reports and financial statements prescribed under Subsec. X425.1 and as necessary. The types of reports and statements and the frequency of their submission must be clearly specified in the TE's written policies and procedures.

The TE shall also establish a system that enables a trust account representative or officer to periodically contact clients and/or beneficiaries to determine whether their financial objectives and circumstances have changed.

(2) Credit process

Each trust entity shall define its credit process in relation to the discharge of the TE's investment function. The process ensures credit worthiness of investment undertakings including dealings and relationship with counterparties. It also serves to institutionalize the independence of the credit process of the TE. The credit process must at least cover the following:

a. Credit policies. Trust entities must clearly define its credit policies and processes, including the use of internal and external credit rating and approval process relative to the delivery of its instrument

function. The TE can share credit information with the bank proper subject to proper delineation and documentation. The credit process shall show the following at the minimum:

- i. Clear credit process flow, from initiation of the lending activities envisioned by the TE up to the execution of actual investment;
- ii. Credit criteria and rating used;
- iii. Manner by which the TE handles the information, including confidential and material data, which is shared between and among the departments, subsidiaries or affiliates of the TE; and
- iv. Clear delineation of duties and responsibilities of each of the departments, subsidiaries and affiliates of the TE, where such groups or entities share the credit process.

b. Counterparty accreditation process. The TE must clearly define the policies and the processes it will undertake to accredit counterparties, including the bank proper, and its subsidiaries and affiliates, for their investment trading functions. It may use or avail itself of the accreditation process of its bank proper provided there is proper delineation of functions. The counterparty accreditation process shall show the following at the minimum:

- i. Clear accreditation process flow from the initiation of credit activities up to the actual usage of lines;
- ii. Credit criteria and rating used;
- iii. Manner by which the TE handles the information, including confidential and material data, which are shared between and among the departments, subsidiaries or affiliates of the TE;
- iv. Usage, duties and responsibilities of each of the department, subsidiaries and affiliates of the TE, where there is sharing of credit lines between and among these concerned groups/ entities; and
- v. Clear delineation of duties and responsibilities of each of the departments,

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subsidiaries and affiliates of the TE, where such groups or entities share the accreditation credit process.

(3) Investment process

This process defines the investment policies and procedures, including decision-making processes, undertaken by the TE in the execution of its fund/asset management function. The primary objective of such process is to create a structure that will assure TEs observe prudence in investment activities at all levels, preservation of capital, diversification, a reasonable level of risk as well as undivided loyalty to each client and adherence to established structure for the TE's investment undertakings. The investment process covers a broad range of activities; thus, the investment policies shall clearly outline the parameters that, at a minimum, include the following:

a. Overall investment philosophy, standards and practices. A general statement of principles that guides the portfolio manager in the management of investments outlined in the board-approved policy, along with a discussion on the practices and standards to be implemented to achieve the desired result.

b. Investment Policies and Processes. Defines the policies and the processes undertaken to create the portfolio to ensure the proper understanding of the client's preferences.

i. Profiling of client. Aims to understand the level of maturity of the client relevant to the creation of an appropriate portfolio.

ii. Portfolio construction for custom-made portfolios. Includes the process of researching and selecting recommended portfolio and setting objectives or strategies for diversification by types and classes of securities into general and specialized portfolios.

- Asset allocation. Outlines the process and criteria for selecting and evaluating different asset classes identified

to be appropriate for the client's profile and investment objective. It includes the allocation of desired tenors in conjunction with the client or portfolio profile based on the CSA or IPS. The asset allocation may be based on percentage to total funds managed by the TE or stated in absolute amount whichever is preferred by the client.

- Security selection. Policies and procedures on the selection of investment outlets, including investment advisory, must be in place. This involves the selection of issuers for each of the identified asset classes. The process provides for the review of investment performance using risk parameters and comparison to appropriate benchmarks. It shall also identify the documentation required for all investment decisions.

If the TE uses approved lists of investments, there shall be an outline of the criteria for the selection and monitoring of such investments, as well as a description of the overall process for addition to and deletion from the lists.

- Benchmark selection/creation. Selects or crafts the benchmarks to reflect the desired return of the portfolio and to measure the performance of the portfolio manager. The TE shall be required to measure performance based on benchmarks to gauge or measure the performance of the account. The TE must have clear definition of its benchmarking policy.

- Limits. Identifies any limitations on portfolio management which the client may impose on the TE. These limitations have to be specific as to the nature of the portfolio, such as but not limited to, core holdings, investment in competitor companies, and companies engaged in vices.

- Risk disclosure statement. A clear and appropriately worded statement/s to disclose different risks to clients of the various investment undertakings of the investment manager done in behalf of the client.

iii. Internal policies on trade allocation. Defines the institution's policies in ensuring timely, fair and equitable allocation of investments across investing portfolios.

iv. Diversification of discretionary investments. The TE shall have a policy on the general diversification requirements for asset administration, as well as the process implemented to monitor and control deviations from policy guidelines.

v. A TE shall have access to timely and competent economic analyses and forecasts for the capital markets and other products in which its clients will be investing. TEs engaged in more complex transactions may consider providing an economic and securities research unit that continually monitors global trends and capital markets. This unit provides necessary forecasts of capital market expectations, currency relationships, interest rate movements, commodity prices, and expected returns of asset classes and individual investment instruments, which help the TE establish appropriate investment policies and strategies, select appropriate investments, and manage risks effectively.

vi. The TE shall have a process that will confirm trust personnel with investment functions know and follow the BOD-approved investment policies and processes.

c. Selection and use of brokers/dealers. The quality of execution is an important determinant in broker selection. In selecting brokers/dealers, a TE must consider the following minimum standards and criteria:

i. Execution capability and ability to handle specialized transactions;

ii. Commission rates and other compensation;

iii. Financial strength, including operating results and adequacy of capital and liquidity;

iv. Past record of good and timely delivery and payment on trades;

v. Value of services provided, including research; and

vi. Available information about the broker from other broker customers, regulators, and self-regulated organizations authorized by the SEC.

The TE with large portfolio may opt to evaluate broker performance using a formalized point scoring system. A list of approved brokers shall be made available by the TE, reviewed periodically and updated at least annually.

d. Best practices. The TE shall document best practices policies and processes to institutionalize proper safeguards for the protection of its clients and itself. At a minimum, the policies must include the following standards:

i. Best execution. The TE shall use reasonable diligence to ensure that investment trades are executed in a timely manner and on the best available terms that are favorable to the client under prevailing market conditions as can be reasonably obtained elsewhere with an acceptable counterparty. For related counterparties, no purchase/sale must be made for discretionary accounts without considering at least two (2) competitive quotes from other sources. The policy on best execution must document processes to warrant such execution is readily and operationally verifiable.

ii. Chinese wall. A clear policy on Chinese Wall aims to protect the institution from conflict of interest arising from varying functions carried by the TE in relation to credit (debt), shareholder, and investment position taking. The policy shall state the duties and responsibilities of the TE and each department including that of the bank proper and subsidiaries and affiliates should transactions involve the concerned departments and entities.

iii. Personnel investment policies. These policies aim to ensure honest and fair discharge of investment trading functions of all qualified personnel.

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Qualified personnel are those that may have access to information on clients and investment position-taking of clients, investment manager or portfolios. The use of such information may be abused and detrimental to the clients. The policy shall state the duties and responsibilities of each qualified personnel in relation to trading and portfolio management activities including allowed and not allowed transactions as well as sanctions in case of violations.

iv. Confidentiality and materiality of Information. The TE must keep information about past, current and prospective clients confidential, unless disclosure is authorized in writing by the client or required by law and the information involve illegal activities perpetrated by the client. It must ensure safekeeping of confidential and material information and prevent the abuse of such information to the detriment of the institution or its clients.

v. Fair dealing. The TE shall document dealing practices to ensure fair, honest and professional practices in accordance with the best interest of the client and counterparties at all times and for the integrity of the market. It must ensure that any representations or other communications made and information provided to the client are accurate and not misleading. The TE must also take care not to discriminate against any client but treat all clients in a fair and impartial manner.

vi. Diligence and reasonable basis. In conducting its investment services, the TE shall act with skill, and care and diligence, and in the best interests of its clients and the integrity of the market. The duty of due diligence is intertwined with the duty to maintain independence and objectivity in providing investment recommendations or taking investment actions. When providing advice to a client, the TE shall act diligently and make certain that its

advice and recommendations to clients are based on thorough analysis and take into account available alternatives.

- The TE shall take all reasonable steps to execute promptly client orders in accordance with the instruction of clients.
- The TE, when acting for or with clients, shall always execute client orders on the best available terms.
- The TE shall ensure that transactions executed on behalf of clients are promptly and fairly allocated to the accounts of the clients on whose behalf the transactions were executed.

Where a client opts not to accept the recommendation of the TE and chooses to purchase another investment product which is not recommended, the TE may proceed with the client's request/instruction, provided it shall document the decision of the client and highlight to him/her that it is his/her responsibility to ensure the suitability of the product selected.

vii. In-House or related party transactions handling. The TE shall define the policies in handling related-interest transaction to ensure that the best interest of clients prevails at all times and all dealings are above board. It must conform to the requirements of Subsecs. X409.3 and X411.5.

viii. Valuation. The TE shall document the institution's valuation process to show the sources of prices, either market or historical value, and the formula used to derive the NAV of investment portfolios. Valuation shall be understood, compliant with written policies and operating procedures, and used consistently within the TE. The TE must ensure that the valuation processes of service providers, custodians, and other subcontractors are compatible with those of the TE and in compliance with relevant statutory or regulatory valuation standards.

Risk officers shall document the accuracy and reliability of all valuation processes and data sources and ensure that

valuations are completed as required by internal policies and procedures and regulatory reporting standards.

e. Conflicts of interests. These may arise when the TE exercises any discretion where mutually opposing interests are involved. The most serious conflict of interest is self-dealing, which could include transactions such as an investment in related interests of the TE or purchase of securities from or through an affiliate. Such transactions must be fully disclosed and authorized in writing by clients. Because of the complexity and sensitivity of the issue, a TE must develop policies and procedures to identify and deal with conflicts of interest situations.

### 3. Account termination

Accounts may be terminated for a variety of reasons, including the occurrence of a specified event or upon written notice of either the client or the TE. The trust or investment management agreement shall provide for the terms and manner of liquidation, return and delivery of assets/portfolio to the client. Generally, the TE's responsibilities include distribution to the client, the successor trustee and/or beneficiaries of the remaining assets held under trusteeship/agency arrangement,

preparation and filing of required reports. The TE must ensure the risk control processes are observed when terminating accounts just as when accepting them.

The TE must have a general policy with respect to the termination of trust accounts, which policy shall take into consideration the general processes to be observed in the return or delivery of different types of assets, the possible modes of distribution, fees to be paid, taxes to be imposed, the documentation required to effect the transfer of assets, the provision of terminal reports, and whenever applicable, the timing of distribution, needs and circumstances of the beneficiaries. Should the TE anticipate possible issues or problems with respect to the termination of the account, such as the liquidation of certain assets or the partition or division of assets, these issues shall be disclosed to the client for proper disposition. The policy on the termination of trust, fiduciary and investment management accounts shall likewise include the approval process to be observed for the termination of these accounts as well as the reporting requirements for accounts terminated and closed.

*(Circular No. 618 dated 20 August 2008)*

**GUIDELINES FOR DAYS DECLARED AS PUBLIC SECTOR HOLIDAYS**  
**(Appendix to Secs. X207, X256 and X601.6)**

Time of receipt of Public Holiday Announcement by the BSP	Bangko Sentral ng Pilipinas								Reserve Position	Bureau of the Treasury		PCHC	
	Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal	Auction		Sec. Mkt.	Manila	Regional	
	Overnight RP/RRP		Term RP& RRP/GS/SDA/RDA										
	Trading	Settlement	Trading	Settlement									
1. On an ordinary business day prior to the date of effectivity		Closed	Closed	Closed	Closed	Closed	Closed	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its members that it will continue accepting and processing checks	To be decided in coordination with Head Office
2. On a Saturday or Sunday to take effect the following Monday or on a non-working holiday to take effect the next business day													
a. Under good weather condition		No change in trading hours	No change in settlement time	No change in trading hours	No change in settlement time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
b. Under unfavorable conditions such as bad weather, (e.g. Typhoon signal no. 3), natural calamities or civil disturbances		Closed	Closed	Closed	Closed	Closed	Closed	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its members that it will continue accepting and processing checks	To be decided in coordination with Head Office

Time of receipt of Public Holiday Announcement by the BSP	Bangko Sentral ng Pilipinas								Reserve Position	Bureau of the Treasury		PCHC	
	Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal	Auction		Sec. Mkt.	Manila	Regional	
	Overnight RP/RRP		Term RP& RRP/GS/ SDA/RDA										
	Trading	Settlement	Trading	Settlement									
3. Before 9:00 a.m. on the date of effectivity		Closed	Closed	Closed	Closed	Closed	Closed	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its members that it will continue accepting and processing checks	To be decided in coordination with Head Office
4. After 9:00 a.m. on the date of effectivity	Day 1	Suspended to be resumed the following day at 9:01a.m. to 9:45 a.m.		No change in trading hours	No change in settlement time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
	Day 2	Resumed from 9:01 a.m. to 9:45 am (for value Day 1) then, 4:45p.m. to 5:30p.m. for same day transaction	9:01 a.m. to 10:00 a.m.  4:45p.m. to 5:45p.m.	No change in trading hours	No change in settlement time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
5. In case of suspension of work is extended to Day 2													
a. Before 9:00 a.m. of Day 2	Day 2	closed; Day 1 transactions will be moved to Day 3 ( for value Day 1)	Closed	Closed	Closed	Closed	Closed	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement PCHC will issue an advisory to its members that it will continue accepting and processing checks	To be decided in coordination with Head Office

Time of receipt of Public Holiday Announcement by the BSP	Bangko Sentral ng Pilipinas								Reserve Position	Bureau of the Treasury		PCHC	
	Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal	Auction		Sec. Mkt.	Manila	Regional	
	Overnight RP/RRP		Term RP& RRP/GS/SDA/RDA										
	Trading	Settlement	Trading	Settlement									
	Day 3	Resumed from 9:01 a.m. to 9:45 am (for value Day 1) then, 4:45p.m. to 5:30p.m. for same day transaction	9:01 a.m. to 10:00 am  4:45p.m. to 5:45p.m.	No change in trading hours	No change in settlement time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
b. After 9:00 a.m. of Day 2	Day 2	Resumed from 9:01 a.m. to 9:45 a.m. (for value Day 1) then, Day 2 transactions suspended to be resumed the following day from 9:01a.m. to 9:45 a.m.	9:01 a.m. to 10:00 a.m.  4:45p.m. to 5:45p.m.	No change in trading hours	No change in settlement time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office

Time of receipt of Public Holiday Announcement by the BSP		Bangko Sentral ng Pilipinas							Reserve Position	Bureau of the Treasury		PCHC	
		Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal		Auction	Sec. Mkt.	Manila	Regional
		Overnight RP/RRP		Term RP& RRP/GS/ SDA/RDA									
		Trading	Settlement	Trading	Settlement								
	Day 3	Resumed from 9:01 a.m. to 9:45 am (for value Day 2) then, 4:45p.m. to 5:30p.m. for same day transaction	9:01 a.m. to 10:00 a.m.  4:45p.m. to 5:45p.m.	No change in trading hours	No change in settlement time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
6. In case the suspension of work does not apply to all government offices (Manila Day, Quezon City Day, etc.)		4:45 p.m. to 5:30 p.m. for same day transaction	4:45 p.m. to 5:45 p.m.	No change in trading hours	No change in settlement time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office

(M-2008-025 dated 13 August 2008)

## **ILLUSTRATIVE ACCOUNTING ENTRIES**

*(Appendix to Section X564)*

*(Superseded by Circular No. 691 dated 23 June 2010)*

**GUIDELINES ON THE AVAILMENT OF US DOLLAR DENOMINATED  
REPURCHASE AGREEMENT FACILITY WITH THE BANGKO SENTRAL  
(Appendix to Subsec. X601.1)**

The guidelines on the availment of USD denominated repo agreement facility of banks with the BSP are as follows:

A. Eligible borrowers

RBU's or FCDO/EFCDU's of banks with FCDO/EFCDU authority who can demonstrate legitimate funding needs can avail of this facility.

B. Qualifying purposes

Proceeds from the borrowings shall be used for legitimate liquidity requirements of FCDO/EFCDU or RBU for local operations as follows:

1. Compliance with FCDO/EFCDU cover requirements;
2. Servicing of withdrawals of FCDO/EFCDU; and
3. Servicing trade-related requirements.

Borrowing shall be for the account of the applicant bank and shall not be used to fund liquidity requirements of foreign head office, foreign branches, affiliates, or subsidiaries

C. Acceptable collateral

Eligible securities shall cover USD-denominated evidences of indebtedness issued directly by the Government of the Philippines (ROP Bonds) held by the applicant bank. These can be lodged in FCDO/EFCDU's or RBU's Available-for-Sale, HFT and HTM portfolios.

ROP Bonds to be pledged have to be transferred/credited to BSP's designated securities account before availment of the USD repo agreement facility.

The tenor of the underlying security should not be shorter than the overlying instrument.

D. Valuation of securities

The haircut on the underlying securities shall be determined by the Treasury Department, with the concurrence of the Governor. Collateral cover will be maintained through periodic margin calls as specified in the repo agreement.

Said valuation will be subject to periodic review and will be modified when necessary.

E. Available credit line

Credit lines shall be based on outstanding USD-denominated evidences of indebtedness issued directly by the Government of the Philippines (ROP Bonds) held by the applicant bank as of 30 September 2008.

F. Rate, term and trading time

The rates of the USD denominated repo agreement facility shall be set by the Treasury Department, with the concurrence of the Governor, taking into account prevailing liquidity/market conditions.

The term of the USD denominated repo agreement facility shall be set by the Treasury Department, with the concurrence of the Governor: *Provided*, That, should a bank become disqualified for the repo agreement facility, the outstanding repo agreement shall immediately become due and payable.

Trading time for the USD repo agreement transactions shall be set from 10:00 AM to 12 Noon, then from 1:00 PM to 2:00 PM.

G. Application requirements

Applicant bank shall submit the following information/documents, and

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such other documents as may be deemed necessary, to the Treasury Department, copy furnished the appropriate CPCD and SES, to aid BSP evaluate applications:

1. Application for availment of the facility stating therein the amount, requested term, specific purpose of the borrowing, including disclosure of the specific collateral, including source, i.e. RBU or FCDU/EFCDU;

2. Notarized undertaking/certification signed by the bank's president or country manager (in the case of local branch of a foreign bank), compliance officer and head of treasury, indicating the following:

(a) Specific purpose of fund utilization;

(b) Proceeds of borrowing shall be used exclusively to fund liquidity requirements of FCDU/EFCDU or RBU local operations;

(c) That the Bank is not a conduit for another bank nor will the Bank take arbitrage positions on the availment of the repo agreement facility.

**H. Reportorial requirements**

Banks with outstanding USD denominated repo agreement with the BSP are required to submit to the appropriate CPCD of the SES the following:

1. Report on the deployment/utilization of USD repo borrowing and other documents and supplemental information, as may be required, to enable BSP to assess the legitimacy of the utilization of such funds, within three (3) banking days from release of the proceeds of the repo agreement; and

2. All documents and records relative to the Bank's availment and use of proceeds of the USD denominated repo agreement facility shall be made available to the BSP upon request.

**I. Pre-termination**

1. The repo agreement may be paid at any time before maturity, subject to mutual agreement of both parties.

2. The BSP may unilaterally pre-terminate the borrowing arrangements under the following conditions:

(a) Funds are found to have been used for ineligible purposes

(b) Collateral margins, if any, are not met.

**J. Documentation**

The repo agreement between the bank and the BSP shall be covered by a master repo agreement, repo agreement confirmation and such other documentation as may be necessary to facilitate the transaction.

**K. Accounting treatment**

The USD denominated repo agreement facility shall be treated as collateralized borrowings from the BSP and shall be accounted for in accordance with the FRP issued under Subsection X161.3.

Eligible securities booked under the HTM category shall be subject to the tainting provision provided under Subsection X388.5 upon default/non-payment of the amount due three (3) banking days after the maturity of the repo agreement or disqualification of borrowers.

**L. Penalty clauses**

Violations of the terms and conditions of the USD repo agreement facility are governed by sanctions provided under X601.2, including but not limited, to termination of eligibility and pre-termination of any outstanding balance through repayment and/or sale of the collateral.

*(M-2008-031 dated 23 October 2008 as amended/superseded by M-2008-034 dated 12 November 2008)*

**GUIDELINES ON THE SUBMISSION OF APPLICATION FOR  
MERGER AND CONSOLIDATION**  
*[Appendix to Subsec. X108.1(2008-X111.1)]*

The following guidelines and procedures shall be observed by banks in their application for merger/consolidation:

1. The merging/consolidating entities shall comply with the safety and soundness test requirements as follows:

a. Compliance, especially by the acquiring bank, with major banking laws and regulations; and

b. Submission to the BSP of a satisfactory action plan, if applicable, to address serious supervisory concerns.

2. Submission of the following documentary requirements simultaneously to the BSP and the PDIC for merger/consolidation application involving a bank; and to the BSP for application involving only banks;

a. Articles of Merger or Consolidation duly signed by the President or Vice-President and certified by the secretary or assistant secretary of each of the constituent institutions setting forth the following as required in Section 78 of the Corporation Code:

- The Plan of Merger or Consolidation;

- The number of shares outstanding; and

- The number of shares voting for and against the Plan, respectively.

b. Plan of Merger or Consolidation setting forth the following:

- The names of the constituent institutions;

- The terms of the merger or consolidation and the mode of carrying the same into effect;

- A statement of the changes, if any, in the Articles of Incorporation of the surviving institution in the case of merger; and in the case

- Of consolidation, all the statements required to be set forth in the Articles of Incorporation;

- Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or desirable.

c. Resolution of the Board of Directors of the respective institutions approving the Plan of Merger or Consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

d. Resolution of the meeting of the stockholders in which at least two-thirds (2/3) of the outstanding capital stock of each corporation have approved the plan of merger or consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

e. Financial Statements:

- Latest financial statements and three (3) - year audited financial statements of the merging institutions

- Three (3) - year financial projections with valid assumptions of the merged or consolidated institutions' balance sheet and income statement.

f. List of merger incentives the bank will avail of;

g. List of stockholdings of each of the constituent institutions before and after the merger;

h. List of directors and officers of each of the merging/consolidating institutions;

i. List of proposed officers and directors of the merged or consolidated institution and the summary of their qualifications;

j. Organizational chart of the merged or consolidated institution including the number of offices and locations thereof;

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k. Inter-company transactions relative to the submitted Financial Statements;

l. Computation of Capital Adequacy Ratio on the submitted financial Statements;

m. Viable Operational Plan with the following components:

- Marketing Strategies
- Proposed Loan Portfolio Diversification
- Deposit Generation
- Proposed Improvements in Accounting System
- Operational Control
- Computerization Plan
- Communication System

n. The appraiser's report of reappraisal of bank premises, if any, done by an independent and licensed appraiser;

o. Proposed increase of capital stock of surviving bank;

p. Proposed amendments in the Articles of Incorporation of surviving bank;

q. Director's Certificate (surviving bank) on the proposed amendment of the Articles of Incorporation increasing the authorized capital stock; and

r. Any other reasonable requirement deemed material in the proper evaluation of the merger or consolidation as may subsequently be requested by the BSP and/or PDIC.

3. For merger/consolidation involving a bank, the BSP shall wait for PDIC consent before elevating the proposed merger/consolidation to the Monetary Board for approval; and

4. The authority given to merge/consolidate the constituent entities shall be valid within six (6) months reckoned after BSP approval.

*(M-2009-028 dated 12 August 2009)*

**GUIDELINES ON THE COLLECTION OF THE ANNUAL SUPERVISORY FEES FOR THE YEAR 2010**

***Appendix to Subsec. X901.1 (2008 -X608.1)***

The following guidelines shall govern the collection by the BSP and the payment by banks of the 2010 Annual Supervisory Fees (ASF).

1. Notification of amount due for 2010 ASF and mode of payment. The BSP Supervisory Data Center (SDC) shall send a billing notice in June 2010 to the bank for its ASF payment indicating, among others, the computation of the ASF due, including the 2% creditable withholding tax (CWT) thereon, if applicable, the period covered by the ASF and the specific date when the ASF will be debited from the bank's demand deposit account (DDA) with the BSP.

The BSP will not accept checks as mode of ASF payment. Banks, upon receipt of the ASF billing notice from the BSP, should maintain adequate balance in their DDA to cover the ASF and other daily obligations and, when necessary, make corresponding deposits to fully cover said obligations. In case of deficiency, the provisions on DDA deficiency in Subsec. X901.1, as amended, shall apply.

2. Exceptions noted on billing notice of 2010 ASF. Upon receipt of the BSP Notice of ASF billing, a bank is encouraged to check the accuracy of the billing and to submit any of the noted exceptions therein not later than ten (10) days before the specified date of collection/debit to DDA as indicated in the billing notice. The said exceptions, together with supporting documents, shall be submitted to:

The Director  
Supervisory Data Center (SDC)  
Bangko Sentral Ng Pilipinas  
16th Floor, Multi-Storey Building  
BSP Complex, A. Mabini Street  
Malate, Manila 1004

Any exceptions received after the cut-off date or any exception not duly substantiated with documents before the cut-off date will be evaluated and considered in the computation of the ASF for the immediate succeeding year.

3. Withholding tax on 2010 supervisory fees. The following shall apply to banks covered by Sections M and N of BIR Revenue Regulations (R.R.) No. 2-98 as amended by R.R. No. 17-2003:

a. Within ten (10) days from 31 May 2010, the bank shall submit to the BSP (at the address indicated in Item "2" hereof) a certified true copy of the BIR notice classifying it as among the institutions covered under Section M of R.R. No. 2-98 as amended by R.R. No. 17-2003. Such BIR notice received by the BSP after said cut-off of ten (10) days will be considered in the ASF computation of the next year. The submission of such BIR notice will no longer be necessary if previously transmitted and received by the BSP in compliance with Section 3.1 of the BSP Memorandum Nos. 2009-0046 dated 17 November 2009.

b. The ASF, net of the two percent (2%) CWT, shall be debited from the DDA on the specified date referred to in the notice of ASF billing under Item "1".

c. The following timelines shall be observed on the submission of annual withholding tax documents to BSP at the address indicated in Item "2" hereof:

Tax Documents	Due Date
1. Original copy of BIR Form No. 2307 - Certificate of Creditable Tax Withheld at Source	On or before 31 December 2010

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Tax Documents	Due Date
2. Original Duplicate Copy of BIR Form No. 1601E - Monthly Remittance Return of Creditable Income Taxes Withheld (Expanded), duly received by BIR, If manually filed, or duly supported with BIR confirmation notice/ advice, if electronically filed	On or before 31 December 2010
3. Certified true copy of BIR official receipt/payment confirmation receipt	On or before 31 December 2010

d. Considering that the withholding tax documents enumerated in Item "c" will be used to avail the tax credits for filing

the annual income tax return of the BSP, the failure to submit all of the enumerated documents within the stated deadline will compel the BSP to immediately debit an amount equivalent to the 2% CWT from the DDA of banks concerned, with no obligation on the part of the BSP to reimburse said amount in case of late submission. In case of DDA deficiency, the provisions in Subsec. X901.1, as amended, shall apply.

The above guidelines on withholding tax shall be strictly enforced pending resolution of the tax treatment on the ASF being assessed by the BSP.

*(M-2009-004 dated 12 February 2009, as amended by M-2010-013 dated 31 May 2010, M-2009-046 dated 17 November 2009)*

**REGULATORY RELIEF FOR BANKS AFFECTED BY CALAMITIES**  
(Footnote to Secs. X257, X302, X306, X338, Subsec. X192.2, X269.6, X269.8 and App. 18)

The Monetary Board approved the grant of temporary regulatory relief to banks with head offices and branches located in the areas which were devastated by the following tropical storms:

A. ONDOY

1. The following areas were declared under State of Calamity by the National Disaster Coordinating Council (NDCC) in view of Ondoy's extensive effects:

- a. The whole of National Capital Region (NCR);
- b. Cordillera Administrative Region: Mt. Province, Ifugao and Benguet;
- c. Region I: Pangasinan, La Union and Ilocos Sur;
- d. Region II: Isabela, Quirino and Nueva Vizcaya;
- e. Region III: Aurora, Nueva Ecija, Zambales, Pampanga, Bulacan, Tarlac and Bataan;
- f. Region IV-A: Cavite, Laguna, Batangas, Rizal and Quezon;
- g. Region IV-B: Mindoro (Occidental and Oriental) and Marinduque; and
- h. Region V: Catanduanes, Camarines Norte and Camarines Sur.

2. The temporary relief shall be in the form of the following whenever applicable:

For UBs/KBs

a. During a temporary grace period for payment or upon their restructuring and subject to reporting to the BSP, exclusion of the loans of borrowers in affected areas, which should have been reclassified as past due loans under Sec. X306 on 26 September 2009 and those maturing up to 31 December 2010, from computation of past due loan ratio: *Provided*, That BSP documentary requirements for restructuring

of loans for this purpose are waived: *Provided further*, That bank will adopt appropriate and prudent operational controls;

b. Reduction of the five percent (5%) general loan loss provision to one percent (1%) for restructured loans to borrowers in affected areas from 26 September 2009 to 31 December 2010;

c. Non-imposition of monetary penalties for delays in the submission of all supervisory reports due to be submitted from 30 September 2009 to 30 November 2009; and

d. Allowing banks to provide financial assistance to their officers and employees who were affected by the calamity even if not within the scope of the existing BSP-approved Fringe Benefit Program (FBP) subject to subsequent submission of request for approval of the amendment to FBP to the appropriate department of the SES for regularization.

For RBs/TBs/Coop Banks

a. During a temporary grace period for payment or upon their restructuring and subject to reporting to the BSP, exclusion of the loans of borrowers in affected areas, which should have been reclassified as past due loans under Sec. X306 on 26 September 2009 and those maturing up to 31 December 2010, from computation of past due loan ratio: *Provided*, That BSP documentary requirements for restructuring of loans for this purpose are waived: *Provided further*, That bank will adopt appropriate and prudent operational controls;

b. Reduction of the five percent (5%) general loan loss provision to one percent (1%) for restructured loans to borrowers in affected areas from 26 September 2009 to 31 December 2010;

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c. Non-imposition of penalties on legal reserve deficiencies of RBs/TBs/Coop Banks with head office and/or branches in the affected areas incurred starting from reserve weeks ended 01 October 2009 to 01 April 2010 provided these reserve deficiencies can be shown to be calamity related rather than due to pre-existing condition;

d. Moratorium without penalty on monthly payments due to the BSP until 31 March 2010 for banks with ongoing rehabilitation programs upon filing of application for extension/rescheduling;

e. For all types of credits extended to individuals and businesses directly affected by the calamity, allowing, subject to BSP prior approval, the booking of allowances for probable losses on a staggered basis over a maximum period of five (5) years on loans outstanding as of 26 September 2009;

f. Non-imposition of monetary penalties for delays in the submission of all supervisory reports due to be submitted from 30 September 2009 to 31 March 2010; and

g. Allowing banks to provide financial assistance to their officers and employees who were affected by the calamity even if not within the scope of the existing BSP-approved Fringe Benefit Program (FBP) subject to subsequent submission of request for approval of the amendment to FBP to the appropriate department of the SES for regularization.

**For All Rediscounting Banks**

a. Upon application, granting of a sixty (60)-day grace period to settle the outstanding rediscounting obligations as of 28 September 2009 with the BSP of all rediscounting banks with head office, or with branches or with end-user borrowers in the affected areas except those with serious violations of findings with the SES; and

b. In addition to above, allow the rediscounting banks to restructure with the BSP, on a case-to-case basis the outstanding rediscounted loans of their end-user

borrowers affected by the calamity, subject to the terms and conditions stated in the implementing guidelines provided in *Annex A*.

**B. PEPENG**

1. The following areas were declared under State of Calamity by President Gloria Macapagal Arroyo on 02 October 2009 in view of Pepeng's extensive effects:

a. Region I: La Union, Pangasinan, Ilocos Norte and Ilocos Sur;

b. Region II: Isabela, Quirino, Cagayan and Nueva Viscaya;

c. Region III: Aurora, Bulacan, Pampanga, Zambales, Nueva Ecija and Tarlac;

d. Region IV-A: Quezon and Rizal;

e. Region V: Albay, Camarines Sur, Catanduanes and Sorsogon;

f. Region VI: Negros Occidental;

g. Cordillera Administrative Region: Apayao, Mt. Province, Kalinga, Benguet, Abra, Ifugao and La Trinidad; and

h. The National Capital Region (NCR).

2. The temporary relief shall be in the form of the following whenever applicable:

**For RBs/TBs/Coop Banks**

a. During a temporary grace period for payment or upon their restructuring and subject to reporting to BSP, exclusion of the loans of borrowers in affected areas, which should have been reclassified as past due loans under Sec. X306 on 03 October 2009 and those maturing up to 31 December 2010, from computation of past due loan ratio: *Provided*, That BSP documentary requirements for restructuring of loans for this purpose are waived: *Provided, further*, That bank will adopt appropriate and prudent operational controls;

b. Reduction of the five percent (5%) general loan loss provision to one percent (1%) for restructured loans to borrowers in

affected areas from 03 October 2009 to 31 December 2010;

c. Non-imposition of penalties on legal reserve deficiencies of RBs/TBs/Coop Banks with head office and/or branches in the affected areas incurred starting from reserve weeks ended 08 October 2009 to 01 April 2010, provided, these reserve deficiencies can be shown to be calamity related rather than due to pre-existing condition;

d. Moratorium without penalty on monthly payments due to the BSP until 31 March 2010 for banks with ongoing rehabilitation programs upon filing of application for extension/rescheduling;

e. For all types of credits extended to individuals and businesses directly affected by the calamity, allowing, subject to BSP prior approval, the booking of allowances for probable losses on a staggered basis over a maximum period of five (5) years on loans outstanding as of 03 October 2009;

f. Non-imposition of monetary penalties for delays in the submission of all supervisory reports due to be submitted from 31 October 2009 to 31 March 2010; and

g. Allowing banks to provide financial assistance to their officers and employees who were affected by the calamity even if not within the scope of the existing BSP-approved Fringe Benefit Program (FBP) subject to subsequent submission of request for approval of the amendment to FBP to the appropriate department of the SES for regularization.

#### For All Rediscounting Banks

a. Upon application, granting of a sixty (60)-day grace period to settle the outstanding rediscounting obligations as of 28 September 2009 with the BSP of all rediscounting banks with head office, or with branches or with end-user borrowers in the affected areas except those with serious violations of findings with the SES; and

b. In addition to above, allow the rediscounting banks to restructure with the BSP, on a case-to-case basis the outstanding rediscounted loans of their end-user borrowers affected by the calamity, subject to the terms and conditions stated in the implementing guidelines provided in *Annex B*.

#### C. EL NINO (2009)

The Monetary Board approved to grant temporary regulatory and rediscounting relief to RBs and Coop Banks located in:

a. Areas adversely affected by El Nino phenomenon based on the latest update of the National Disaster Coordinating Council (NDCC) dated 19 March 2010 in view of its extensive effects, as follows:

Region I: La Union, Pangasinan, Ilocos Norte, and Ilocos Sur

Region II: Cagayan, Isabela, Nueva Vizcaya, and Quirino

Region III: Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac, and Zambales

Region IV-A: Cavite, Laguna, Batangas, Rizal, and Quezon

Region V: Albay [six (6) municipalities and two (2) cities], Camarines Sur [eighteen (18) municipalities and two (2) cities], Camarines Norte [nine (9) municipalities], Sorsogon [one (1) municipality], Catanduanes [six (6) municipalities], and Masbate [fourteen (14) municipalities and one (1) city]

Region VI: Antique, Guimaras, Iloilo, Negros Occidental and Capiz

Region VII: twenty eight (28) mountain barangays in Cebu City, and Negros Oriental

Region IX: Zamboanga del Norte, Zamboanga Sibugay, and Zamboanga City

Region X: Lanao del Sur, Lanao del Norte, Bukidnon, Misamis Occidental, and Misamis Oriental

Region XI: Davao del Sur, Davao del Norte, and Davao City

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Region XII: Cotabato Province, Sultan Kudarat, Sarangani, South Cotabato, and Maguindanao Province [seventy five (75) municipalities]

Cordillera: Ifugao, Kalinga, Apayao, Mt. Province and Abra; and

Administrative Region

b. such other areas may be subsequently added by NDCC to the list contained in aforementioned update. RBs and Coop Banks in the additional affected areas shall be automatically eligible for the temporary regulatory and rediscounting relief.

The temporary relief to RBs and Coop Banks shall be in the following form whenever applicable:

i. During a temporary grace period for payment or upon their restructuring (including second restructuring) and subject to reporting to the BSP, exclusion of the loans of the affected borrowers of RBs and Coop Banks in abovementioned areas, which should have been reclassified as past due loans (PDLs) under Sec. X306 on 01 March 2010 and those maturing up to 30 April 2011, from computation of PDL ratio;

ii. Reduction of the five percent (5%) general loan loss provision to one percent (1%) for restructured loans to borrowers of RBs and Coop Banks in affected areas from 01 March 2010 to 30 April 2011;

iii. Non-imposition of penalties on legal reserve deficiencies of RBs and Coop Banks in the affected areas incurred or that maybe incurred starting from reserve weeks ended 04 March 2010 to 30 September 2010 provided these reserve deficiencies can be shown to be calamity related rather than due to pre-existing condition; and

iv. For all types of credits extended to individuals and businesses directly affected by the calamity, allowing, subject to BSP prior approval, the booking of allowances for probable losses on a staggered basis over

a maximum period of five (5) years reckoned from the dated of this approval (08 April 2010) on loans outstanding as of 31 March 2010.

For All Rediscounting Banks

i. Upon application, granting of a sixty (60)-day grace period to settle the outstanding rediscounting obligations as of 15 March 2010 with the BSP except those with serious violations of findings with the SES;

ii. Allow the rediscounting banks to restructure with the BSP, on a case-to-case basis the outstanding rediscounted loans of their end-user borrowers affected by the calamity, subject to the terms and conditions in the implementing guidelines attached as *Annex A* hereof.

iii. Allow the affected RBs and Coop Banks up to 31 May 2010 to apply for a special rediscounting line and up to 31 December 2010 to avail themselves of such line. Loans availed by affected RBs and Coop Banks under the special rediscounting lines are subject to renewal based on the original term of the loans but not to exceed five (5) years; and

iv. Allow the use of the unavailed portion of P5 billion budget exclusively for the restructuring of rediscounting obligations of banks and new availments of banks intended as rediscounting relief for bank customers adversely affected by Typhoons "Ondoy" and "Pepeng"

D. JUAN

1. The following areas identified by the report of the National Disaster Risk Reduction and Management Council were devastated by typhoon "Juan":

a. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan;

b. Region II: Cagayan, Isabela Nueva Vizcaya, and Quirino

c. Region III: Aurora, Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales

- d. Region IV –A: Cavite and Rizal
- e. Cordillera Administrative Region: Abra, Apayao, Benguet, Ifugao, Kalinga and Mt. Province; and
- f. National Capital Region: Manila

2. The temporary relief shall be in the form of the following whenever applicable:

For TBs/RBs/Coop Banks

- a. During a temporary grace period for payment or upon their restructuring and subject to reporting to BSP, exclusion of the loans of borrowers in affected areas, which should have been reclassified as past due loans under Section X306 on 18 October 2010 and those becoming past due up to 31 December 2011, from computation of past due loan ratio: *Provided*, That BSP documentary requirements for restructuring of loans for this purpose are waived: *Provided, further*, That bank will adopt appropriate and prudent operational controls;
- b. Reduction of the five percent (5%) general loan loss provision to one percent (1%) for restructured loans to borrowers in affected areas from 18 October 2010 to 31 December 2011;
- c. Non-imposition of penalties on legal reserve deficiencies of RBs/TBs/Coop Banks with head office and/or branches in the affected areas incurred starting from reserve weeks ended 21 October 2010 to 21 April 2011 provided these reserve deficiencies can be shown to be calamity related rather than due to pre-existing condition;
- d. Moratorium without penalty on monthly payments due to the BSP until 30 April 2011 for banks with ongoing rehabilitation programs upon filing of application for extension/rescheduling;

e. For all types of credits extended to individuals and businesses directly affected by the calamity, allowing subject to BSP prior approval, the booking allowances for probable losses on a staggered basis over a maximum period of five (5) years on loans outstanding as of 18 October 2010;

f. Non-imposition of monetary penalties for delays in the submission of all supervisory reports due to be submitted from 18 October 2010 to 30 April 2011; and

g. Allowing banks to provide financial assistance to their officers and employees who were affected by the calamity even if not within the scope of the existing BSP-approved Fringe Benefit Plan (FBP) subject to subsequent submission of request for approval of the amendment to FBP to the appropriate department of the SES for regularization.

For All Rediscounting Banks

a. Upon application, granting of a sixty (60)-day grace period to settle the outstanding rediscounting obligations as of 20 October 2010 with the BSP of all rediscounting banks with head office, or with branches or with end-user borrowers in the affected areas except those with serious violations or findings with the SES; and

b. In addition to above, allow the rediscounting banks to restructure with the BSP, on a case to case basis the outstanding rediscounted loans of their end-user borrowers affected by the calamity, subject to the terms and conditions stated in the implementing guidelines provided in Annex "C".

*(M-2009-036 dated 07 October 2009, as amended by M-2010-039 dated 03 November 2010, M-2010-007 dated 23 April 2010, M-2009-037 dated 08 October 2009 and M-2009-038 dated 08 October 2009, as amended by M-2009-040 dated 30 October 2009)*

**IMPLEMENTING GUIDELINES ON THE RESTRUCTURING SCHEME COVERING THE REDISCOUNTING OBLIGATIONS WITH THE BANGKO SENTRAL OF REDISCOUNTING BANKS IN THE AREAS AFFECTED BY TYPHOON "ONDOY"**  
(Footnote to Secs. X257, X302, X306, X338, Subsecs. X192.2, X269.6, X269.8 and App. 18)

**I. Objectives**

The objectives of the loan settlement scheme are as follows:

- a. To support the recovery efforts of rediscounting banks in the areas affected by typhoon "Ondoy";
- b. To enable the rediscounting banks to liquidate their loan obligations with the BSP by way of restructuring; and
- c. To ensure the collection of the rediscounted loans which may become past due in view of the damage caused by the typhoon, and maintain if not improve the quality of the loan portfolio of the BSP.

**II. Qualified banks**

- a. All rediscounting banks with end-user borrowers located in the areas declared as "under state of natural calamity" by the NDCC (see Item "A.1" of Appendix 89);
- b. Rediscounting banks with serious violations or findings with the SES, and/or which are currently under investigation or subject to legal action by the Office of Special Investigation shall not be qualified to avail of the restructuring scheme.
- c. In addition to Item No. "II.b", the DLC shall evaluate each bank to determine if each would qualify for the restructuring.

**III. Terms and conditions**

- a. Maturity  
The restructured loan shall have a maximum term of five (5) years;
- b. Amount to be restructured  
The amount to be restructured shall be equivalent to the following:
  - (1) *Principal*. Unpaid outstanding balance of the principal obligation in books of account of the BSP; and

- (2) *Accrued interest*. Unpaid interest due on the outstanding principal obligation as of the end of the applicable repayment or amortization date, preceding the approval of the loan restructuring.

c. Interest rate

The interest rate to be charged against the outstanding principal balance of the restructured loan shall be based on prevailing rediscount rate. The interest shall be re-priced annually.

d. Maximum bank lending rate

The restructured interest rate of the bank to its end-user borrowers shall not exceed six percent (6%) over and above the applicable BSP interest rate. Moreover, the bank shall not charge interest on accrued interest.

e. Terms of repayment

- (1) Settlement Value. The settlement value shall be paid by the bank in equal monthly amortizations: *Provided*, That the amortization period shall not exceed five (5) years, to wit:

- (a) *Principal*. The principal obligation shall be paid in equal monthly amortization plus the applicable rediscount rate; and

- (b) *Accrued interest*. The accrued interest on the principal obligation as of the end of the month immediately preceding the approval of the loan settlement scheme shall likewise be paid in equal monthly amortizations. No interest shall be charged on the accrued interest.

- (2) Grace Period. The bank shall be given a grace period of six (6) months within which to pay the first amortization.

- f. Collaterals. The following shall be collaterals acceptable:

(1) Restructured promissory notes of end-user borrowers;

(2) Hard collaterals owned by the bank such as bank premises and government securities; and

(3) Other collaterals acceptable to the DLC.

**g. Default cause**

(1) Failure to pay two (2) or more amortizations shall be considered an event of default and shall render the unpaid balance of the loan, plus accrued interest and penalty charges due thereon, immediately due and demandable;

(2) A penalty charge of twelve percent (12%) per annum shall be assessed on the defaulted amortization payment, reckoned from the amortization due date to date of payment; and

(3) The DLC may exercise the option to refer to the Office of Special Investigation or to an external lawyer for appropriate legal action, without further need for demand or notice to the defaulting bank.

**h. Required documents.** Qualified banks shall submit the following documents:

(1) Letter of Understanding (LOU), agreeing to the terms and conditions of the restructuring. The LOU shall be executed by the senior officers of the bank, duly designated by its board of directors; and

(2) Surety Agreement, if there is collateral deficiency.

**IV. Application procedures**

**a. Filing of application**

The bank shall file with the DLC an application for restructuring of its outstanding rediscounting loans, supported by the following documents:

(1) Resolution of the board of directors  
(a) authorizing the bank to enter into a loan settlement arrangement with the BSP, and  
(b) designating authorized senior officers therefor;

(2) The restructured promissory notes of the end-user borrowers and other supporting documents; and

(3) Promissory Note with Trust Receipt Agreement and Deed of Assignment executed by the authorized senior officers of the bank, duly notarized.

**b. Notice of approval of application**

The DLC shall notify the bank of the approval of its application to avail of the loan settlement scheme. Upon receipt of said advice, the bank shall:

(1) Execute the applicable document under Item No. "IV.a"; and

(2) Pay the required amortization immediately on the month following the date of approval of the loan restructuring scheme and monthly thereafter until fully paid.

**V. Authorized signatories of the Bangko Sentral**

Transaction	Authorized BSP Officer
Approval of the application to avail of the loan restructuring scheme	Director, DLC, or in her absence, any of the DLC Deputy Directors
Approval to release the collateral documents	Director, DLC, or in her absence, any of the DLC Deputy Directors
Execution of Cancellation of Deeds of Real Estate Mortgage Assignment or Pledge	Deputy Governor, Monetary Stability Sector

**VI. Other provisions**

**a. Value-Date of the Settlement Scheme**

The value-date of the settlement value shall be the end of the month immediately preceding the date of approval of the loan restructuring.

**b. Effectivity date**

The loan settlement scheme shall be made available up to 31 March 2010 only.

*(M-2009-036 dated 07 October 2009, as amended by M-2009-037 dated by 08 October 2009)*

**IMPLEMENTING GUIDELINES ON THE RESTRUCTURING SCHEME COVERING THE REDISCOUNTING OBLIGATIONS WITH THE BANGKO SENTRAL OF REDISCOUNTING BANKS IN THE AREAS AFFECTED BY TYPHOON "PEPENG"**  
(Footnote to Secs. X257, X302, X306, X338, Subsec. X192.2, X269.6, X269.8 and App. 18)

**I. Objectives**

The objectives of the loan settlement scheme are as follows:

- a. To support the recovery efforts of rediscounting banks in the areas affected by typhoon "Pepeng";
- b. To enable the rediscounting banks to liquidate their loan obligations with the BSP by way of restructuring; and
- c. To ensure the collection of the rediscounted loans which may become past due in view of the damage caused by the typhoon, and maintain if not improve the quality of the loan portfolio of the BSP.

**II. Qualified banks**

- a. All rediscounting banks with end-user borrowers located in the areas declared as "under state of natural calamity" by the NDCC/President of the Philippines (see Item "B.1" of Appendix 89);
- b. Rediscounting banks with serious violations or findings with the SES, and/or which are currently under investigation or subject to legal action by the Office of Special Investigation shall not be qualified to avail of the restructuring scheme.
- c. In addition to Item No. "II.b", the DLC shall evaluate each bank to determine if each would qualify for the restructuring.

**III. Terms and conditions**

- a. Maturity  
The restructured loan shall have a maximum term of five (5) years.
- b. Amount to be restructured  
The amount to be restructured shall be equivalent to the following:

(1) *Principal*. Unpaid outstanding balance of the principal obligation in books of account of the BSP; and

(2) *Accrued Interest*. Unpaid interest due on the outstanding principal obligation as of the end of the applicable repayment or amortization date, preceding the approval of the loan restructuring.

c. Interest rate

The interest rate to be charged against the outstanding principal balance of the restructured loan shall be based on prevailing rediscount rate. The interest shall be re-priced annually.

d. Maximum bank lending rate

The restructured interest rate of the bank to its end-user borrowers shall not exceed six percent (6%) over and above the applicable BSP interest rate. Moreover, the bank shall not charge interest on accrued interest.

e. Terms of repayment

(1) Settlement Value. The settlement value shall be paid by the bank in equal monthly amortizations: *Provided*, That the amortization period shall not exceed five (5) years, to wit:

(a) *Principal*. The principal obligation shall be paid in equal monthly amortization plus the applicable rediscount rate; and

(b) *Accrued interest*. The accrued interest on the principal obligation as of the end of the month immediately preceding the approval of the loan settlement scheme shall likewise be paid in equal monthly amortizations. No interest shall be charged on the accrued interest.

(2) Grace Period. The bank shall be given a grace period of six (6) months within which to pay for the first amortization.

f. Collaterals

The following shall be the collaterals acceptable:

- (1) Restructured promissory notes of end-user borrowers;
- (2) Hard collaterals owned by the bank such as bank premises and government securities; and
- (3) Other collaterals acceptable to the DLC.

g. Default cause

(1) Failure to pay two (2) or more amortizations shall be considered an event of default and shall render the unpaid balance of the loan, plus accrued interest and penalty charges due thereon, immediately due and demandable;

(2) A penalty charge of twelve percent (12%) per annum shall be assessed on the defaulted amortization payment, reckoned from the amortization due date to date of payment; and

(3) The DLC may exercise the option to refer to the Office of Special Investigation or to an external lawyer for appropriate legal action, without further need for demand or notice to defaulting bank.

h. Required documents

Qualified banks shall submit the following documents:

(1) Letter of Understanding (LOU), agreeing to the terms and conditions of the restructuring. The LOU shall be executed by the senior officers of the bank, duly designated by its board of directors; and

(2) Surety Agreement, if there is collateral deficiency.

**IV. Application procedures**

a. Filing of application

The bank shall file with the DLC an application for restructuring of its outstanding rediscounting loans, supported by the following documents:

- (1) Resolution of the board of directors (a) authorizing the bank to enter into a loan settlement arrangement with the BSP, and

(b) designating authorized senior officers therefor;

(2) The restructured promissory notes of the end-user borrowers and other supporting documents; and

(3) Promissory Note with Trust Receipt Agreement and Deed of Assignment executed by the authorized senior officers of the bank, duly notarized.

b. Notice of approval of application

The DLC shall notify the bank of the approval of its application to avail of the loan settlement scheme. Upon receipt of said advice, the bank shall:

(1) Execute the applicable document under Item No. "IV.a"; and

(2) Pay the required amortization immediately on the month following the date of approval of the loan restructuring scheme and monthly thereafter until fully paid.

**V. Authorized signatories of the Bangko Sentral**

Transaction	Authorized BSP Officer
Approval of the application to avail of the loan restructuring scheme	Director, DLC, or in her absence, any of the DLC Deputy Directors
Approval to release the collateral documents	Director, DLC, or in her absence, any of the DLC Deputy Directors
Execution of Cancellation of Deeds of Real Estate Mortgage Assignment or Pledge	Deputy Governor, Monetary Stability Sector

**VI. Other provisions**

a. Value-Date of the Settlement Scheme

The value-date of the settlement value shall be the end of the month immediately preceding the date of approval of the loan restructuring.

b. Effectivity Date

The loan settlement scheme shall be made available up to 31 March 2010 only.

*(M-2009-038 dated 08 October 2009, as amended by M-2009-040 dated 30 October 2009)*

**IMPLEMENTING GUIDELINES ON THE RESTRUCTURING SCHEME COVERING  
THE REDISCOUNTING OBLIGATIONS WITH THE BANGKO SENTRAL OF  
REDISCOUNTING BANKS IN THE AREAS AFFECTED BY “EL NINO”**

*(Footnote to Secs. X257, X302, X306, X338, Subsec. X192.2, X269.6, X269.8 and App. 18)*

**I. Objectives**

The objectives of the loan settlement scheme are as follows:

- a. To support the recovery efforts of rediscounting banks in the areas affected by El Nino;
- b. To enable the rediscounting banks to liquidate their loan obligations with the BSP by way of restructuring; and
- c. To ensure the collection of the rediscounted loans which may become past due in view of the damage caused by the El Nino, and maintain if not improve the quality of the loan portfolio of the BSP.

**II. Qualified banks**

a. All rediscounting banks with end-user borrowers located in the following areas declared as “under state of natural calamity” by the NDCC in its update dated 19 March 2010 (see Item “A.1” of Appendix 89);

Region I: La Union, Pangasinan, Ilocos Norte and Ilocos Sur

Region II: Cagayan, Isabela, Nueva Vizcaya and Quirino

Region III: Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales

Region IV-A: Cavite, Laguna, Batangas, Rizal and Quezon

Region V: Albay [six (6) municipalities and two (2) Cities], Camarines Sur [eighteen (18) municipalities and two (2) cities], Camarines Norte [nine (9) municipalities], Sorsogon [one (1) municipality], Catanduanes [six (6) municipalities] and Masbate [fourteen (14) and one (1) city]

Region VI: Antique, Guimaras, Iloilo, Negros Occidental and Capiz

Region VII: twenty eight (28) mountain barangays in Cebu City and Negros Oriental

Region IX: Zamboanga del Norte, Zamboanga Sibugay and Zamboanga City

Region X: Lanao del Sur, Lanao del Norte, Bukidnon, Misamis Occidental and Misamis Oriental

Region XI: Davao del Sur, Davao del Norte and Davao City

Region XII: Cotabato Province, Sultan Kudarat, South Cotabato, Sarangani and Maguindanao Province [seventy five (75) municipalities]

CAR: Ifugao, Kalinga, Apayao, Mt. Province and Abra; and

such other areas as may be added by NDCC to the list contained in aforementioned update. RBs and Coop Banks in the additional affected areas shall be automatically eligible for the temporary rediscounting relief.

b. Rediscounting banks with serious violations or findings with the SES, and/or which are currently under investigation or subject to legal action by the Office of Special Investigation shall not be qualified to avail of the restructuring scheme.

c. In addition to Item No. “II.b”, the DLC shall evaluate each bank to determine if each would qualify for the restructuring.

**III. Terms and conditions**

a. Maturity

The restructured loan shall have a maximum term of five (5) years;

b. Amount to be restructured

The amount to be restructured shall be equivalent to the following:

(1) *Principal*. Unpaid outstanding balance of the principal obligation in books of account of the BSP; and

(2) *Accrued interest.* Unpaid interest due on the outstanding principal obligation as of the end of the applicable repayment or amortization date, preceding the approval of the loan restructuring.

c. Interest rate

The interest rate to be charged against the outstanding principal balance of the restructured loan shall be based on prevailing rediscount rate. The interest shall be re-priced annually.

d. Maximum bank lending rate

The restructured interest rate of the bank to its end-user borrowers shall not exceed six percent (6%) over and above the applicable BSP interest rate. Moreover, the bank shall not charge interest on accrued interest.

e. Terms of repayment

(1) *Settlement Value.* The settlement value shall be paid by the bank in equal monthly amortizations: *Provided*, That the amortization period shall not exceed five (5) years, to wit:

(a) *Principal.* The principal obligation shall be paid in equal monthly amortization plus the applicable rediscount rate; and

(b) *Accrued interest.* The accrued interest on the principal obligation as of the end of the month immediately preceding the approval of the loan settlement scheme shall likewise be paid in equal monthly amortizations. No interest shall be charged on the accrued interest.

(2) *Grace Period.* The bank shall be given a grace period of six (6) months within which to pay the first amortization.

f. *Collaterals.* The following shall be collaterals acceptable:

(1) Restructured promissory notes of end-user borrowers;

(2) Hard collaterals owned by the bank such as bank premises and government securities; and

(3) Other collaterals acceptable to the DLC.

g. Default cause

(1) Failure to pay two (2) or more amortizations shall be considered an event of default and shall render the unpaid balance of the loan, plus accrued interest and penalty charges due thereon, immediately due and demandable;

(2) A penalty charge of twelve percent (12%) per annum shall be assessed on the defaulted amortization payment, reckoned from the amortization due date to date of payment; and

(3) The DLC may exercise the option to refer to the Office of Special Investigation or to an external lawyer for appropriate legal action, without further need for demand or notice to the defaulting bank.

h. Required documents.

Qualified banks shall submit the following documents:

(1) Letter of Understanding (LOU), agreeing to the terms and conditions of the restructuring. The LOU shall be executed by the senior officers of the bank, duly designated by its board of directors; and

(2) Surety Agreement, if there is collateral deficiency.

**IV. Application procedures**

a. Filing of application

The bank shall file with the DLC an application for restructuring of its outstanding rediscounting loans, supported by the following documents:

(1) Resolution of the board of directors (a) authorizing the bank to enter into a loan settlement arrangement with the BSP and (b) designating authorized senior officers therefor;

(2) The restructured promissory notes of the end-user borrowers and other supporting documents; and

(3) Promissory Note with Trust Receipt Agreement and Deed of Assignment executed by the authorized senior officers of the bank, duly notarized.

b. Notice of approval of application

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The DLC shall notify the bank of the approval of its application to avail of the loan settlement scheme. Upon receipt of said advice, the bank shall:

(1) Execute the applicable document under Item No. "IV.a"; and

(2) Pay the required amortization immediately on the month following the date of approval of the loan restructuring scheme and monthly thereafter until fully paid.

**V. Authorized signatories of the Bangko Sentral**

Transaction	Authorized BSP Officer
Approval of the application to avail of the loan restructuring scheme	Director, DLC, or in her absence, any of the DLC Deputy Directors
Approval to release the collateral documents	Director, DLC, or in her absence, any of the DLC Deputy Directors
Execution of Cancellation of Deeds of Real Estate Mortgage Assignment or Pledge	Deputy Governor, Monetary Stability Sector

**VI. Other provisions**

a. Value-Date of the Settlement Scheme

The value-date of the settlement value shall be the end of the month immediately preceding the date of approval of the loan restructuring.

b. Effectivity date

The loan settlement scheme shall be made available up to 31 May 2010 only.

*(M-2009-038 dated 08 October 2009, as amended by M-2010-039 dated 03 November 2010, M-2010-007 dated 23 April 2010 and M-2009-040 dated 30 October 2009)*

Annex D

**IMPLEMENTING GUIDELINES ON THE RESTRUCTURING SCHEME COVERING  
THE REDISCOUNTING OBLIGATIONS WITH THE BANGKO SENTRAL OF  
REDISCOUNTING BANKS IN THE AREAS AFFECTED BY TYPHOON "JUAN"**  
(Footnote to Secs. X257, X302, X306, X338, Subsec. X192.2, X269.6, X269.8 and App. 18)

**I. Objectives**

The objectives of the loan settlement scheme are as follows:

- a. To support the recovery efforts of rediscounting banks in the areas affected by typhoon "Juan";
- b. To enable the rediscounting banks to liquidate their loan obligations with the BSP by way of restructuring; and
- c. To ensure the collection of the rediscounted loans which may become past due in view of the damage caused by the typhoon, and maintain if not improve the quality of the loan portfolio of the BSP.

**II. Qualified banks**

- a. All rediscounting banks with end-user borrowers located in the following areas which were devastated by Typhoon "Juan" based on the report of the National Disaster Risk Reduction and Management Council dated 22 October 2010 (see Appendix 89);
- b. Rediscounting banks with serious violations or findings with the SES, and/or which are currently under investigation or subject to legal action by the Office of Special Investigation shall not be qualified to avail of the restructuring scheme.
- c. In addition to Item "b", the DLC shall evaluate each bank to determine if each would qualify for the restructuring.

**III. Terms and conditions**

- a. Maturity  
The restructured loan shall have a maximum term of five (5) years.
- b. Amount to be restructured  
The amount to be restructured shall be equivalent to the following:

(1) *Principal*. Unpaid outstanding balance of the principal obligation in books of account of the BSP; and

(2) *Accrued Interest*. Unpaid interest due on the outstanding principal obligation as of the end of the applicable repayment or amortization date, preceding the approval of the loan restructuring.

c. Interest rate

The interest rate to be charged against the outstanding principal balance of the restructured loan shall be based on prevailing rediscount rate. The interest shall be re-priced annually.

d. Maximum bank lending rate

The restructured interest rate of the bank to its end-user borrowers shall not exceed six percent (6%) over and above the applicable BSP interest rate. Moreover, the bank shall not charge interest on accrued interest.

e. Terms of repayment

(1) Settlement Value. The settlement value shall be paid by the bank in equal monthly amortizations: *Provided*, That the amortization period shall not exceed five (5) years, to wit:

(a) *Principal*. The principal obligation shall be paid in equal monthly amortization plus the applicable rediscount rate; and

(b) *Accrued interest*. The accrued interest on the principal obligation as of the end of the month immediately preceding the approval of the loan settlement scheme shall likewise be paid in equal monthly amortizations. No interest shall be charged on the accrued interest.

(2) Grace Period. The bank shall be given a grace period of six (6) months within which to pay for the first amortization.

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f. Collaterals

The following shall be the collaterals acceptable:

- (1) Restructured promissory notes of end-user borrowers;
- (2) Hard collaterals owned by the bank such as bank premises and government securities; and
- (3) Other collaterals acceptable to the DLC.

g. Default cause

(1) Failure to pay two (2) or more amortizations shall be considered an event of default and shall render the unpaid balance of the loan, plus accrued interest and penalty charges due thereon, immediately due and demandable;

(2) A penalty charge of twelve percent (12%) per annum shall be assessed on the defaulted amortization payment, reckoned from the amortization due date to date of payment; and

(3) The DLC may exercise the option to refer to the Office of Special Investigation or to an external lawyer for appropriate legal action, without further need for demand or notice to defaulting bank.

h. Required documents

Qualified banks shall submit the following documents:

(1) Letter of Understanding (LOU), agreeing to the terms and conditions of the restructuring. The LOU shall be executed by the senior officers of the bank, duly designated by its board of directors; and

(2) Surety Agreement, if there is collateral deficiency.

**IV. Application procedures**

a. Filing of application

The bank shall file with the DLC an application for restructuring of its outstanding rediscounting loans, supported by the following documents:

- (1) Resolution of the board of directors
  - (a) authorizing the bank to enter into a loan settlement arrangement with the BSP, and
  - (b) designating authorized senior officers thereof;

(2) The restructured promissory notes of the end-user borrowers and other supporting documents; and

(3) Promissory Note with Trust Receipt Agreement and Deed of Assignment executed by the authorized senior officers of the bank, duly notarized.

b. Notice of approval of application

The DLC shall notify the bank of the approval of its application to avail of the loan settlement scheme. Upon receipt of said advice, the bank shall:

(1) Execute the applicable document under Item No. "IV.a"; and

(2) Pay the required amortization immediately on the month following the date of approval of the loan restructuring scheme and monthly thereafter until fully paid.

**V. Authorized signatories of the Bangko Sentral**

Transaction	Authorized BSP Office
Approval of the application to avail of the loan restructuring scheme	Director, DLC, or in her absence, any of the DLC Deputy Directors
Approval to release the collateral documents Execution of	Director, DLC, or in her absence, any of the DLC Deputy Directors Deputy Governor,
Cancellation of Deeds of Real Estate Mortgage	Monetary Stability Sector

**VI. Other provisions**

a. Value-Date of the Settlement Scheme

The value-date of the settlement value shall be the end of the month immediately preceding the date of approval of the loan restructuring.

b. Effectivity Date

The loan settlement scheme shall be made available up to 30 April 2011 only.

*(M-2009-038 dated 08 October 2009, as amended by M-2010-039 dated 03 November 2010, M-2010-007 dated 23 April 2010 and M-2009-040 dated 30 October 2009)*

**GUIDELINES ON BANKS' INTERNAL CAPITAL  
ADEQUACY ASSESSMENT PROCESS**  
(Appendix to Sec. X117)

**A. Introduction**

1. This document sets out the broad guidelines that UBs and KBs (hereinafter referred to as 'banks') should follow in the design and use of their Internal Capital Adequacy Assessment Process (ICAAP). A bank's ICAAP supplements the BSP's Risk-Based Capital Adequacy Framework (the Framework) as contained in existing regulations and, thus, must be applied on a group-wide basis, i.e., it should cover all of a bank's subsidiaries and affiliates.

2. Although the Framework prescribes the guidelines for determining banks' minimum regulatory capital requirements in relation to their exposure to credit risk, market risk and operational risk, a bank's Board of Directors and senior management are still ultimately responsible in ensuring that the bank maintains an appropriate level and quality of capital commensurate not just with the risks covered by the Framework, but also with all other material risks to which it is exposed. Hence, a bank must have in place an ICAAP that takes into account all of these risks.

**B. Guiding principles**

1. Banks must have a process for assessing their capital adequacy relative to their risk profile (an ICAAP).

2. The ICAAP is the responsibility of banks. Banks are responsible for setting internal capital targets that are consistent with their risk profile, operating environment, and strategic/business plans. The ICAAP should be tailored to a bank's circumstances and needs, and it should use

the inputs and definitions that a bank normally uses for internal purposes.

3. Banks' ICAAP (i.e., the methodologies, assumptions and procedures) and other policies supporting it (e.g., capital policy, risk management policy, etc.) should be formally documented, and they should be reviewed and approved by the board. The results of the ICAAP should also be regularly reported to the board.

In addition, the board and senior management are responsible for integrating capital planning and capital management into banks' overall management culture and approach. They should ensure that formal capital planning and management policies and procedures are communicated and implemented group-wide and supported by sufficient authority and resources.

Banks' ICAAP document should be submitted to the appropriate Central Point of Contact Department (CPCD) of the BSP every 31 January of each year. A suggested format of the ICAAP submission to the BSP is provided in *Annex A of Appendix 90*.

4. The ICAAP should form an integral part of banks' risk management processes so as to enable the board and senior management to assess, on an on-going basis, the risks that are inherent in their activities and material to their bank. This could range from using the ICAAP in more general business decisions (e.g. expansion plans) and budgets, to the more specific decisions such as allocating capital to business units, or to having it play a role in the individual credit decision process.

5. The ICAAP should be reviewed by the board and senior management at least annually, or as often as is deemed necessary

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to ensure that risks are covered adequately and that capital coverage reflects the actual risk profile of their bank. Moreover, any changes in a bank's strategic focus, business plan, operating environment or other factors that materially affect assumptions or methodologies used in the ICAAP should initiate appropriate adjustments to the ICAAP. New risks that occur in the business of a bank should be identified and incorporated into the ICAAP. The ICAAP and its review process should be subject to independent internal or external review. Results thereof should be communicated to the board and senior management.

6. Banks should set capital targets which are consistent with their risk profile, operating environment, and business plans. Banks, however, may take other considerations into account in deciding how much capital to hold, such as external rating goals, market reputation and strategic goals. If these other considerations are included in the process, banks must be able to show to the BSP how they influenced their decisions concerning the amount of capital to hold.

7. The ICAAP should capture the risks covered under the Framework – credit risk, market risk, and operational risk. If applicable, banks should disclose major differences between the treatments of these risks in the calculation of minimum regulatory capital requirement under the Framework and under the ICAAP. In addition, the ICAAP should also consider other material risks that banks are exposed to, albeit that there is no standard definition of materiality. Banks are free to use their own definition, albeit that they should be able to explain this in detail to the BSP, including the methods used, and the coverage of all material risks. These other material risks may include any of the following:

a. Risks *not fully* captured under the Framework, for example, credit concentration risk, risk posed by non-performing assets, risk posed by contingent exposures, etc.;

b. Risks *not* covered under the Framework. As a starting point, banks may choose to use the other risks identified under Circular No. 510 dated 03 February 2006. Some of these risks are less likely to lend themselves to quantitative approaches, in which cases banks are expected to employ more qualitative methods of assessment and mitigation. Banks should clearly establish for which risks a quantitative measure is warranted, and for which risks a qualitative measure is the correct risk assessment and mitigation tool ; and

c. Risk factors external to banks. These include risks which may arise from the regulatory, economic or business environment.

8. Banks should have a documented process for assessing risks. This process may operate either at the level of the individual banks within the banking group, or at the banking group level. Banks are likely to find that some risks are easier to measure than others, depending on the availability of information. This implies that their ICAAP could be a mixture of detailed calculations and estimates. It is also important that banks not rely on quantitative methods alone to assess their capital adequacy, but include an element of qualitative assessment and management judgment of inputs and outputs. Non-quantifiable risks should be included if they are material, even if they can only be estimated. This requirement might be eased if banks can demonstrate that they have an appropriate policy for mitigating/managing these risks.

9. The ICAAP should take into account banks' strategic plans and how they

relate to macro-economic factors. Banks should develop an internal strategy for maintaining capital levels which can incorporate factors such as loan growth expectations, future sources and uses of funds and dividend policy, and any procyclical variation of minimum regulatory capital requirements.

Banks should also have an explicit, board-approved capital plan which states their objectives and the time horizon for achieving those objectives, and in broad terms the capital planning process and the responsibilities for that process. The plan should also lay out how banks will comply with capital requirements in the future, any relevant limits related to capital, and a general contingency plan for dealing with divergences and unexpected events (for example, raising additional capital, restricting business, or using risk mitigation techniques).

In addition, banks should conduct appropriate scenario/stress tests which take into account, for example, the risks specific to the particular stage of the business cycle. Banks should analyze the impact that new legislation/regulation, actions of competitors or other factors may have on their performance, in order to determine what changes in the environment they could sustain.

10. The results and findings of the ICAAP should feed into banks' evaluation of their strategy and risk appetite. For less sophisticated banks in particular, for which genuine strategic capital planning is likely to be more difficult, the results of the process should mainly influence the bank's management of its risk profile (for example, via changes to its lending behavior or through the use of risk mitigants). The ICAAP should produce a reasonable overall capital number and assessment. Banks should be able to explain to the BSP's satisfaction the similarities and differences between its

ICAAP and its minimum regulatory capital requirements under the Framework.

### C. ICAAP Methodologies

1. While banks may use simple or model-based ICAAP methodologies depending on what they think is appropriate for them (*please see Annex B of Appendix 90 for description of the different broad classification of methodologies*), at the minimum, the BSP expects banks to adopt an ICAAP based on the minimum regulatory capital requirement under the Framework and, where applicable, assess extra capital proportionate to the other risks that are not covered under said Framework. This requires an assessment first of whether the risks covered under the Framework - credit risk, market risk and operational risk - are fully captured, and second, how much capital to allocate against other risks and external factors.

2. Regardless of which methodology a bank decides to adopt, it should compare its actual and future projected capital with the actual and future internal capital need arising from the assessment. The actual calculation and allocation of capital always needs to be supplemented by sufficiently robust qualitative procedures, measures and provisions to identify, manage, control and monitor all risks.

3. The ICAAP will always consist of two parts. One part covers all steps necessary for assessing the risks. The other part covers all steps necessary to assess the actual capital (risk-taking capacity). As these two parts will always meet at the end of the ICAAP and have to be in balance, there is no procedure which says which part has to be assessed first.

4. After choosing its ICAAP methodology, a bank could take its thinking through the following steps in developing the ICAAP:

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a. Risk identification

A bank could prepare a list of all material risks to which it is exposed; for that purpose it may find it useful to identify and consider its largest past losses and whether those losses are likely to recur. The identification of all material risk to which a bank is exposed should be conducted in a forward looking manner.

b. Capital assessment

For all the risks identified through the process above, a bank could then consider how it would act, and the amount of capital that would be absorbed, in the event that one or more of the risks identified was to materialize.

c. Forward capital planning

A bank could then consider how its capital need as calculated above might change in line with its business plans over its strategic time horizon, and how it might respond to these changes. In doing so, a bank may want to perform a sensitivity analysis to understand how sensitive its capital is to changes in internal and external factors such as business risks, and changes in economic/business cycles.

d. ICAAP outcome

Finally, a bank should document the ranges of capital required as identified above and form an overall view on the amount of internal capital which it should hold.

*(Circular No. 639 dated 15 January 2009)*

## INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (Suggested Format)

The BSP expects that there will be a fair degree of variation in the length and format of submissions since banks' business and risk profiles differ. As such the ICAAP document should be proportional to the size, nature and complexity of a bank's business.

This format has been provided as a starting point. Banks are not required to adopt this format. However, adopting this format may be convenient for banks as it covers the minimum issues which typically would be the subject of review by the BSP and may therefore make the review process more efficient for both the bank and the BSP.

Equally, use of this template is not a substitute for being aware of the relevant rules.

### What is an ICAAP document?

An ICAAP document is a bank's explanation to the BSP of its internal capital adequacy assessment process. While this may be based on existing internal documentation from numerous sources, the BSP will clearly find it helpful to have a summary prepared to communicate the key results and issues to it at a senior level. Since the BSP will be basing many of its views on the information contained in the ICAAP document, the bank's board of directors and senior management should have formally approved its contents. As such, the BSP would expect the ICAAP document to be in a format that can be easily understood at a high level and to contain all the relevant information that is necessary for the bank and BSP to make an informed judgment and decision as to the

appropriate capital level and risk management approach.

Where appropriate, technical information on risk measurement and capital methodologies, and all other works carried out to validate the approach (e.g. board papers and minutes, internal or external reviews) could be contained in appendices.

### 1. EXECUTIVE SUMMARY

The purpose of the Executive Summary is to present an overview of the ICAAP methodology and results. This overview would typically include:

- i. The purpose of the report and which group entities are covered by the ICAAP;
- ii. The main findings of the ICAAP analysis:
  - How much and what composition of internal capital the bank considers it should hold as compared with the capital adequacy requirement under the existing BSP Risk-Based Capital Adequacy Framework (the Framework), and
  - The adequacy of the bank's risk management processes given the risks assumed;
- iii. A summary of the financial position of the business, including the strategic position of the bank, its balance sheet strength, and future profitability;
- iv. Brief descriptions of the capital and dividend plan; how the bank intends to manage capital going forward and for what purposes;
- v. Commentary on the most material risks, why the level of risk is acceptable or, if it is not, what mitigating actions are planned;

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vi. Commentary on major issues where further analysis and decisions are required; and

vii. Who has carried out the assessment, how it has been challenged, and who has approved it.

**2. BACKGROUND**

This section would cover the relevant organizational structure and business lines, and historical financial data for the bank (e.g., group structure (legal and operational), operating profit, profit before tax, profit after tax, dividends, equity, capital resources held and as compared with regulatory requirements, total loans, total deposits, total assets, etc., and any conclusions that can be drawn from trends in the data which may have implications for the bank's future).

**3. CAPITAL ADEQUACY**

This section could start with a description of the risk appetite used in the ICAAP. It is vital for the BSP to understand whether the bank is presenting its view regarding: (1) the amount of capital required to meet minimum regulatory needs, or (2) the amount of capital that a bank believes it needs to meet its business objectives (e.g., whether the capital required is based on a particular desired credit rating, or includes buffers for strategic purposes, or minimizes the chances of breaching regulatory requirements). A description of the methodology used to assess the bank's capital adequacy should also be included.

The section would then include a detailed review of the capital adequacy of the bank.

The information provided would include:

**Timing**

i. The effective date of the ICAAP calculations together with consideration of any events between this date and the date of submission which would materially

impact the ICAAP calculation together with their effects; and

ii. Details of, and rationale for, the time period over which capital has been assessed.

**Risks analyzed**

i. An identification of the major risks faced in each of the following categories:

- credit risk;
- market risk;
- interest rate risk in the banking book;
- liquidity risk;
- operational risk;
- compliance risk;
- strategic/business risk; and
- reputation risk;

ii. And for each, an explanation of how the risk has been assessed and, where appropriate, the quantitative results of that assessment;

iii. Where relevant, a comparison of that assessment with the results of the assessment under the Framework (specifically for credit risk, market risk, and operational risk);

iv. A clear articulation of the bank's risk appetite by risk category if this varies from the assessment; and

v. Where relevant, an explanation of any other methods apart from capital used to mitigate the risks.

The discussion here would make clear which additional risks the bank considers material to its operation and, thus, would warrant additional capital on top of that required for credit risk, market risk, and operational risk under the Framework.

**Methodology and assumptions**

A description of how assessments for each of the major risks have been approached and the main assumptions made.

At a minimum, the BSP expects banks to base their ICAAP on the results of the capital adequacy requirement under the

Framework and additional risks, where applicable, should be assessed separately.

***Capital transferability***

Details of any restrictions that may curtail the management's ability to transfer capital into or out of the business(es) covered, for example, contractual, commercial, regulatory or statutory restrictions that apply.

**4. CURRENT AND PROJECTED FINANCIAL AND CAPITAL POSITIONS**

This section would explain the current and expected changes to the business profile of the bank, the environment in which it expects to operate, its projected business plans (by appropriate lines of business), and projected financial position for, say three to five years.

The starting balance sheet and date as of which the assessment is carried out would be set out.

The projected financial position might consider both the projected capital available and projected capital resource requirements to support strategic/business initiatives. These might then provide a baseline against which adverse scenarios (please see Capital Planning below) might be compared.

Given these business plans, this section would also discuss the bank's assessment on whether additional capital is necessary on top of that assessed to cover their existing risk exposures, as well as future planned sources of capital.

**5. CAPITAL PLANNING**

This section would explain how a bank would be affected by an economic recession or downswings in the business or market relevant to its activities. The BSP is interested in how a bank would manage its business and capital so as to survive a recession/market disruption while meeting minimum regulatory standards. The analysis would include financial projections forward for,

say, three to five years based on business plans and solvency calculations. Likewise, a bank should disclose here the key assumptions and other factors that would have significant impact on its financial condition, in conducting scenario analyses/stress testing.

Typical scenarios would include how an economic downturn/market disruption would affect:

- i. the bank's capital resources and future earnings; and
- ii. the bank's capital adequacy requirement under the Framework taking into account future changes in its projected balance sheet.

It would also be helpful if these projections showed separately the effects of management potential actions to change the bank's business strategy and the implementation of contingency plans.

In addition, banks are encouraged to include an assessment of any other capital planning actions that would be necessary to enable it to continue to meet its regulatory capital requirements throughout a recession/market disruption such as new capital injections from related companies or new share issues.

Given the projected capital needs arising from an economic recession or business/market downswings, this section would also discuss the bank's assessment on whether additional capital is necessary on top of that assessed to cover their existing risk exposures and business plans.

**6. CHALLENGE AND ADOPTION OF THE ICAAP**

This section would describe the extent of challenge and testing of the ICAAP. Banks should describe the review and sign-off procedures used by senior management and the board. It might also be helpful if a copy of any relevant report to senior management or the board and their response were attached.

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Details of the reliance placed on any external suppliers would also be detailed here, e.g. for generating economic scenarios.

In addition, a copy of any report obtained from an external reviewer or internal audit would also be included.

**7. USE OF THE ICAAP WITHIN THE BANK**

This section would describe the extent to which capital management is embedded within the bank including the extent and use of scenario analysis and/or stress testing within the bank's capital management policy, e.g. in business decisions (e.g. expansion plans) and budgets, or in

allocating capital to business units, or in individual credit decision process.

Banks should include a statement of the actual operating philosophy on capital management and how this links to the ICAAP. For instance differences in risk appetite used in the ICAAP as compared to that used for business decisions might be discussed.

Lastly, it would be helpful if details on any anticipated future refinements within the bank's ICAAP (highlighting those aspects which are work-in-progress), as well as any other information that would help the BSP review the bank's ICAAP could be provided.

*(Circular No. 639 dated 15 January 2009)*

## ALTERNATIVE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS METHODOLOGIES

This appendix outlines ICAAP methodologies which banks may adopt in lieu of that based on the minimum regulatory capital requirement under the BSP Risk-Based Capital Adequacy Framework (the Framework). However, the choice of methodology should clearly be commensurate with banks' ability to collect the necessary information and to calculate the necessary inputs in a reliable manner.

**Structured approach** - In this case, banks will need to set the internal capital requirement at a starting point of zero capital and then build on capital due to all risks (both those captured under the Framework and those that are not) and external factors. This methodology could be seen as a simple model for calculating economic capital and is not based on the minimum regulatory capital requirement. A sensitivity analysis could form the starting point. The sensitivity analysis should be based on an exceptional but plausible scenario. Risks which are not included in the sensitivity analysis should also be considered in terms of the structured approach.

**Allocation-of-risk-taking approach** – In this approach, banks might start with its actual capital and break it down to all its material risks. This step in the process requires quantification or at least an estimation method for various risks. The amount of capital provided for each risk category is determined by the current and envisaged amount of risk in each category, a risk buffer and their risk appetite. Banks will decide which type of risk quantification/estimation method is suitable and sufficient for its particular use. If the allocated capital seems insufficient, either the risk has to be reduced or capital has to be raised. The allocated amounts of the capital will therefore work as a limit system, which assists and facilitates banks in balancing their risk-taking capacity and their risks.

**Formal economic capital models** – These are expected to be used eventually by banks that use advanced approaches in determining the minimum regulatory capital requirement, or those that have substantial derivatives and structured products transactions (i.e., those that have expanded dealer and/or user capabilities).

*(Circular No. 639 dated 15 January 2009)*

**GUIDELINES ON THE BANGKO SENTRAL'S  
SUPERVISORY REVIEW PROCESS**  
*(Appendix to Sec. X117)*

**A. Introduction**

1. The BSP's supervisory review process (SRP) in the context of this document involves (1) an evaluation of banks' internal capital adequacy assessment processes (ICAAP) and their output, (2) a dialogue with banks with regard to their ICAAP, and (3) the prudential measures that may be taken to address issues identified. These guidelines should be observed mainly by the appropriate Central Point of Contact Department (CPCD) within the BSP and, where appropriate for on-site validation during regulation examination, by the examination personnel. This therefore supplements the existing guidelines set out in the Manual of Examinations, the CAMELS Rating, and the Risk Assessment System (RAS). The CPCD may draft, for its own use, detailed guidelines on the conduct of the assessment of banks' ICAAP and of the BSP-bank dialogue.

2. Although these guidelines are directed mainly at BSP supervision and examination personnel, banks will have a clear interest in knowing the approach the BSP intends to take in assessing their capital adequacy.

**B. Guiding principles in assessing banks' ICAAP**

1. As a first step, the BSP should evaluate banks' compliance with the minimum regulatory capital requirements as prescribed under the Framework. This would involve the verification of banks' calculation of their risk weighted assets (RWA) and capital adequacy ratio (CAR). The minimum regulatory capital requirements should always be the starting point in the assessment of banks' capital adequacy. The validated CAR should then

be compared with the required capital resulting from the ICAAP.

2. Next, the assessment of banks' ICAAP should include an evaluation of their assumptions, components, methodologies, coverage and outcome. This review should cover both banks' risk management processes and their assessment of adequate capital. The BSP should review how banks assess the other risks they are exposed to, especially Elements 2 to 4 listed in Item "C.4" hereof, the controls they have in place to mitigate these risks, as well as the adequacy and composition of capital held against those risks.

3. The BSP should then identify existing or potential problems and key risks faced by banks, the deficiencies in their control and risk management frameworks, and the degree of reliance that can be placed on the outputs of their ICAAP. This process will enable the BSP to tailor its approach for each individual bank and will provide the foundation for the BSP's general approach for each bank and its actions.

4. The BSP's evaluation of the adequacy of banks' capital in relation to their risk profile would serve as the basis for assigning a rating for the Capital component of the bank's CAMELS rating. It would also serve as the basis for identifying any prudential measures or other supervisory actions required. For example, where there is an imbalance between business and risk controls, the BSP should consider the range of remedial supervisory actions that may be needed to rectify a deficiency in controls and/or perceived shortfalls in capital, either as a long-term requirement(s) or as a short-term action(s).

5. The results of the SRP will be communicated to the board and senior

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management of banks together with any action that is required of them and any significant action planned by the BSP. This may be done as part of the dialogue between the BSP and each bank on the ICAAP.

6. In evaluating the ICAAP of branches of foreign banks in the Philippines, the BSP will refer to the home supervisor's consolidated assessment of the ICAAP of the head office/parent bank. The BSP will also take into account the strength and availability of parental support.

**C. Guiding principles on BSP-bank dialogue**

1. A key element of the SRP is the dialogue between the BSP and each bank. The dialogue will inform the BSP about the way each bank's ICAAP is structured, and the assumptions and methodologies which are used to assess its risk exposures.

2. The ICAAP document, which banks are required to submit to the BSP every January of each year (suggested format is in *Annex A of Appendix 90*), will be the basis for the BSP-bank (specifically, BSP-CPCD) dialogue. This dialogue may feed into the regular examination, and the findings of the regular examination may in turn feed into the dialogue. The BSP will determine the nature and depth of the dialogue, based on the type and complexity of the bank.

3. Banks should be able to justify their processes for identifying and measuring their risks as well as how much capital, if any, they allocate against them, taking into account other qualitative mitigants of risk. Banks should be able to explain any differences between their own assessment of capital needs and targets under the ICAAP and the minimum regulatory capital requirements prescribed under the Framework.

4. The dialogue should embrace the following four main elements:

a. Element 1: Risks covered under the Framework (i.e., credit risk, market risk, and operational risk);

b. Element 2: Risks *not fully* covered under the Framework (for example, credit concentration risk, risk posed by non-performing assets, risk posed by contingent exposures, etc.);

c. Element 3: Risks *not* covered under the Framework (other risks identified under Circular No. 510 dated 3 February 2006); and

d. Element 4: External factors, which include risks which may arise from the regulatory, economic or business environment.

5. Aside from these four main elements, the dialogue should also cover the quality of internal governance of banks, including risk controls, compliance and internal audit, as well as operational and organizational structure.

6. For the SRP to be effective, the BSP will need to develop a sufficiently thorough understanding of how the ICAAP is determined and the differences between it and the minimum regulatory capital requirement under the Framework. This would help in evaluating the ICAAP outcome. The SRP emphasizes the importance of analyzing the main elements, and understanding the differences between ICAAP assumptions and minimum regulatory capital requirement assumptions.

7. Once the process has begun, the dialogue will provide the opportunity for iteration between the ICAAP and SRP, with each informing the other, i.e., banks may make changes to the ICAAP in the course of the dialogue, in response to challenge and feedback from the BSP, and vice versa. Following the dialogue, the BSP will reach an assessment.

**D. Guidelines on prudential measures**

1. If the BSP considers that a bank's ICAAP does not adequately reflect its overall

risk profile, or does not result in the bank having adequate capital, then consideration should be given to applying prudential measures.

2. The measures available to the BSP include:

a. Requiring the bank to improve its internal control and risk management frameworks;

b. Requiring the bank to reduce the risk inherent in its activities, products and systems;

c. Restricting or limiting the business, operations or network of the bank;

d. Limiting or prohibiting the distribution of net profits and requiring that part or all of the net profits be used to increase the capital accounts of the bank; and

e. Requiring the bank to increase its capital.

3. The choice of prudential measures should be determined according to the severity and underlying causes of the situation and the range of measures and sanctions available to the BSP. Measures can be used individually or in combination. The requirement to increase capital should, however, be imposed on any bank which exhibits an imbalance between its business risks and its internal control and risk frameworks, if that imbalance cannot be remedied by other prudential measures or

supervisory actions within an appropriate timeframe.

4. The requirement to increase capital may also be set where the BSP judges the existing capital held by a bank to be inherently inadequate for its overall risk profile. It must be acknowledged that there is no 'scientific' method for determining the amount, and that capital is not a long-run substitute for remedying deficiencies in systems and controls. In practice, the process relies heavily on subjective judgment and peer-group consistency to ensure a level playing field and a defense to possible challenge that may be posed by banks.

5. Prudential measures should be communicated promptly and in sufficient detail. In communicating its decision on prudential measures, the BSP should:

a. Explain in sufficient detail the factors which have led to the risk assessment conclusions;

b. Indicate areas of weakness and the timeframe for remedial action;

c. Explain the reasons for any additional capital requirement; and

d. Indicate what improvements could be made to systems and controls to make them adequate for the risks and activities of the bank, and for this improvement to be reflected in the bank's capital requirements.

*(Circular No. 639 dated 15 January 2009)*

**Minimum Documentary Requirements\* for the Sale of Foreign Exchange (FX) for  
Non-Trade Purposes by Authorized Agent Banks (AABs)/AAB-Forex Corps**

A. Sale of FX for Non-trade Current Account Purposes under Section 2 of the Manual of Regulations on FX Transactions (FX Manual)	
Purposes	Documents Required (All originals except as indicated)
1. Foreign travel funds	Applicant's passport and passenger ticket
2. Educational expenses/student maintenance abroad	Photocopy of proof of enrolment with, or billing statement from, school abroad
3. Correspondence studies	Photocopy of proof of enrolment with, or billing statement from, school abroad
4. Medical Expenses	Photocopy of billing statement (for services rendered/expenses incurred abroad) or certification issued by doctor/hospital abroad indicating cost estimate (for the treatment/service to be administered/ rendered)
5. Emigrants' assets (including inheritance, legacies, and income from properties)	<p>a. Photocopies of:</p> <ul style="list-style-type: none"> <li>i. Emigrant's visa or proof of residence abroad</li> <li>ii. Notarized Deed of Sale of assets in the Philippines (e.g. real estate, vehicles, machineries/equipment, etc.) and;</li> <li>iii. Proof of income received from properties in the Philippines.</li> </ul> <p>b. In the absence of the emigrant, a notarized Special Power of Attorney (SPA) for emigrant's representative/ agent. If SPA was executed abroad, original of SPA authenticated by Philippine consulate abroad.</p>
6. Salary/bonus/dividend/other benefits of foreign nationals (including peso)	<p>a. Employment contract/Certification of employer showing amount of compensation paid to the foreign national during the validity of the contract, stating whether the same had been paid in FX or in pesos, and if in FX, proof that the FX was previously sold for pesos to AABs;</p>

Purposes	Documents Required (All originals except as indicated)
	<ul style="list-style-type: none"> <li>b. ACR I-Card and DOLE Alien Employment Permit of the foreign national;</li> <li>c. Applicant's notarized certification that the FX remitted is net of local expenses incurred and/or net of previous transfers abroad; and</li> <li>d. If amount to be remitted comes from sources other than salaries/compensation, information regarding the sources supported by appropriate documents should be submitted.</li> </ul>
7. Foreign nationals' income taxes due to foreign governments	<ul style="list-style-type: none"> <li>a. ACR-I Card and DOLE Alien Employment Permit; and</li> <li>b. Photocopy of income tax return covering the income tax payment sought to be remitted.</li> </ul>
8. Sales proceeds of foreign nationals' domestic assets	<ul style="list-style-type: none"> <li>a. ACR I-Card; and</li> <li>b. Photocopy of proof of sale of asset/s indicating currency of payment</li> </ul>
9. Producers' share in movie revenue/TV film rentals	<ul style="list-style-type: none"> <li>a. Statement of remittable share rental or rental; and</li> <li>b. Photocopy of contract/agreement</li> </ul>
10. Exports commissions due to foreign agents	<ul style="list-style-type: none"> <li>a. Billing statement from non-resident agent; and</li> <li>b. Photocopy of contract/agreement</li> </ul>
11. Freight charges on exports/imports	<ul style="list-style-type: none"> <li>a. Billing statement; and</li> <li>b. Photocopy of contract/agreement</li> </ul>
12. Charters and leases of vessels/aircrafts	<ul style="list-style-type: none"> <li>a. Billing statement from non-resident lessor/owner of vessel/aircraft; and</li> <li>b. Photocopy of contract/agreement</li> </ul>
13. Port disbursements abroad for aircraft and vessels of Philippine registry or chartered by domestic operators and salvage fees	<ul style="list-style-type: none"> <li>a. Billing statement; and</li> <li>b. Photocopy of contract/agreement</li> </ul>
14. Satellite and other telecommunication services	<ul style="list-style-type: none"> <li>a. Billing Statement; and</li> <li>b. Photocopy of contract/agreement</li> </ul>

Purposes	Documents Required (All originals except as indicated)
15. Other services such as advertising, consultancy, IT, fees for other professional services	a. Billing statement; and b. Photocopy of contract/agreement.
16. Share in head office expenses (including reimbursements)	a. BSRD for the assigned capital in the branch; b. Audited schedules of allocation of expenses for the periods covered; c. Certification from the head office that the share in head office expenses remain unpaid and outstanding; and d. Audited financial statements of the Philippine branch.
17. Insurance/Reinsurance premium due to foreign insurance companies	Billings/Invoices of insurance companies/brokers abroad.
18. Claims against domestic insurance companies by brokers abroad	Billings/Invoices from foreign insurer/reinsurer.
19. Net Peso revenues of foreign airlines/shipping companies	a. Statement of Net Peso Revenues (Peso revenues less expenses) certified by authorized officer of airline/shipping company; and b. Photocopy of contract/agreement.
20. Royalty/Copyright/Franchise/Patent/Licensing fees	a. Statement/Computation of the royalty/copyright/franchise/patent/licensing fee; and b. Photocopy of contract/agreement.
21. Net peso revenues of embassies/consulates of foreign countries	Statement of net peso revenues (Peso revenues less expenses) certified by the Embassy's/Consulate's authorized officer.
22. FX obligations of Philippine credit card companies to international credit card companies/non-resident merchants	Summary billings

B. Sale of FX for Servicing Foreign/Foreign Currency Loans Including Prepayments by Private Sector Covered by Sections 22 to 31 of the FX Manual	
Purposes	Documents Required (All originals except as indicated)
<p>Loan Payments</p> <p>1. Medium/Long-term foreign/foreign currency loans (with original maturities of over 1 year)</p> <p>a. Regular amortization/payment</p>	<p>1.a. BSP registration letter and accompanying Schedule RA-2 (Part I: Schedule of Payments on BSP Registered Foreign/FCDU Loans and Part II – Details of FX/Hedging Transactions for BSP-Registered Foreign/FCDU Loan; and</p> <p>1.b. Copy of billing statement from creditor</p> <p>Amounts that may be purchased shall be limited to maturing amounts on scheduled due dates indicated in the registration letter. Purchase and remittance of FX shall coincide with the due dates of the obligations to be serviced, unless otherwise explicitly allowed by the BSP</p> <p>or:</p> <p>2.a. BSP letter-authority for the borrower to purchase FX to service specific loan account/s and where applicable, the "Schedule of Foreign Exchange Purchases from the Banking System"; and</p> <p>2.b. Copy of billing statement from creditor</p>

<sup>1</sup> All original documents shall be stamped "FX-SOLD" indicating the date and amount of FX sold, and signed by the seller's authorized signatory.

<p>b. Prepayments of foreign/foreign currency loans of the private Sector that are not publicly-guaranteed</p> <p>2. Short-term foreign/foreign currency loans (with original maturity of up to 1 year)</p> <p>a. Loans from offshore creditors (banks and non-banks)</p>	<p>Amounts that may be purchased shall be limited to the unutilized balance of the letter authority. Remittance of FX purchased shall coincide with the due dates of the obligations to be serviced, unless otherwise explicitly allowed by the BSP.</p> <p>1.a BSP registration letter and accompanying Schedule RA-2 (Part I Schedule of Payments on BSP-Registered Foreign/FCDU Loans and Part II -Details of FX/Hedging Transactions for BSP - Registered Foreign/FCDU Loans ;and</p> <p>1.b Original of the BSP letter acknowledging receipt of the borrower's notice of prepayment</p> <p>1.a. BSP approval or registration letter showing loan terms and borrower's receiving copy of its report on short-term loans - as submitted to BSP's International Operations Department (IOD); and</p> <p>1.b. Copy of billing statement from creditor</p> <p>Amounts that may be purchased shall be limited to: (a) amounts/rates indicated in the BSP approval or registration letter; or (b) the outstanding balance of the loan indicated in the report, whichever is lower. Purchase and remittance of FX shall coincide with the due dates of the obligations to be serviced, unless otherwise explicitly allowed by the BSP.</p>
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<p>b. Loans from FCDUs/OBUs</p>	<p>1.a. BSP approval or registration letter showing loan terms or certification from the lending bank on the amount outstanding; and</p> <p>1.b. Copy of billing statement from creditor</p> <p>Amounts that may be purchased shall be limited to: (a) amounts/rates indicated in the BSP approval or registration letter; or (b) the outstanding balance of the loan indicated in the bank certification, whichever is lower. Purchases and remittance of FX shall coincide with the due dates of the obligations to be serviced, unless otherwise explicitly allowed by the BSP.</p> <p>or:</p> <p>2.a. For loans not requiring BSP approval/ individual registration<sup>2</sup>, Promissory Note (PN) certified as true copy by the Head of the lending bank's Loans Department and certification from the lending bank:</p> <ul style="list-style-type: none"> <li>i. on the principal amount still outstanding;</li> <li>ii. that the loan is eligible for servicing with FX to be purchased from the AABs/AAB-forex corps in line with existing regulations;</li> <li>iii. That the loan was used to finance trade transactions (as well as pre-export costs in the case of FCDU loans of exporters) of the borrower; and</li> <li>iv. On date when the loan account was reported to the appropriate BSP department/office under the prescribed forms. (This may be dispensed with for new loans which may not have been reported yet to BSP as of date of application to purchase FX.)</li> </ul>
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<p>Payments related to Guarantees and Similar Arrangements (including Risk Take Over Arrangements)</p> <p>1. For FX liabilities arising from guarantees and similar arrangements [(including Risk Take Over Arrangements (RTO)]</p> <p>2. Regular Fees related to Build-Operate-Transfer (BOT) and similar financing schemes with transfer provisions</p>	<p>2.b Copy of billing statement from creditor.</p> <p>Amounts that may be purchased shall be limited to amounts/rates indicated in the bank certification or PN, whichever is lower. Purchase and remittance of FX shall coincide with the due dates of the obligations to be serviced, unless otherwise explicitly allowed by the BSP.</p> <p>a. BSP approval of the resulting foreign/foreign currency obligation;</p> <p>b. Copies of:</p> <p>i. Agreement/contracts covered by the guarantee/similar arrangement;</p> <p>ii. Standby letter of Credit (SLC) or guarantee contract/agreement for the guarantee;</p> <p>c. Proof/notice of original obligor's default and creditor's call on the guarantee; and</p> <p>d. Billing statement from the non-resident or local bank guarantor</p> <p>a. BSP Registration Document</p> <p>b. Copy of the covering agreements/contracts</p> <p>c. Billing statement from the private sector project company/proponent</p>
<p>C. Sale of FX for Servicing of Foreign Investments, Investments by Residents and Related Transactions Covered by Sections 32 to 44 of the FX Manual</p>	
<p>Purposes</p> <p><b>Foreign Investments</b></p> <p>1. Capital repatriation of:</p>	<p>Documents Required (All originals except as indicated)<sup>2</sup></p>

<sup>2</sup> All original documents shall be stamped "FX-SOLD" indicating the date and amount of FX sold, and signed by the seller's authorized signatory.

<p>a. Portfolio investments in:</p> <ul style="list-style-type: none"> <li>i. PSE-listed securities</li> <li>ii. Peso government securities</li> <li>iii. Money market instruments (MMI)</li> <li>iv. 90-day time deposits</li> </ul> <p>b. Foreign direct equity investments</p>	<p>BSRD or BSRD Letter-Advice from the registering custodian bank and photocopy of broker's sales invoice</p> <p>BSRD or BSRD Letter-Advice from the registering custodian bank and photocopy of confirmation of purchase for peso government securities</p> <p>BSRD and photocopy of matured contract for MMI</p> <p>BSRD or BSRD Letter Advice from the registering custodian bank and photocopy of Matured Certificate of Deposits for 90-day time deposits</p> <ul style="list-style-type: none"> <li>a. BSRD;</li> <li>b. Photocopy of proof of sale or relevant documents showing the amount to be repatriated; in case of dissolution/ capital reduction, proof of distribution of funds/assets such as statement of net assets in liquidation;</li> <li>c. Photocopy of Clearance from appropriate department of the BSP- Supervision and Examination Sector (for banks), or from the Insurance Commission (for insurance companies), from the Department of Energy or from the National Power Corporation (for oil/natural gas/ geothermal companies);</li> <li>d. Detailed computation of the amount applied for in the attached format (Annex N) prepared by the selling stockholder's representative;</li> <li>e. Photocopy of pertinent audited financial statements; and</li> <li>f. SEC clearance in case of dissolution</li> </ul>
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2. Remittance of Dividends/Profits/ Earnings/Interests	<ul style="list-style-type: none"> <li>a. BSRD or BSRD Letter-Advice;</li> <li>b. Photocopy of PSE-cash dividends notice and Phil. Central Depository (PCD) printout of cash dividend payment or computation of interest earned issued by MMI issuer or bank;</li> <li>c. Photocopy of secretary's sworn statement on the Board Resolution covering the dividend declaration;</li> <li>d. Photocopy of latest audited financial statements or interim financial statements of the investee firm covering the dividend declaration period (for direct foreign equity investments);</li> <li>e. For direct foreign equity investments, photocopy of clearance pertaining to the investee firm from BSP-Supervision and Examination Sector (for non-PSE listed banks), Insurance Commission (for insurance companies), Department of Energy or from the National Power Corporation (for oil/natural gas/geothermal companies); and</li> <li>f. Detailed computation of the amount applied for using the prescribed format (Annex N).</li> </ul>
3. Outward remittance in equivalent FX of pesos (funded by FX inwardly remitted) in excess of investments made in the country but not to exceed the amount of brought in less amount used for investments	<ul style="list-style-type: none"> <li>a. Original certificate of inward remittance (fully unutilized) or certified true copy of inward remittance (partially unutilized) showing inward remittance of FX and its conversion to pesos;</li> <li>b. Swift message/letter request from non-resident investors for return of excess funds;</li> <li>c. Bank certificate on the investor's peso cash account attesting credit of the excess peso funds to the account and that the amount has been outstanding since the date of credit and is sufficient to cover the amount applied for conversion to FX for remittance. In case the balance of the peso account has fallen below the amount applied for conversion and</li> </ul>

	<p>outward remittance, the investor may only purchase up to the amount shown in the certificate.</p> <p>d. Statement from the custodian bank (for foreign portfolio investment) or from an authorized officer of the investee firm/selling investor (for foreign direct investment) on the investments made funded by a portion of the FX remittance.</p> <p>For refunds arising from the unapproved additional subscription of PSE-listed shares, rights offering, the following additional documents shall be required in addition to Items 1-3 above:</p> <p>a. PSE Circulars indicating declaration of stock rights/warrants offering and the pertinent procedures and implementing guidelines;</p> <p>b. Copy of the Subscription Agreement with validation of payment/Philippine Depositary and Trust Corp. (PDTC) ledger; and</p> <p>c. Schedule of entitlement of the stock rights indicating the subscribed shares, the approved and unapproved additional shares.</p> <p>For remittance of interest earned from the peso cash account, certification from the depositary/custodian bank on the amount of interest pertaining to the excess peso funds for outward remittance</p>
<p>4. Outward Investment a. Direct Equity Investments</p>	<p>a. Photocopy of investment proposal/ agreement, or subscription agreement;</p> <p>b. Photocopy of Deed of Sale or Assignment of the investments;</p>

<p>b. Portfolio Investments</p>	<ul style="list-style-type: none"> <li>c. A certification on the cumulative FX purchases from AABs and AAB-forex corps within the calendar year for outward investments, including investments in bonds/notes of the Republic of the Philippines and other Philippine entities;</li> <li>d. Affidavit of Undertaking to inwardly remit and sell for pesos through AABs thirty (30) banking days from receipt abroad the dividends earnings or divestment proceeds from outward investments funded by FX purchased from AABs and AAB-forex corps using the prescribed format under Annex K;</li> <li>e. Photocopy of BSP approval on FX purchases from AABs and AAB-forex corps for outward investments, including investments in bonds/notes of the Republic of the Philippines and other Philippine entities, exceeding USD60 million per investor per calendar year; and</li> <li>f. Photocopy of clearance, regardless of amount, from the appropriate department of the BSP-Supervision and Examination Sector (SES) for outward direct equity investments of banks and from the Insurance Commission (IC) for outward investments of insurance companies.</li> </ul> <ul style="list-style-type: none"> <li>a. Photocopy of subscription agreement, or bond/stock offering;</li> <li>b. Photocopy of swift payment order instruction from the counterparty/ broker/trader indicating the name of payee and type/kind of investment authenticated by the broker/trader;</li> <li>c. Photocopy of investor's order to broker/trader to buy the securities;</li> <li>d. A certification on the cumulative FX purchases from AABs and AAB-forex corps within the calendar year for outward investments, including investments in bonds/notes of the Republic of the Philippines and other</li> </ul>
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	<p>Philippine entities;</p> <ul style="list-style-type: none"> <li>e. Affidavit of Undertaking to inwardly remit and sell for pesos through AABs within thirty (30) banking days from receipt abroad of the dividends/ earnings or divestment proceeds from outward investments funded by FX purchased from AABs and AAB-forex corps using the prescribed format under Annex K;</li> <li>f. Photocopy of BSP approval on FX purchases from AABs and AAB-forex corps for outward investments, including investments in bonds/notes of the Republic of the Philippines and other Philippine entities, exceeding USD30 million per investor per calendar year; and</li> <li>g. Photocopy of clearance, regardless of amount, from the Insurance Commission (IC) for outward investments of insurance companies.</li> </ul>
<p>5. Investments in FX-denominated bonds/ notes and Philippine Peso-denominated bonds/notes (to be settled in foreign currency) issued offshore by the Republic of the Philippines and Other Philippine Entities</p>	<ul style="list-style-type: none"> <li>a. Photocopy of subscription agreement or bond offering;</li> <li>b. Photocopy of swift payment order instruction from the counterparty/ broker/trader indicating the name of payee and type/kind of investment authenticated by the broker/trader;</li> <li>c. Photocopy of investor's order to broker/trader to buy the securities;</li> <li>d. A certification on the cumulative FX purchases from AABs and AAB-forex corps within the calendar year for investments in bonds/notes of the Republic of the Philippines and other Philippine entities, including for outward investments;</li> <li>e. Affidavit of Undertaking to inwardly remit and sell for pesos through AABs within thirty (30) banking days from receipt abroad the dividends/earnings or divestment proceeds from foreign currency-denominated bonds/notes of the Republic of the Philippines and</li> </ul>

	<p>other Philippine entities funded by FX purchased from AABs and AAB-forex corps using the prescribed format under Annex K;</p> <p>f. Photocopy of BSP approval on FX purchases from AABs and AAB-forex corps for outward investments, including investments in bonds/notes of the Republic of the Philippines and other Philippine entities, exceeding USD60 million per investor per calendar year; and</p> <p>g. Photocopy of clearance, regardless of amount, from the Insurance Commission for investments by insurance companies</p>
<p>All FX purchases for non-trade transactions shall be directly remitted to the (a) intended non-resident beneficiary's account (whether offshore or onshore); or (b) resident creditor bank, whose FCDU loans are eligible to be serviced with FX purchased from the banking system. Exceptions to this rule include travel funds, medical expenses abroad not yet incurred, and sales proceeds of emigrant's domestic assets if emigrant is still in the country.</p> <p><i>(As amended by Circular No. 698 dated 05 November 2010)</i></p>	

**LIST OF REGULATED IMPORT COMMODITIES AND  
ADMINISTERING AGENCIES/BUREAUS**

Government Agencies/Issuing Permits/Clearance/Legal Basis	Commodity Description/Commodity Group/Tariff Heading (TH)
<p>Philippine Drug Enforcement Agency (PDEA) and Dangerous Drugs Board (DDB)</p> <p>Republic Act (RA) No. 9165 (The Comprehensive Dangerous Drugs Act of 2002) dated 07 June 2002</p>	<p>Essential Chemicals and Controlled Precursors; and Dangerous Drugs (Ketamine, Pseudoephedrine, Oripavine, and Amineptine)</p>
<p>Environmental Management Bureau (EMB)</p> <p>R.A. No. 6969 (The Toxic Substances, Hazardous and Nuclear Wastes Control Act of 1990) dated 26 October 1990</p>	<p>Cyanide, Mercury, Asbestos, Polychlorinated Biphenyl, Chlorofluorocarbon and other ozone depleting substances TH 2805.4, 2903, 2523, 2503</p>
<p>Department of Health - Bureau of Food and Drugs (DOH - BFAD)</p> <p>Executive Order No. 776 dated 24 February 1992 and Bureau Circular No. 03-A s.2000</p> <p>R.A. No. 8976 (Philippine Food Fortification Act of 2000) dated 07 November 2000</p> <p>R.A. No. 8172 (An Act for Salt Iodization Nationwide - ASIN) dated 20 December 1995</p>	<p>Semi-synthetic antibiotics (all form and salts of ampicillin, amoxicillin, and cloxacillin)</p> <p>Wheat Flour / TH 1101</p> <p>Iodized Salt / TH 2501</p>
<p>Energy Resource Development Bureau (ERDB)</p> <p>Section 104 of Presidential Decree No. 1464 (The Tariffs and Customs Code of 1978) dated 11 June 1978</p>	<p>Coal and lignite (excluding jet), whether or not pulverized, but not agglomerated / TH 2701, 2702</p>
<p>National Bureau of Investigation (NBI) and Cash Department of the Bangko Sentral ng Pilipinas (BSP)</p>	<p>Color Reproduction Machines / TH 9009</p>

Government Agencies/Issuing Permits/Clearance/Legal Basis	Commodity Description/Commodity Group/Tariff Heading (TH)
<p>Explosives Mangement Branch (EMB), Philippine National Police (PNP)</p> <p>Executive Order (E.O.) No. 522 (prescribing Rules and Regulations for the Control and Supervision of the Importation, Sale and Possession of Chemical Used as Ingredients in the Manufacture of Explosives and for Other Purposes) dated 26 June 1992</p>	<p>Chlorates, nitrates and nitric acid / TH 2829, 2834, 2808</p>
<p>Fertilizers and Pesticide Authority (FPA)</p> <p>Presidential Decree No. 1144 (Creating the Fertilizer and Pesticide Authority and Abolishing the Fertilizer Industry Authority) dated 30 May 1997 and FPA Pesticide Regulatory Policies and Implementing Guidelines, 2nd Edition, 2001</p>	<p>All fertilizers, pesticides and other chemical products that are intended for agricultural use</p>
<p>Bureau of Import Services (DTI - BIS)</p> <p>E.O. No. 156 (Providing for a Comprehensive Industry Policy and Directions for the Motor Vehicle Development Program and Its Imlementing Rules) dated 12 December 2002</p>	<p>Used motor vehicle under the no-dollar import program that is owned and for personal use by a returning resident or immigrant with a gross vehicle weight (GVW) not exceeding 3,000 kilograms (kgs) and must be left-hand drive</p> <p>Used trucks excluding pick-up trucks with GVW of 2.5 - 6 tons / TH 8709</p> <p>Used buses with GVW of 6 - 12 tons / TH 8702</p> <p>Brand new/Used automotive replacement parts and brand new motorcycle replacement parts [Note: All used motorcycle parts (except engine), including brand new motorcycle replacement chassis and frame, are not allowed for importation.] / TH 8702.9, 8703.9</p>

Government Agencies/Issuing Permits/Clearance/Legal Basis	Commodity Description/Commodity Group/Tariff Heading (TH)
E.O. No. 156 and Department Administrative Order (DAO) No. 08 s. 2003	Used trucks for rebuilding purposes such as truck chassis, engine, body and cabin/cowl, transmission/drivelines, axles (front and rear) or steering system / TH 8701.1
<p>LOI No. 1086 dated 25 November 1980</p> <p>E.O. No. 443 s. 2005 dated 05 July 2005</p> <p>LOI No. 1307 s. 2003</p>	<p>Used tires</p> <p>Used motor vehicle importation through donation by local government units</p> <p>Importation by all instrumentalities of the government</p>
<p>Department of Foreign Affairs (DFA)</p> <p>E.O. No. 156 dated 12 December 2002 and</p>	Used vehicles for the use an official of the Diplomatic Corps
<p>Philippine International Trading Corporation (PITC)</p> <p>LOI No. 444 (Promulgating Guidelines on Trade Socialist and Other Centrally-Planned Economy Countries) dated 09 August 1967, as amended by EO No. 244 dated 12 May 1995</p>	All commodities originating from the following socialist and centrally-planned economy countries (Albania, Angola, Ethiopia, Laos, Libya, Mongolia, Mozambique, Myanmar, Nicaragua and North Korea)
<p>Maritime Industry Authority (MARINA)</p> <p>Memorandum Circular (MC) No. 104 dated 06 April 1995</p> <p>MC No. 121 dated 29 July 1997</p> <p>R.A. No. 9295 (Domestic Shipping Development Act of 2004) dated 03 May 2004</p> <p>MC No. 169 dated 13 December 2001</p>	<p>Ships / TH 8901</p> <p>High Speed Craft / TH 8901.9</p> <p>Ship's Equipment/Spare Parts</p> <p>Spare Parts of Foreign Flagships undergoing emergency repair</p>

Government Agencies/Issuing Permits/Clearance/Legal Basis	Commodity Description/Commodity Group/Tariff Heading (TH)
<p>Philippine Nuclear Research Institute (PNRI)</p> <p>Republic Act No. 5207 (An Act Providing for the Licensing and Regulation of Atomic Energy Facilities and Materials, Establishing the Rules on Liability for Nuclear Damage, and for Other Purposes) dated 15 June 1968, as amended by Presidential Decree No. 1484 dated 11 June 1978</p>	<p>Atomic energy materials / TH 2844</p>
<p>Bangko Sentral ng Pilipinas (BSP)</p>	<p>Legal tender Philippine currency in excess of PHP10,000</p> <p>Bank Notes, Coin of precious metal other than gold and of non-precious metal not being legal tender, Coin blank essentially of gold, Coin blank essentially of steel, Coin blank essentially of copper, Coin blank essentially of nickel, Coin blank essentially of zinc, Coin blank essentially of tin, and Coin blank essentially of aluminum /</p> <p>TH 4907, 7118, 7108, 7326, 7419, 7508, 7907, 8007, 7616</p>

### PROHIBITED COMMODITIES

The importation of the following commodities is not allowed under existing laws:

- (a) Those specifically listed under Section 101 of the Tariff and Customs Code (Appendix 3.1);
- (b) Used clothing and rags (R.A. 4653);
- (c) Toy firearms and explosives, which, even if dissimilar in other aspects, are replicas in appearance, measurements, color and parts as its genuine counterpart firearms and explosives (LOI 1264 dated July 31, 1982)

**TARIFF AND CUSTOMS CODE OF THE PHILIPPINES**  
**SECTION 101**

**Prohibited Importations**

The importation into the Philippines of the following articles are prohibited:

(1) Dynamite, gunpowder, ammunitions and other explosives, firearms, and weapons of war, and parts thereof, except when authorized by law.

(2) Written or printed articles in any form containing any matter advocating or inciting treason, or rebellion, insurrection, sedition, or subversion against the Government of the Philippines, or forcible resistance to any law of the Philippines, or containing any threat to take the life of , or inflict bodily harm upon any person in the Philippines.

(3) Written or printed articles, negatives or cinematographic film, photographs, engravings, lithographs, objects, paintings, drawings, or other representation of an obscene or immoral character.

(4) Articles, instruments, drugs and substances designed, intended or adapted for producing unlawful abortion, or any printed matter which advertises or describes or gives directly or indirectly information where, how or by whom unlawful abortion is produced.

(5) Roulette wheels, gambling outfits, loaded dice, marked cards, machines, apparatus or mechanical devices used in gambling or the distribution of money, cigars, cigarettes, or other when such

distribution is dependent on chance, including jackpot and pinball machines or similar contrivances, or parts thereof.

(6) Lottery and Sweepstakes tickets except those authorized by the Philippine Government, advertisements thereof and list of drawings therein.

(7) Any article manufactured in whole or in part of gold, silver or other precious metals or alloys thereof, the stamps, brands or marks or which do not indicate the actual fineness of quality of said metals or alloys.

(8) Any adulterated or misbranded articles of food or any adulterated or misbranded drug in violation of the provisions of the "Food and Drugs Act".

(9) Marijuana, opium, poppies, coca leaves, heroin or any other narcotics or synthetic drugs which are or may hereafter be declared habit forming by the President of the Philippines, or any compound, manufactured salt, derivative, or preparation thereof, except when imported by the Government of the Philippines or any person duly authorized by the Dangerous Drugs Board, for medical purposes only.

(10) Opium pipes and parts thereof, or whatever material.

(11) All other articles and parts thereof, the importation of which is prohibited by law or rules and regulations issued by competent authority (as amended by Presidential Decree No. 34).

**GUIDELINES COVERING THE SALE OF FOREIGN EXCHANGE BY AUTHORIZED  
AGENT BANK AND AUTHORIZED AGENT BANK-FOREX CORPS FOR TRADE  
TRANSACTIONS**

I. Importations under Letter of Credit (L/C), Documents against Payment (D/P) and Documents against Acceptance (D/A):

a. All import L/Cs to be opened shall include under the L/C terms and conditions, among others, the clause:

“L/C number shall be indicated on all copies of shipping documents”

b. All original shipping documents [Bill of Lading (BL) or Airway Bill (AWB) and Invoice] shall be stamped by the issuing/booking reporting AAB/OBU with the AAB's/OBU's name and mode of importation (i.e. L/C, D/P, or D/A), whether foreign exchange has been sold or not. AAB's/OBU's authorized officers shall accomplish a certification that original documents were presented and duly stamped. This certification shall be maintained by the stamping AAB/OBU together with the photocopied shipping documents and be made available for BSP verification.

c. AABs/OBUs other than the issuing booking/reporting AAB/OBU, including AAB-forex corps, may sell foreign exchange to importer clients, provided that:

1. The sale is supported by the following documents:

1.1 Copy/photocopy of the original shipping documents duly stamped as in Item I.b above;

1.2 Certification from the issuing booking/reporting AAB/OBU signed by the AAB's/OBU's authorized signatory (addressed to individual foreign exchange selling AABs or OBUs or AAB forex corps) indicating the following:

i. Amount of the outstanding foreign exchange trade obligations;

ii. Amount of FX intended to be purchased; and

iii. Bank Reference Number (BRN) for D/A.

2. The foreign exchange selling AAB/OBU or AAB-forex corp shall immediately remit proceeds of foreign exchange sale directly to the issuing/booking/reporting AAB/OBU, indicating in the remittance instructions pertinent information such as the L/C No., BSP Registration No., BL No., Invoice No., etc.

3. The booking/issuing/reporting AAB/OBU shall, upon receipt of foreign exchange, stamp “FX SOLD” on the original shipping documents at hand and indicate thereon the amount of foreign exchange and name of the foreign exchange selling AAB(s) or OBU(s) or AAB-forex corp(s). The stamped information shall be duly signed by the booking issuing/reporting AAB's/OBU's authorized signatory.

II. Importations under Direct Remittance (DR) or Open Account (O/A) Arrangement

a. For importations under O/A, the importer-client shall present to his reporting AAB/OBU original copies of the shipping documents, including one original BL or one of the original/carbon copies of AWBs, for stamping of bank's name, BRN and O/A as mode of importation. The authorized officer of the AAB/OBU shall affix his signature on the duly stamped original shipping documents certifying that original documents have been presented and that no foreign exchange has been sold. For importations under DR, the importer-client shall directly present to the selling AAB or AAB-forex corp the same original shipping documents for stamping of “FX SOLD” upon purchase of foreign exchange.

b. AABs or AAB-forex corps may sell foreign exchange for DR imports to

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importer-client subject to presentation by the importer-client of all original shipping documents cited in Item II.a above. The selling AAB or AAB-forex corp shall stamp "FX SOLD" on the original shipping documents upon sale of foreign exchange.

c. AABs/OBUs or AAB-forex corps may sell foreign exchange for duly reported O/A imports to importer-client subject to the following conditions:

1. In case the selling/remitting AAB/OBU is also the reporting AAB/OBU, the importer-client shall present the original shipping documents duly stamped as in Item II.a above.

2. In case the selling/remitting AAB/OBU is not the reporting AAB/OBU:

2.1. The importer-client shall present the duly stamped original shipping documents as in Item II.a above; and

2.2. The selling/remitting AAB/OBU shall stamp "FX SOLD" signed by the selling/remitting AAB's/OBU's authorized signatory on the duly stamped original shipping documents and indicate thereon the amount of foreign exchange sold.

3. In case the selling AAB/OBU or AAB-forex corp is not the remitting AAB/OBU:

3.1. The importer-client shall present the duly stamped original shipping documents as in Item II.a above;

3.2. The selling AAB/OBU or AAB-forex corp shall stamp "FX SOLD" signed by the selling AAB's/OBU's or AAB-forex corp's authorized signatory on the duly stamped

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original shipping documents and indicate thereon the amount of foreign exchange sold;

3.3. The selling AAB/OBU or AAB-forex corp shall transmit the duly stamped "FX SOLD" original shipping documents indicating thereon the amount of foreign exchange sold to the importer-client and simultaneously transfer the foreign exchange proceeds to the remitting AAB/OBU for immediate remittance to foreign supplier; and

3.4. The remitting AAB/OBU shall report such payment under Schedule 11 of FX Form 1.

d. In all cases, the selling AAB/OBU or AAB-forex corp shall not sell foreign exchange to an importer-client beyond the maturity of the O/A importation without being duly extended by the foreign supplier as evidenced by an extension letter from the foreign supplier submitted to the selling bank which should have been reported under Schedule 10 of FX Form 1. AABs/OBUs or AAB-forex corps may sell foreign exchange for servicing of O/A importations extended beyond 360 days from date of BL/AWB upon presentation by the importer-client of a BSP letter of approval.

III. Photocopies of the original shipping documents (released to client) shall be marked "ORIGINAL DOCUMENT PRESENTED AS REQUIRED" and duly signed by the AAB's/OBUs authorized signatory. These should be retained in the AAB's/OBU's file for BSP examination purposes.

**DOCUMENTARY REQUIREMENTS FOR OPENING AN L/C**  
**(To be Submitted by the Importer to the AAB/OBU)**

1. The duly accomplished L/C application;
2. Firm offer/proforma invoice which shall contain information on specific quantity of the importation, unit cost and total cost, complete description/specification of the commodity and Philippine Standard Commodity Classification statistical code;
3. Permits/clearances from appropriate government agencies, whenever applicable; and
4. Duly accomplished Import Entry Declaration (IED) Form which shall serve as basis for payment of advance duties as required under Presidential Decree No. 1853 (Requiring Deposits of Duties at the Time of Opening of L/Cs Covering Imports and for Other Purposes) dated 21 December 1982.

**GUIDELINES FOR REPORTING, PAYMENTS AND EXTENSIONS OF IMPORTATIONS UNDER D/A OR O/A ARRANGEMENTS**

1. **Reporting.** Authorized Agent Banks (AABs) and offshore banking units (OBUs) shall report importations under D/A or O/A arrangements as availments under Schedule 10 (Import Letters of Credits (L/Cs) Opened and D/A-O/A Import Availments and Extensions) of FX Form 1 (Consolidated Report on Foreign Exchange Assets and Liabilities) upon receipt of the documents specified in 4.a herein and payments on said importations under Schedule 11 (Import Payments) of FX Form 1. Frequency and schedule of submission of said Schedules to BSP with the corresponding fines and penalties for late or erroneous submission shall be in accordance with Sections 101 and 103, respectively, of the Manual. Any extension of the maturity date thereof shall likewise be reported under said Schedule 10.

**Period of Reporting.** Such reporting of availments shall be made not later than ten (10) calendar days before the maturity date of the said D/A-O/A importation. If reported later than said period (i.e., less than 10 calendar days before maturity), the importer shall be required to pay to the BSP the peso equivalent of 1/100 of 1 percent of the unpaid balance of the importation but not less than USD50.00 or more than USD1,000.00.

2. **Payments.** Payments using foreign exchange sourced from AABs, OBUs or AAB-forex corps shall be effected only for D/A-O/A imports reported by an AAB/OBU under said Schedule 10 of FX Form 1. Payments prior to maturity date may be allowed without BSP approval, provided these are for duly reported D/A-O/A imports.

Payments for D/A-O/A importations reported later than the required period as provided in the preceding Item 1 shall not

use foreign exchange purchased from AABs, OBUs or AAB-forex corps unless BSP official receipt is presented that the prescribed processing fee has been paid to the BSP.

3. **Extensions.** Payments after the original maturity date for duly reported DA/OA imports may be allowed without prior BSP approval, regardless of frequency of extension, provided that the cumulative length of extensions does not exceed 360 days from BL/AWB date.

4. **Mechanics of Reporting.**

a. Importers shall submit through an AAB/OBU copies of the pertinent commercial invoice, BL/AWB, and if applicable, import permit on the basis of which the AAB shall report to the BSP the same as DA/OA availment under said Schedule 10.

b. The D/A-O/A import transactions shall be considered reported only if the same has been assigned a unique Bank Reference Number (BRN) by the reporting AAB/OBU and duly reported by the same AAB/OBU under said Schedule 10.

c. AABs, OBUs or AAB forex corps shall not service the foreign exchange requirements upon maturity of any D/A-O/A importation not duly reported under said Schedule 10 as prescribed herein.

d. AABs, OBUs or AAB-forex corps selling foreign exchange for duly reported O/A imports shall stamp "FX SOLD" on the original shipping documents and indicate thereon the amount of foreign exchange sold and name of the foreign exchange selling institution. The stamped information shall be duly signed by the foreign exchange selling institution's authorized signatory. Thereafter, the importer shall present the stamped original shipping documents to the remitting AAB/OBU and the same shall be

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reported by the remitting AAB/OBU under Schedule 11 of FX Form 1.

e. The existing documentary requirements for the purchase of foreign exchange from AABs, OBUs or AAB-forex

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corps to pay D/A-O/A imports shall be strictly complied with.

The guidelines for reporting of importations under D/A or O/A arrangements are detailed in Appendix 6.1.

**GUIDELINES FOR REPORTING OF IMPORTATIONS  
UNDER D/A-O/A ARRANGEMENTS**

1. Authorized Agent Banks (AABs) and offshore banking units (OBUs), upon receipt of their importer-clients' original shipping documents under documents against acceptance (D/A) and open account (O/A), shall report the same under the revised Schedule 10 (Import Letters of Credit (L/Cs) Opened and D/A-O/A Import Availments and Extensions) and upon payment thereof under Schedule 11 (Import Payments), both Schedules of FX Form 1 (Consolidated Report on Foreign Exchange Assets and Liabilities);

2. Within five (5) banking days after the end of the reference week, the hard copy of the following shall be submitted to the BSP-International Department (ID):

a. Schedule 10 together with a copy of commercial invoice, for DA/OA imports exceeding USD50,000 or its equivalent, a copy of the commercial invoice, bill of lading (B/L) or airway bill (AWB) and/or other appropriate documents required under Appendix 4 of the Manual, for post-audit and validation purposes; and

b. Schedule 11 if it involves D/A-O/A partial payments indicating such partial payments with an asterisk and as footnote the amount in original currency and USD equivalent thereof.

3. Each D/A-O/A importation shall be assigned by the reporting AAB/OBU its unique Bank Reference Number (BRN) incorporating thereon its bank code and such BRN reference number should also be used by the remitting AAB/OBU when reporting payment of the same importation;

4. If the currency of payment is not USD, the USD equivalent to be reported under said Schedule 10 shall be computed at the exchange rate quoted in the daily BSP Treasury Department Reference Exchange Rate Bulletin issued on report date;

5. Extensions of maturity date shall be reported under said Schedule 10;

6. In case of an O/A importation where the foreign exchange selling/remitting AAB/OBU is not the reporting AAB/OBU, the selling/remitting AAB/OBU shall, prior to foreign exchange sale, require the submission of the following: (1) required documents under Item II.a of *Appendix 4*; and (2) certification from the reporting AAB/OBU as to the remaining unpaid balance of the O/A importation and that the O/A importation has been duly reported to the BSP with the BRN indicated thereon duly signed by the reporting AAB's/OBU's authorized officer. The foreign exchange selling and remitting AAB/OBU shall report such payment under said Schedule 11;

7. The AAB/OBU reporting the D/A-O/A availment shall verify the importer code of a new importer with the BSP-ID to avoid invalid entries and unreconciled importer name under Schedule 10; and

8. Penalty provisions under Section 106 of the Manual shall apply to AABs that sell foreign exchange for servicing D/A-O/A importations that were not previously reported to the BSP under the prescribed Schedule 10 of FX Form 1 or were reported later than ten (10) calendar days before due date without payment of required BSP processing fee.

**GUIDELINES FOR THE SALE OF FOREIGN EXCHANGE (FX) TO IMPORTERS BY  
AABs AND AAB-FOREX CORPS UP TO USD1 MILLION OR ITS EQUIVALENT IN  
OTHER FOREIGN CURRENCY FOR ADVANCE PAYMENT OF IMPORTS**

Sale of FX up to USD1 million or its equivalent in other foreign currency for full or partial advance payment of imports may be done without prior BSP approval<sup>1</sup> subject to the following guidelines:

1. AABs or AAB-forex corps shall require presentation of the original/ submission of copies of the following documents prior to the sale of FX for advance payment of imports:

- (a) purchase order (PO);
- (b) sales contract (SC) or proforma invoice (PI) signed by the resident importer and foreign supplier requiring payment of the importation in advance and indicating the intended delivery period of the imported goods; and
- (c) notarized Letter of Undertaking (LOU) to the effect that if the importation is cancelled, the importer shall inwardly remit the FX refunded by the foreign supplier and sell same for pesos to the FX selling/remitting AAB on the same date.

2. If the seller of FX is an AAB, the FX sale and remittance shall be transacted on the same date and shall involve only one AAB. The foreign exchange remittance shall be made directly to the foreign supplier and serviced at the exchange rate prevailing at the time of remittance, subject to the applicable tax provisions of the National Internal Revenue Code, as amended. If the selling entity is an AAB-forex corp, the foreign exchange proceeds shall be remitted to the foreign supplier through the parent AAB. The remitting AAB shall see to it that sales of FX by its AAB-forex corp subject for remittance are made in accordance with existing rules.

3. The importer shall present to the FX selling/remitting AAB the original shipping documents [import invoice and bill of lading (BIL) or air waybill (AWB)] where the date and amount of FX sold/remitted shall be stamped and duly signed by the AAB's authorized signatory, and the Bureau of Customs Import Release Documents, within three (3) banking days after receipt thereof.

4. Submission by the FX selling and remitting AAB to the BSP-ID of the following reports:

a. Monthly Report on Sale/Remittance of FX for Advance Payment of Importations up to USD1 million or its equivalent in other foreign currency (Annex B) - within the first five (5) banking days of the month succeeding the date of FX sale/remittance; and

b. Monthly Report on Purchase of FX from Refund of Advance Payment of Importations up to USD1 million (Annex C) - within the first five (5) banking days of the month succeeding the receipt of the refund.

5. The FX selling/remitting AAB shall report to the BSP under FX Form 1 (Consolidated Report on Foreign Exchange Assets and Liabilities) the following transactions:

a. The remittance of FX by the AAB for advance payment of imports as "Import Advances/Down Payments" (Code No. 040) under Schedule 4 (FX Disposition for Loans);

b. The purchase of FX by the AAB from the importer arising from a refund of advance payment on cancelled imports as "Refund of Import Advances/Down Payments" (Code No. 040) under Schedule 3 (FX Acquisition from Loans); and

<sup>1</sup> Sale of foreign exchange exceeding USD100,000.00 or its equivalent for advance payment of imports shall require prior BSP approval.

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c. In case of importations with partial advance payment whose balance is payable through letters of credit (L/Cs), documents against acceptance (DA), open account (OA), documents against payment (DP), or direct remittance (DR), such balance shall be reported under the following Schedules:

(1) Schedule 10 [Import Letters of Credit (L/Cs) Opened and DA-OA Import

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Availments and Extensions] for L/C (upon opening) and for DA-OA (upon availment); and

(2) Schedule 11 (Import Payments) upon payment.

6. The foregoing rules on advance payments shall apply to importations under all modes of payment.

*(As amended by Circular No. 698 dated 05 November 2010)*

**REGULATED PRODUCTS NEEDING EXPORT CLEARANCES**

The list below pertains to regulated products needing export clearances from various concerned government agencies prior to shipment.

**List of Regulated Commodities and Administering Agencies/Bureaus**

<b>Products</b>	<b>Office/Agency</b>
All exports to the following socialist and centrally-planned economy countries: Albania, Laos People's Democratic Republic, Ethiopia, Mozambique, Angola, Mongolia People's Republic, Democratic Republic of Korea (North Korea), Nicaragua, Libya, Myanmar	Philippine International Trading Corporation (PITC)
All plants, planting materials and plant products capable of harboring pests; insect specimens, live and dead	Bureau of Plant Industry (BPI)
Animals, animal products and animal effects	Bureau of Animal Industry (BAI)
Antiques, cultural artifacts and historical relics	National Museum (NM)
Coffee	International Coffee Organization Certifying Agency (ICO-CA) – Department of Trade and Industry (DTI)
Copper concentrates	Board of Investments (BOI)
Firearms, ammunitions and explosives	Firearms and Explosives Office Philippine National Police (PNP) - Department of Interior and Local Government (DILG)
Grains and grain-by-products	National Food Authority (NFA)
Logs, poles and piles including log core and flitches/railroad ties	Forest Management Bureau (FMB), Department of Environment and Natural Resources (DENR)
Lumber	- do -
Motion pictures/television films and related publicity materials	Movie and Television Review and Classification Board (MTRCB)

Products	Office/Agency
Legal tender Philippine notes and coins, checks, money orders and other bills of exchange drawn in pesos against banks operating in the Philippines greater than P10,000.00	Bangko Sentral Ng Pilipinas (BSP)
Radioactive materials	Philippine Nuclear Research Institute (PNRI)
Sugar, molasses and muscovado	Sugar Regulatory Administration (SRA)
Frogs: Live, skin or products from the skin or meat	Protected Areas and Wildlife Bureau (PAWB)
Wild Terrestrial Species to include live, stuffed, preserved, by-products and derivatives, e.g.: Mammals (i.e., Philippine Monkeys, cloud-rats, ant eater, Philippine tarsier and skunk), Aves (i.e., bleeding heart pigeons, java sparrows, tree sparrow, parrot, finches, Phil. white-eye, Phil. starlings, hanging parakeets, brush cuckoo, plaintive cuckoo, amethyst fruit dove, blue-tailed bee-eater, crested mynah, pink-necked green pigeon, painted quail, button quails, bended rail, plain swamphen, green-winged dove, slender-billed cuckoo, white-eared brown dove, kingfishers, black-naped oriole, black-naped monarch, redamadavat, guiabero) Reptiles (i.e., gecko, monitor and sail-finned lizards, land turtles) Flora (i.e., tree ferns, cycas plant, all species orchids, aloe plant, sanders alocasia, striped alocasia, voiavoi, bungang ipod, cactus, Philippine camia/garland, Himalayan yew, Agar wood, eagle wood, big-leaf mahogany and red-sanders). All species of butterflies, exotic wildlife species found under Appendix II of the Convention on International Trade on Endangered Species of Wild Flora and Fauna (CITES) such as parrots, macaw, pigeons and conures	- do -
All handicrafts for export. (Exporters can avail of the Special Tariff Treatment in countries where the Philippines have trade agreements if they secure a handicraft certification from the DTI	DTI – National Capital Region

Products	Office/Agency
Tobacco products	National Tobacco Administration (NTA)
Matured coconuts without husk for food or non-food processing and fresh young coconuts (buko) capable of harboring coconut cadang-cadang viroid disease (CCCVD) or other pests	Philippine Coconut Authority (PCA)
Capiz shells: semi-finished or semi-processed	Bureau of Fisheries and Aquatic Resources (BFAR)
Processed coir, and raw or processed coco peat (dust) capable of harboring cadang-cadang viroid disease	PCA
Live animals: gamefowl, wild birds and exotic animals, monkeys, other livestock and poultry, dogs and cats	BAI
Bamboo poles	FMB
Wildlife species: wild marine species, e.g.: water snakes (Cerberus nynchops); seasnakes: live, skin or products from the skin or meat	BFAR

**LIST OF PROHIBITED PRODUCTS FOR EXPORT**

These products are prohibited for export under existing policies of the government agency/ office concerned except for scientific or testing purposes

<b>Products</b>	<b>Office/Agency</b>
Abaca and Ramie Seeds, Seedlings Suckers, and Root Stocks; Buri Seeds and Seedlings	Fiber Industry Development Authority (FIDA)
Bakawan (mangrove)	Forest Management Bureau (FMB), Department of Environment and Natural Resources (DENR)
<i>mother bangus</i> (sabalo)	Bureau of Fisheries and Aquatic Resources (BFAR)
Gold from small scale mining or panned gold	Bangko Sentral ng Pilipinas (BSP)
Matured coconuts and coconut seedlings	Philippine Coconut Authority (PCA)
Prawn-Spawner and Fry	BFAR
Raw materials for cottage industries: monkey pod (acacia), rattan (including poles)	DENR
Shells: Trumpet shells (Triton); Helmet Shells (Cassis); Live specimens, raw shells, meat and by-products of giant clams under the family Tridacnidae (Tridacna gigas, T. derasa, T. squamosa, T. maxima, T. crocea, Hippopus hippopus porceilanus)	BFAR
Shells: Undersized raw shells of Trocas, Gold lip, Black lip, Turbo mamoratus and raw capiz	- do -
Stalactites and stalagmites	DENR
Wildlife species: Wild marine species, e.g.: precious, semi-precious and all ordinary corals raw and by-products	BFAR

Products	Office/Agency
Wild terrestrial species whether live, stuffed or by-products, e.g.: Mammals (i.e., tamaraw, tarsier, deers (calamian deer), sea cow, fruit bats) Aves (i.e., eagles, redvent cockatoo, Palawan peacock pheasant, Palawan mynah, horn bills, nicobar pigeon, Mindoro imperial pigeon, Peregrine falcon, spotted green shank, Kotch's pitta, giant scops owl and Eastern sarus crane), Reptiles (i.e., crocodiles, marine turtles, pythons), Flora (i.e., lady's slipper orchid, vanda sanderiana, pitcher plant, dendrobicum cruentum). Exotic wildlife species found under Appendix 1 of the CITES such as buffoon macaw, scarlet macaw.	Protected Areas and Wildlife Bureau (PAWB)

**PROCEDURES AND DOCUMENTATION REQUIREMENTS FOR THE  
REGISTRATION OF INWARD FOREIGN INVESTMENTS**

A foreign investment is considered BSP-registered upon issuance of a Bangko Sentral Registration Document (BSRD) by the BSP or a designated custodian bank.

A. For registration with the BSP

Foreign direct investments and investments in peso-denominated money market instruments under Section 34 and Section 35.3, respectively, of the "Manual" shall be registered directly with the BSP.

1. Foreign Direct Investments<sup>1</sup>

The following are the procedures for registration and the requisite supporting documents:

a. For Cash Investment

The application shall be filed directly with BSP together with the following supporting documents:

i. Certificate of Inward Remittance (CIR) of foreign exchange and its conversion to pesos through an AAB (except for investments in banks where conversion to pesos is not required) in the prescribed format (Sample CIR and Guide/Instructions for Filling-Out CIR Form hereto attached as *Appendix 10.1* and *Appendix 10.2*, respectively); and

ii. Sworn certification of the officer of the investee firm concerned attesting to the number of shares and amount paid for the investment (Suggested format attached as *Appendix 10.3*).

b. For Investment in Kind

Application for registration shall be filed directly with BSP together with the following supporting documents:

i. Shipping documents;

ii. Bureau of Customs Import Entry and Internal Revenue Declaration (IEIRD); and

iii. Sworn certification of the officer of the investee firm concerned attesting to the number of shares and amount paid for the investment (Suggested format attached as *Appendix 10.3*).

The value of investments in kind shall be assessed and appraised by the BSP before their registration.

c. For investment in financial institutions which are governed and regulated by the BSP:

Clearance from the Supervision and Examination Sector of the BSP shall be required in addition to the documentary requirements for investments in cash or in kind.

d. Registration as foreign investments of capitalized oil/gas/geothermal exploration expenditures

The application for registration shall be filed directly with the BSP together with the following supporting documents:

i. Government-approved service contract/other contract; and

ii. Copy of the Department of Energy (DOE)/National Power Corporation (NPC) letter-validation of expenditures showing, among others, the distribution of validated expenditures among the partners under the service contract/other contract.

e. Investments funded by foreign loan/s and other payables converted into equity

i. Original CIR of foreign exchange and its conversion to pesos through an AAB in the prescribed format (*Appendix 10.1*) for foreign loans not registered with the BSP; or

ii. Copy of BSP registration for foreign loans registered with the BSP;

iii. Sworn certification from investee firm's authorized officer attesting to the number of shares and amount paid for the investment remittable outward and that such

<sup>1</sup> Foreign direct investments required by law to be registered with the Securities and Exchange Commission or the Bureau of Trade Regulation and Consumer Protection of the Department of Trade and Industry shall be extended a Bangko Sentral Registration Document (BSRD) upon endorsement by either agency without need for the foreign investor/applicant to submit supporting documents to the BSP.

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are funded from foreign loans/payables converted to equity;

iv. Deed of Assignment of foreign loan or other payables;

v. Latest audited financial statements of investee firm; and

vi. Articles of Incorporation of the investee firm

f. Stock and/or property dividends accruing on BSP-registered investments in non-PSE-listed firms

a. Copy of BSRD; and

b. Sworn certification signed by the investee firm's authorized officer on the declaration of the stock and/or property dividend, to include relevant excerpts of the covering Board Resolution

g. Stock splits/reverse stock splits on BSP-registered investments in non-PSE-listed firms

a. Copy of BSRD; and

b. Sworn certification signed by the investee firm's authorized officer declaring the stock split/reverse stock split, to include relevant excerpts of the covering Board Resolution

2. Investments in Peso-denominated Money Market Instruments

Investments in money market instruments which refer to all peso-denominated debt instruments, such as but not limited to bonds, bills payables, promissory notes (PNs), and non-participating preferred shares, issued onshore by private resident firms, not included in Section 23 of the "Manual", shall be registered directly with the BSP supported by the following documents:

a. Original CIR of foreign exchange and its conversion to pesos through an AAB in the prescribed form (*Appendix 10.1*); and

b. Contract/Certificate of investment

For bonds or PNs issued by private domestic firms that were purchased from local creditor banks, the following additional documents shall be required:

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a. Copies of bonds or PNs;

b. Purchase Price Letter/Agreement;

c. Deed of Assignment of the loan;

d. Notice of Assignment of the loan; and

e. Acknowledgment by debtor of the Notice of Assignment

For foreign investments in non-participating preferred shares of Philippine investee enterprises, the following additional document/s shall be required:

Purchase invoice, or subscription agreement and/or proof of listing in the local stock exchange for new/additional issues/stock rights

3. Reinvestment of divestment/sales proceeds or dividends/profits/earnings of duly registered investments (The following documentation requirements are in lieu of the CIR and in addition to the required documentation for the specific form/type of reinvestment)

For divestment/sales proceeds

a. Original BSRD;

b. Sworn certification signed by the original investee firm's authorized officer attesting to the divestment/sale by the foreign investor; and

c. Proof of divestment/sale for direct investment/s; or

d. Matured contract/certificate of investment/proof of redemption for money market instruments

For dividends/profits/earnings

a. Copy of BSRD; and

b. Sworn certification signed by the investee firm's authorized officer declaring the dividends or distribution of profits, to include relevant excerpts of the covering Board Resolution; or

c. Proof of interest/coupon payments for investment/s in money market instruments

4. BSP-registered investments sold/transferred to another foreign investor if payment is made offshore in foreign exchange

a. Original BSRD;

b. Sworn certification from the authorized officer of the investee firm,

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attesting to the transfer/assignment of the investments from the selling foreign investor to the buyer, in the books of the investee firm; and

- c. Deed of Sale/Assignment

**Replacement of Lost BSRDs**

- a. Letter request from the foreign investor or his duly authorized representative;
- b. Affidavit of Loss from the foreign investor or his duly authorized representative attesting to the following:
  - i. Loss of the original BSRD;
  - ii. Reason for the loss;
  - iii. Affirmation that they have exercised diligent search for the document/s declared lost;
  - iv. That the investment is still intact and existing to date;
  - v. The outstanding balance of the investment, net of repatriation, if any
  - vi. The registration number/s and date/s registered;
  - vii. The number of shares registered under each registration and percentage of the foreign investment to the total shares subscribed and paid up, as applicable.
- c. Letter authority from the foreign investor for the replacement of the lost BSRD if the request and affidavit of loss are accomplished and signed by the duly authorized representative.

**B. For Registration with Custodian Banks**

Foreign investments in peso denominated government securities, PSE listed securities, and peso time deposits with tenor of at least 90 days as described in Items 1, 2, and 4 under Section 35 of the Manual shall be registered with custodian banks designated by the foreign investors. Custodian banks are authorized to issue on behalf of the BSP the BSRD for such investments. The duplicate copy of the new BSRD issued by custodian banks together with the requisite supporting documents enumerated in this Appendix shall be

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submitted to the BSP within two (2) banking days from date of registration for post audit purposes. The original copy of the BSRD shall remain in the custody of the issuing custodian bank.

**The "one-BSRD-per-investor-per-custodian-bank" rule**

The "one-BSRD-per-investor-per-custodian-bank" rule shall be followed for the registration of investments with custodian banks.

1. Only one BSRD shall be issued by a custodian bank to a foreign investor applying with that bank for registration of his foreign investments;
2. Additional inward foreign exchange remittances of a foreign investor through a custodian bank, which had earlier issued to that investor a BSRD, shall be considered BSP-registered after annotating such investments in said BSRD, and reporting to the BSP by said custodian bank within two (2) banking days from transaction date under the "Consolidated Daily Foreign Portfolio Investment Registration and Outward Remittance Report"; and
3. Changes in the composition of the registered investment holdings of the foreign investor that do not involve inward remittance of foreign exchange such as stock dividends, stock splits, or reverse stock splits, shall be annotated in the same BSRD and reported by the custodian bank to the BSP under the "Consolidated Daily Foreign Portfolio Investment Registration and Outward Remittance Report".

**Surrender of BSRD to the BSP**

Whenever the BSP-registered investments have been fully divested (redeemed/sold/withdrawn) by the foreign investor, the custodian of the original copy of the BSRD shall surrender said BSRD to the BSP for cancellation within two (2) banking days from date of full remittance of divestment proceeds.

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Documentary Requirements

1. Investments in peso-denominated government securities (GS)
  - a. Accredited dealer's Confirmation of Sale (COS);
  - b. Original CIR of foreign exchange and its conversion to pesos through an AAB in the prescribed format (*Appendix 10.1*);
  - c. "Authority to Disclose Information" in the prescribed format (*Appendix 10.4*).
2. Investments in PSE-listed securities  
The application for registration shall be supported with the following documents:
  - a. For new investments:
    - i. Purchase invoice, or subscription agreement and/or proof of listing in the local stock exchange for new/additional issues/stock rights; and
    - ii. Original CIR of foreign exchange and its conversion to pesos through an AAB in the prescribed format (*Appendix 10.1*).
  - b. For annotation in the BSRD of stock dividends which accrued to duly registered investments:  
PSE Notice (Circular for Brokers) announcing the issuance of Stock Dividend
  - c. For annotation in the BSRD of stock splits/reverse stock splits

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- PSE Notice (Circular for Brokers) announcing the issuance of Stock Splits/Reverse Stock Splits
3. Investments in peso time deposits with tenor of at least 90 days
  - a. Certification of peso time deposit;
  - b. Original Certificate of Inward Remittance (CIR) of foreign exchange and its conversion to pesos through an AAB in the prescribed format (*Appendix 10.1*); and
  - c. "Authority to Disclose Information" in the prescribed format (*Appendix 10.4*)
4. Reinvestment of divestment/sales proceeds or dividends/profits/earnings of duly registered investments
  - For divestment/sales proceeds
    - a. Original BSRD-Letter Advice; and
    - b. Proof of redemption of GS; or Broker's sales invoice; or Matured certificate of peso time deposit, as applicable
  - For dividends/profits/earnings
    - a. Original BSRD-Letter Advice;
    - b. PSE Notice (Circular for Brokers) announcing the issuance of cash dividend for PSE-listed securities; or proof of interest/coupon payments for investment/s in GS and peso time deposits

**CERTIFICATE OF INWARD REMITTANCE (CIR)  
OF FOREIGN EXCHANGE NO. CCYY-NNNNN-BBBB**

\_\_\_\_\_  
Name of Issuing Bank

TO THE BANGKO SENTRAL NG PILIPINAS:

Part I. This is to certify that this Bank (mark applicable box/boxes)	
<input type="checkbox"/> Received an inward remittance of foreign exchange (FX), with the following particulars:  1. Name of Remitter: _____  Global Custodian: <input type="checkbox"/> Yes <input type="checkbox"/> No 2. Country Code of Remitter: _____  3. Beneficiary of Foreign Currency Funds: _____  4. Remitting Foreign Bank: _____  5. Date of Remittance: ( __/__/__ ) 6. Remittance/Telegraphic Transfer Ref. No.: _____  7. FX Received: <input type="checkbox"/> Currency: _____ <input type="checkbox"/> Total T/T Amount: _____ <input type="checkbox"/> Amount Utilized: _____ <input type="checkbox"/> O/S Balance after this CIR Utilization: _____	<input type="checkbox"/> Converted FX into Pesos, with the following particulars:  8. (a) FX converted to Pesos: <input type="checkbox"/> Full Utilization of FX Received: _____ <input type="checkbox"/> Partial Utilization of FX Received: _____ O/S Balance after this Utilization: _____  (b) Rate of Conversion, Pesos per Foreign Currency (before charges): _____  (c) Amount of Peso Proceeds (net of charges): _____ (d) Date Converted to Pesos: _____  (e) FX Receiving Bank's Name (if other than converting bank): _____ CIR No.: _____ T/T Ref. No.: _____  9. USD Equivalent (if foreign currency remitted is other than USD): _____
Part II. This is to certify that (mark and fill out applicable box):  <input type="checkbox"/> The said peso proceeds were deposited with this bank on _____ date the proceeds were credited to client's account  <input type="checkbox"/> The peso proceeds have been paid to the beneficiary under: <input type="checkbox"/> MC No.: _____ <input type="checkbox"/> CC No.: _____ <input type="checkbox"/> PCHC Ref.: _____	

This certificate is issued for the sole purpose of obtaining a Bangko Sentral Registration Document (BSRD) for the inward foreign investment of \_\_\_\_\_ this \_\_\_\_\_  
Name and Nationality of Investor Date of Certification

Name of Branch/Department in Head Office	Signature of Authorized Officer Over Printed Name
Contact Telephone No.: _____ Fax No.: _____	Position

**Guide/Instructions for Filling Out the Certificate of Inward Remittance (CIR) Form****I. GENERAL INSTRUCTIONS**

1. Only one CIR shall be issued and only the original of each CIR shall be the basis, among other requirements, for the issuance of a BSRD unless with prior specific BSP approval. The issuing bank shall immediately release the original of each CIR to the investee, or his authorized representative, upon receipt by the beneficiary of the proceeds of foreign exchange (FX) remittance and/or conversion to pesos. The original CIR, among other documentation requirements, shall be submitted to a custodian bank, for registration of investments in government securities, PSE-listed securities, and bank time deposits; or to the BSP-International Department (ID), for registration of all other investments.

2. If the bank receiving the FX is also the bank converting the FX to pesos, it shall fully fill out and accomplish Parts I and II of the CIR.

3. If the receiving bank is different from the converting bank, the receiving bank shall fully fill out and accomplish only Nos. 1 to 7 of Part I and submit a copy of the CIR so accomplished to the converting bank which shall then issue a CIR by filling out and accomplishing only Nos. 8 (a to e) and 9 of Part I, and Part II.

4. The bank officer authorized to sign the CIR must be duly designated by the bank's Executive Vice President or Head of the Branch.

**II. SPECIFIC INSTRUCTIONS**

CIR NUMBER FORMAT – CCYY-NNNNN-BBBB (e.g. 2001-00001-BBBB)

- CCYY is the year the CIR is issued
- NNNNN is the series number of the CIR. (00001 is the issuing bank's first CIR)

- BBBB is the BSP assigned numeric bank code

**PART I-A (Items 1 to 7 to be filled-out by the FX receiving bank)**

**1. NAME OF REMITTER** - if information is available, indicate if foreign investor is a global custodian. (Length should not exceed 50 characters).

**2. COUNTRY OF REMITTER** - states the domicile or country of residence of the investor or global custodian (Length should be 3 bytes and refer to Annex 2 for the coding scheme).

**3. BENEFICIARY OF FOREIGN CURRENCY FUND** – account name / company name of the recipient (Length should not exceed 50 characters).

**4. REMITTING FOREIGN BANK** – name of overseas bank that sent the foreign currency funds (Length should not exceed 50 characters).

**5. DATE OF REMITTANCE** - the value date that the foreign funds entered the books of the bank. Field format is ccyyymmdd (e.g., 03-April-2001 will be indicated as 20010403). The same format is standard for all **date fields** in the report.

**6. REMITTANCE / TELEGRAPHIC TRANSFER REFERENCE NO.** - contains the bank's unique reference number only (Length should not exceed 50 characters).

**7. FX RECEIVED:**

**Currency** - specifies the foreign currency symbol used in the BSP Reference Exchange Rate Bulletin.

**Total T/T Amount** - the gross FX amount covered by the bank's unique Telegraphic Transfer Reference Number mentioned in Item 6 above.

**Amount Utilized** - specifies the actual amount of the funds utilized to fund the investment.

**Outstanding Balance After This CIR Utilization** – specifies the remaining balance of the gross FX received less the amount utilized.

**PART I-B (Items 8 to 9 to be filled-out by the FX converting bank)**

**8a. FX CONVERTED INTO PESOS:**

**Full Utilization of FX Received** – specifies the whole inwardly remitted FX converted to Pesos and utilized for investment.

**Partial Utilization of FX Received** – specifies the partial inwardly remitted FX converted to Pesos and utilized for investment.

**O/S Balance after this Utilization** – the available inwardly remitted FX after partial conversion/utilization.

**8b. RATE OF CONVERSION, PESOS PER FOREIGN CURRENCY (before charges)** - the exchange rate used for the conversion to local currency. Field value is expressed in six decimal places (e.g., PHP50.280002).

**8c. AMOUNT OF PESO PROCEEDS (Net of Charges)** - specifies the peso proceeds from the conversion net of bank charges.

**8d. DATE CONVERTED TO PESOS** - value date of conversion to local currency.

**8e. FX RECEIVING BANK'S NAME** - the name of the Philippine-based bank from which the foreign currency funds were received. Please use the numeric bank code (head office).

**CIR No.:** Quotes the CIR Reference number of the FX Receiving bank.

**Telegraphic Transfer Ref. No.:** Quotes the Telegraphic Transfer Reference Number of the FX received.

**9. USD EQUIVALENT (If FX remitted is other than USD)** - shows the US Dollar value of the 3<sup>rd</sup> currency amount converted into Peso. This is a mandatory field for remittances other than USD and computed as peso proceeds divided by the BSP reference rate (PHP/USD) on the conversion date.

**SWORN CERTIFICATION**  
(Suggested Format for Stock Corporation/Investee Firm)

I, \_\_\_\_\_, of legal age, \_\_\_\_\_, and  
(Name of Affiant) (Nationality)  
resident of the Philippines, after being duly sworn in accordance with law, depose and state that:

1. I am the \_\_\_\_\_ of \_\_\_\_\_,  
(Position/Designation) (Name of Investee-Firm)  
a corporation duly registered with/licensed by the Philippine Securities and Exchange Commission (SEC) under SEC Reg. No. \_\_\_\_\_ dated \_\_\_\_\_, to engage in the business of \_\_\_\_\_.

That the \_\_\_\_\_ has a Capital Structure, as follows:  
(Name of Investee Firm)

	Class	Number of Shares	Par Value	Total Amount
Authorized	_____	_____	_____	_____
Subscribed	_____	_____	_____	_____
Paid Up	_____	_____	_____	_____

3. That \_\_\_\_\_, \_\_\_\_\_, with address  
(Name of Foreign Investor) (Nationality)  
at \_\_\_\_\_,  
whose business is \_\_\_\_\_,  
has remitted/caused the remittance of USD/Other Foreign Currency (FC) \_\_\_\_\_ and converted the same into PHP \_\_\_\_\_ thru the Philippine banking system as certified by \_\_\_\_\_ under Certificate of Inward Remittance (CIR) of \_\_\_\_\_ (Name of Issuing Bank)  
Foreign Exchange No. \_\_\_\_\_ dated \_\_\_\_\_, of which amount, PHP \_\_\_\_\_ was paid in consideration for the following shares of the Investee-Firm<sup>1</sup> and is now recorded in his/its name in the books of the \_\_\_\_\_, as follows:  
(Name of Investee-Firm)

Class	Number of Shares Purchased	Par Value/Share	Amount Paid in (PHP)		
			Total Par Value	As Premium	Total

<sup>1</sup> The balance (total peso proceeds less amount applied to this investment transaction, if any) in the amount of PHP \_\_\_\_\_ is recorded in the books of \_\_\_\_\_ as  
(Name of Investee-Firm)

(e.g. Advances, Deposit for Future Subscription)

4. That of the above total, the following share/s was/were assigned to cited Foreign Investor's nominee/s (if any):

Name	Nationality	No. of Shares	Amount Paid
_____	_____	_____	_____
_____	_____	_____	_____

(The following paragraph may follow as appropriate)

That the aforecited Filipino nominee/s appear/s in the corporate books of the \_\_\_\_\_ only as nominee/s of the \_\_\_\_\_  
(Name of Investee-Firm)

\_\_\_\_\_ and that the said share/s is/are covered  
(Name of Foreign Investor)

by Deed/s of Assignment of Foreign Investor transferring the share/s to each of the Filipino nominee named above; and that the covering certificates of stock issued to the said Filipino nominee/s are with annotation/s that the said nominee/s is/are merely nominee/s of the foreign investor named above;

3. That in the corporate books of \_\_\_\_\_ as of \_\_\_\_\_  
(Name of Investee-Firm)

\_\_\_\_\_ show that the following are the stockholdings of its investors:  
(current date)

Name of Investor	No. of Shares Held	Class	Amount Paid
_____	_____	_____	_____
_____	_____	_____	_____

Correspondingly, the capital stock of the \_\_\_\_\_ as of \_\_\_\_\_  
(Name of Investee Firm)

\_\_\_\_\_ is as follows:  
(Current Date)

	Number of Shares		Amount (in PHP)	%
	Common	Preferred		
Issued and Paid				
Filipino				
Foreign				
Additional Paid-In Capital				
Deposit for future subscription				

3. That as of date, total foreign investments in the percentage stated above in the \_\_\_\_\_ is within the limit for foreign investor under \_\_\_\_\_  
(Name of Investee-Firm)

the Constitution and existing laws of the Philippines.

**IN WITNESS WHEREOF**, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_ at \_\_\_\_\_.

\_\_\_\_\_  
(Signature over Printed Name)

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**SUBSCRIBED AND SWORN TO** before me this \_\_\_ day of \_\_\_\_\_ 20 \_\_,  
Affiant exhibiting his/her Community Tax Certificate No. \_\_\_\_\_ issued  
on \_\_\_\_\_ at \_\_\_\_\_.

Notary Public  
Until: \_\_\_\_\_

Doc. No. \_\_\_\_\_  
Page No. \_\_\_\_\_  
Book No. \_\_\_\_\_  
Series of 200 \_\_\_\_\_

N.B. The above form may be amended as appropriate for non-stock corporation and/or other business organizations, and/or for purchases of secondary shares from existing shareholder/s.

**AUTHORITY TO DISCLOSE INFORMATION**

The undersigned, [name of foreign investor or duly authorized representative of the foreign investor, pursuant to the sworn special authority (copy attached) issued by the foreign investor], hereby grants unto (name of custodian bank) the authority to disclose to the Bangko Sentral ng Pilipinas ("BSP") any information as may be required to comply with the post-audit requirements for the registration of his investments in peso-denominated government securities amounting to PHP covered by Confirmation of Sale dated \_\_\_\_\_ by (name of accredited dealer), and/or peso time deposits with tenor of at least 90 days amounting to PHP under Certificate of Time Deposit No. \_\_\_\_\_ with (name of depository bank).

It is understood that the authority granted to (name of custodian bank) does not include the disclosure of any information on said investment/s to parties other than the BSP.

This authority is being executed to facilitate the BSP registration of said investment/s through (name of custodian bank).

---

Date

---

Signature over Printed Name

### Inward Foreign Investments

#### Procedures for Repatriation of Capital and Remittance of Dividends/Profits/Earnings

##### I. Capital Repatriation/Remittance of Dividends/Profits/Earnings

The repatriation of sales/divestments proceeds, including remittance of dividends/profits/earnings which accrued to duly BSP-registered foreign investments, may be effected by AABs without prior BSP approval upon presentation of the original BSRD together with the supporting documents under Item C.1 and C.2 of Appendix 1 of the Manual.

Whenever the repatriation/remittance shall be effected through an AAB other than the custodian bank or the selling transaction was made through a stock broker other than the custodian broker, the custodian bank/broker, upon request from the remitting bank or selling broker, shall issue a BSRD Letter Advice authorizing the latter to use fully or in part the remaining shares covered by the pertinent BSRD. The remitting AAB shall only effect the remittance upon presentation of the supporting documents under Item C.1 and C.2 of Appendix 1 of the Manual.

##### II. Investments registered under the old Central Bank Registration Documents (Transitory Procedures)

For capital repatriation:

The repatriation of capital of Central Bank registered direct foreign equity investments shall be effected through a commercial bank, without prior BSP approval, upon presentation of the following documents:

- 1) Proof of Central Bank Registration; and
- 2) Proof of Sale.

For remittance of dividends/profits/earnings:

- 1) Board Resolution declaring dividend and the amount due the foreign investor; and
- 2) Audited financial statements covering the dividend declaration period.

##### III. Reporting Requirements

1. All remitting AABs shall duly accomplish and submit to the BSP-International Department (ID) a Statement of Remittance Report pertaining to the repatriation of capital and outward remittance of cash dividends, profits and earnings of BSP-registered inward direct foreign equity investments to be submitted daily accompanied by supporting documents mentioned in this Appendix within two (2) banking days from date of actual remittance.

2. The report form shall cover all remittances pertaining to foreign direct equity investments (namely, investments in kind and in cash in non-PSE listed firms) registered directly by the BSP.

3. The following data shall be annotated at the back of the BSRD duly certified correct by the authorized officer of the remitting bank:

- a. On Capital Repatriation: Identity of Investments; Sale or Transaction Date; No. of Shares Sold; Net Peso Sales Proceeds After Tax; Net USD Equivalent of Amount Remitted; Date of Actual Remittance; Country To Which Remitted; and Name of Remitting Bank.
- b. On Dividends/Profits/Earnings Remittance: Identity of Investments; Record Date; Number of Base Shares; Dividend Rate; Net Peso Amount Remitted After Tax; Net USD

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Equivalent of Amount Remitted; Date of Actual Remittance; Country to Which Remitted; and Name of Remitting Bank.

These data shall be arranged in one line per remittance basis. If the space at the back of the BSRD is not enough, additional page/s may be used for this purpose, which page/s shall be duly marked and certified by the bank's

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authorized officer as forming part of the BSRD.

4. Transactions of BSP-registered investments in PSE-listed securities, government securities, money market instruments and peso time deposits shall be reported in the Consolidated Daily Foreign Portfolio Investment Registration and Outward Remittance Report.

**Checklist of Required Documents, in Lieu of Stock Transfer Agent's Certification, for  
Registration of Inward Foreign Investments Prior to 15 March 1973**

- Investee's corporate secretary's/authorized officer's sworn certification that a) the foreign investments were made prior to 15 March 1973; b) stock certificates for said investments were issued to the investor; and c) such investments are still intact and existing
- Investee's latest audited financial statements or, in case the investee is under liquidation, liquidator's notarized statement of net assets in liquidation
- For corporations, copies of the stock certificates issued to the foreign investor, certified by the investee's corporate secretary as true copies
- For stock dividend shares, copies of Board Resolutions declaring the dividends endorsed by the investee's authorized officer
- Relevant Securities and Exchange Commission (SEC) documents showing the existence of the investments prior to 15 March 1973, i.e.: a) copy of SEC certificate of registration including articles of incorporation and any amendments thereto, as applicable; and/or b) copy of SEC's resolution approving the issuance of new shares from the unissued capital stock and as exemption from SEC registration requirements, or certificate of increase of capital stock (or deed of sale/assignment).
- Others: \_\_\_\_\_

Note:

Please submit the above documents (with check mark) together with your letter request to the International Department at Room 301, 5-Storey Building, Bangko Sentral ng Pilipinas, A. Mabini, Malate, Manila.

**Guidelines on the Availment of US Dollar-Denominated Repurchase Agreement Facility with the BSP**

The following terms and conditions shall be observed in the availment of the USD-denominated repurchase agreement facility of banks with the BSP (USD R/P):

**A. Eligible Borrowers**

RBU's or FCDU/EFCDU's of banks who can demonstrate legitimate funding needs can avail of this facility.

**B. Qualifying Purposes**

- Proceeds from the borrowings shall be used for legitimate liquidity requirements of FCDU/EFCDU or RBU for local operations as follows:

- Compliance with FCDU/EFCDU cover requirements;
- Servicing of withdrawals of FCDU/EFCDU; and
- Servicing trade-related requirements.

- Borrowing shall be for the account of the applicant bank and shall not be used to fund liquidity requirements of foreign head office, foreign branches, affiliates, or subsidiaries.

**C. Acceptable Collateral**

- Eligible securities shall cover USD denominated evidence of indebtedness issued directly by the Government of the Philippines (ROP Bonds) held by the applicant bank. These can be lodged in FCDU/EFCDU's or RBU's Available-for Sale (AFS), Held-for-Trading (HFT) and Held to-Maturity (HTM) portfolios.

- ROP Bonds to be pledged have to be transferred/credited to BSP's designated

securities account before availment of the USD R/P facility.

- The tenor of the underlying security should not be shorter than the overlying instrument.

**D. Valuation of Securities**

- The haircut on the underlying securities shall be determined by the Treasury Department, with the concurrence of the Governor. Collateral cover will be maintained through periodic margin calls as specified in the repurchase agreement.

- Said valuation will be subject to periodic review and will be modified when necessary.

**E. Available Credit Line**

- Credit lines shall be based on outstanding USD-denominated evidence of indebtedness issued directly by the Government of the Philippines (ROP Bonds) held by the applicant bank as of 30 September 2008.

**F. Rate, Term and Trading Time**

- The rates of the USD R/P facility shall be set by the Treasury Department, with the concurrence of the Governor, taking into account prevailing liquidity market conditions.

- The term of the USD R/P facility shall be set by the Treasury Department, with the concurrence of the Governor; Provided, that, should a bank become disqualified for the R/P facility, the outstanding repurchase agreement shall immediately become due and payable.

- Trading time for the USD R/P transactions shall be set from 10:00 AM to 12 Noon, then from 1:00 PM to 2:00 PM.

#### **G. Application Requirements**

Applicant bank shall submit the following information/documents, and such other documents as may be deemed necessary, to the Treasury Department, copy furnished the appropriate Central Point of Contact Department (CPCD) of the Supervision and Examination Sector (SES), to aid BSP evaluate applications:

- Application for availment of the facility stating therein the amount, requested term, specific purpose of the borrowing, including disclosure of the specific collateral, including source, i.e. RBU or FCDO/EFCDU;

- Notarized undertaking/certification signed by the bank's President or Country Manager (in the case of local branch of a foreign bank), Compliance Officer and Head of Treasury, indicating the following:

- Specific purpose of fund utilization;
- Proceeds of borrowing shall be used exclusively to fund liquidity requirements of FCDO/EFCDU or RBU local operations;

- That the Bank is not a conduit for another bank nor will the Bank take arbitrage positions on the availment of the R/P facility.

#### **H. Reportorial Requirements**

Banks with outstanding USD R/P agreement with the BSP are required to submit to the appropriate Central Point of Contact Department (CPCD) of the Supervision and Examination Sector (SES) the following :

- Report on the deployment utilization of USD repo borrowing and other documents and supplemental information, as may be required, to enable BSP to assess the legitimacy of the utilization of such funds, within three (3) banking days from release of the proceeds of the R/P agreement; and

- All documents and records relative to the Bank's availment and use of proceeds of the US dollar denominated R/P facility shall be made available to the BSP upon request.

#### **I. Pre-termination**

- The R/P agreement may be paid at any time before maturity, subject to mutual agreement of both parties.

- The BSP may unilaterally pre-terminate the borrowing arrangements under the following conditions:

- Funds are found to have been used for ineligible purposes
- Collateral margins, if any, are not met.

#### **J. Documentation**

- The repurchase agreement between the bank and the BSP shall be covered by a master repurchase agreement, repurchase agreement confirmation and such other documentation as may be necessary to facilitate the transaction.

#### **K. Accounting treatment**

- The US dollar denominated R/P facility shall be treated as collateralized borrowings from the BSP and shall be accounted for in accordance with the Financial Reporting Package (FRP) issued under Subsection X191.2 of the MORB, as amended.

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- Eligible securities booked under the HTM category shall be subject to the tainting provision provided under Subsection X388.5 of the MORB upon default/non payment of the amount due three (3) banking days after the maturity of the R/P agreement or disqualification of borrowers.

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**L. Penalty Clauses**

- Violations of the terms and conditions of the USD R/P facility are governed by sanctions provided under Section 72 of the Manual, including but not limited, to termination of eligibility and pre-termination of any outstanding balance through repayment and/or sale of the collateral.

SWORN CERTIFICATION OF FCDU/EFCDU LENDING TO RBU

\_\_\_\_\_  
(Name of Bank)

CERTIFICATION

Pursuant to Section 72 of the Manual of Regulations on Foreign Exchange Transactions, we hereby certify<sup>1</sup> that on all banking days of the month ended \_\_\_\_\_, <Year>:

There were no foreign currency borrowings by the Regular Banking Unit (RBU) from the Foreign Currency Deposit Unit (FCDU)/Expanded FCDU (EFCDU)

RBU had foreign currency borrowings from FCDU/EFCDU and –

1. Total outstanding balance of such foreign currency borrowings did not exceed the prescribed cap (i.e., lower of total outstanding balance on RBU's on-balance sheet foreign currency trade assets or thirty percent (30%) of the level of FCDU/EFCDU deposit liabilities, and
2. The borrowed foreign currency funds were utilized by RBU solely for its foreign currency trade transactions.

We further certify that, to the best of our knowledge, the foregoing statements are true and correct.

_____ President or Country Manager (for foreign banks)	_____ Compliance Officer	_____ Head of Treasury Department
TIN:	TIN:	TIN:
CTC No.	CTC No.	CTC No.
Issued on:	Issued on:	Issued on:
Issued at:	Issued at:	Issued at:

Subscribed and sworn to before me this \_\_\_ day of \_\_\_\_\_ affiants exhibiting their Community Tax Certificates indicated above.

\_\_\_\_\_  
Person Administering Oath

<sup>1</sup> Check appropriate box

BANK NAME  
 REPORT ON COMPLIANCE WITH E/FCDU COVER REQUIREMENT  
 AS OF MONTH END \_\_\_\_\_

	Schedule	Total	Ratio
<b>A. Total E/FCDU Liabilities Requiring Cover [A1 + A2 - A3 - A4]</b>		<b>0.00</b>	
1. E/FCDU Liabilities (excluding Due to HO/Br Abroad)	BS	0.00	
2. Net Due to HO/Br Abroad - E/FCDU <sup>1/</sup>	BS Item L31 - A25	0.00	
3. Due to RBU - E/FCDU <b>[3.a + 3.b]</b>		0.00	
a. Due to RBU - E/FCDU Realized Losses from Operation	Sch. 42	0.00	
b. Due to RBU - E/FCDU Unrealized Losses Recognized in Profit or Loss and in Equity	Sch. 42	0.00	
4. Bills Payable - Repurchase Agreements with BSP	Sch. 24	0.00	

		Liquid Assets	Other Assets	Total	Ratio
<b>B. Total E/FCDU Asset Cover<sup>2/</sup></b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	
a. Foreign currency cash on hand	BS Item 1	0.00		0.00	
b. Foreign currency checks and other cash items	BS Item 2	0.00		0.00	
c. Due from BSP Foreign Currency - E/FCDU	BS Item 3, Sch. 39a	0.00 <sup>5/6</sup>	0.00	0.00	
d. Due from Other Banks - E/FCDUs/OBUs/Non-Resident	Sch. 2	0.00		0.00	

		Liquid Assets	Other Assets	Total	Ratio
e. Derivative with Positive Fair Value Held for Trading/Hedging					
1. Derivatives with Positive Fair Value Held for Trading	BS Item 5.b		0.00	0.00	
2. Derivatives with Positive Fair Value Held for Hedging	BS Item 13		0.00	0.00	
f. Investments in foreign currency-denominated debt instruments:					
1. Held for Trading (HFT) - E/FCDU	BS Item 5(a)]				
a. Sold/Lent/Collateralized in Repurchase/SLB Transactions	Sch. 3A		0.00	0.00	
b. Structured Products	Sch. 3		0.00	0.00	
c. Others		0.00 <sup>7/</sup>	0.00	0.00	
2. Financial Assets DFVPL - E/FCDU	BS Item 6				
a. Sold/Lent/Collateralized in Repurchase/SLB Transactions			0.00	0.00	
b. Structured Products	Sch. 5		0.00	0.00	
c. Others	Sch. 5	0.00 <sup>7/</sup>	0.00	0.00	
3. Available for Sale (AFS) - E/FCDU	BS Item 7(i)				
a. Sold/Lent/Collateralized in Repurchase/SLB Transactions	Sch. 6A		0.00	0.00	
b. Structured Products	Sch.6		0.00	0.00	
c. Others	Sch. 6	0.00 <sup>7/</sup>	0.00	0.00	
4. Held to Maturity (HTM) - E/FCDU	BS Item 8				
a. Sold/Lent/Collateralized in Repurchase/SLB Transactions	Sch. 7A	0.00 <sup>7/</sup>	0.00	0.00	
b. Structured Products	Sch. 7		0.00	0.00	
c. Others	Sch. 7	00.00 <sup>7/</sup>	0.00	0.00	

		Liquid Assets	Other Assets	Total	Ratio
g. Unquoted Debt Securities Classified as Loans - EFCDU	BS Item 9		0.00 <sup>8/</sup>	0.00	
h. Loans and Receivables - E/FCDU authorized by BSP, except those classified by the BSP as loss					
1. Loans to BSP	BS Item 11.a	0.00 <sup>5/</sup>	0.00	0.00	
2. Interbank loans receivable	Sch. 10, Sch. 39A	0.00 <sup>5/</sup>	0.00	0.00	
3. Loans and receivables - others	Sch. 11				
a. Outstanding export bills purchased	Sch. 11	0.00 <sup>8/</sup>		0.00	
b. Short-term E/FCDU loans to exporters in the form of export packing credits up to the sextent guaranteed by TIDCORP or SBGFC, provided not overdue	Sch.12	0.00 <sup>8/</sup>		0.00	
c. Others					
(i) Loans with specific approval by the BSP	Sch. 11		0.00 <sup>9/</sup>	0.00	
(ii) Short - term loans to resident private sector borrowers which under existing regulations requires no prior BSP approval and allowed to be serviced using foreign exchange purchased from the banking system	Sch. 11		0.00	0.00	
(iii) Loans to resident private sector borrowers to be serviced using foreign exchange purchased from outside the banking system	Sch.11		0.00 <sup>9/</sup>	0.00	
(iv) Loans to non-resident to be serviced using foreign exchange purchased from outside the banking system	Sch. 11		0.00 <sup>8/</sup>	0.00	
i. Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions - E/FCDU	Sch. 12, Sch. 39A	0.00 <sup>5/</sup>	0.00	0.00	

		Liquid Assets	Other Assets	Total	Ratio
j. Foreign currency accrued interest from financial assets - E/FCDU	BS Item 16		0.00	0.00	
k. Accounts receivable arising from the sale of financial assets under trade date accounting - E/FCDU <sup>3/</sup>	Sch. 19	0.00 <sup>10/</sup>	0.00	0.00	
l. Loans to RBU by E/FCDU net of transactions outstanding for over 1 year	Sch. 19		0.00	0.00	
<b>C. Exempt Liabilities<sup>4/</sup></b>				<b>0.00</b>	
<b>D. Excess/(Deficiency) in Liquid Assets [Liquid Assets - 30% * (Item A - Item C)]</b>				<b>0.00<sup>11/</sup></b>	
<b>E. Excess/(Deficiency) in Cover Requirement (Total Assets - Item A)</b>				<b>0.00<sup>12/</sup></b>	

<sup>1/</sup> Applicable to Philippine branches of foreign banks only. If resulting balance is a Net Due from HO/Br Abroad, the amount to be shown as Net Due to HO/Br shall be zero. Net Due from HO/Br Abroad shall not be eligible for both the 100% asset and 30% liquid asset cover.

<sup>2/</sup> At net carrying amount (i.e. net of premiums/(discounts), accumulated market gains/(losses) and allowance for impairment loss)

<sup>3/</sup> Accounts Receivable arising from sale of financial assets under the trade date accounting pending actual settlement/delivery of the underlying assets/securities

<sup>4/</sup> Refers to liabilities exempt from 30% liquid cover requirement as may be approved by the Monetary Board

<sup>5/</sup> Maturing within 1 year

<sup>6/</sup> Unencumbered

<sup>7/</sup> Readily marketable

<sup>8/</sup> EFCDU only

<sup>9/</sup> Maturing within 1 year for FCDCU and regardless of maturity for EFCDCU

<sup>10/</sup> Arising from sale of readily marketable debt instruments

<sup>11/</sup>  $[\text{Liquid Assets} / (\text{A} - \text{C})] * 100$

<sup>12/</sup>  $[\text{Total Assets} / \text{A}] * 100$

**SWORN CERTIFICATION OF COMPLIANCE WITH  
THE FCDU/EFCDU COVER REQUIREMENTS**

< Name of Bank >

**CERTIFICATION**

Pursuant to the requirement of BSP Circular Letter dated 6 June 1997 we hereby certify that we have fully complied with the FCDU cover requirements (both 100% Foreign Currency Cover and 30% Liquid Asset Cover) on all banking days of the quarter ended \_\_\_\_\_ <Year>.

We further certify to the best of our knowledge that above statement is true and correct.

<p>_____ President or Country Head (for foreign banks)</p> <p>TIN: CTC No. Issued on: Issued at:</p>	<p>_____ Compliance Officer</p> <p>TIN: CTC No. Issued on: Issued at:</p>	<p>_____ Head of Treasury Department</p> <p>TIN: CTC No. Issued on: Issued at:</p>
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Subscribed and sworn to before me this \_\_\_ day of \_\_\_\_\_ affiants exhibiting their Community Tax Certificates indicated above.

\_\_\_\_\_  
Person Administering Oath

**Guidelines on the Transfer of Net Realized/Unrealized Losses Recognized  
In Profit Or Loss And In Equity' And Undivided Profits/(Losses)  
from FCDU/EFCDU Books to the RBU Books**

Following are the guidelines on the transfer of 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' and 'Undivided Profits/(Losses)' from the FCDU/EFCDU to the RBU book:

1. 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity'. Whenever the total of the following:

a. 'Retained Earnings Free – FCDU/EFCDU';

b. 'Undivided Profits/(Losses) - FCDU/EFCDU' comprising of the following:

(1) Net realized profits/(losses);

(2) 'Net Unrealized Gains/(Losses) from Operations' as defined in Item 2.

c. Net unrealized gains/(losses) recognized directly in equity comprising of the following:

(1) 'Net Unrealized Gains/(Losses) on AFS Financial Assets – FCDU/EFCDU' recognized directly in equity; and

(2) 'Gains/(Losses) on Fair Value Adjustments of Hedging Instruments – FCDU/EFCDU' recognized directly in equity.

results to a net debit balance (referred to as 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' in this Appendix), the bank shall immediately transfer from the RBU book to the FCDU/EFCDU book eligible foreign currency assets by a credit to 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity', which account shall not be subject to asset and liquid asset cover requirements.

For purposes of this Appendix, a net credit balance in the total of the foregoing

Items 1.a, 1.b and 1.c shall be considered as a zero balance in 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity'.

The amount of eligible foreign currency assets to be transferred from the RBU book to the FCDU/EFCDU book shall be that which will bring the balance of 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' equal to the 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity'.

Whenever the balance of 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' exceeds the 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity', the excess shall be settled at the end of the reference month by the FCDU/EFCDU to the RBU book by a debit to 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' and a credit to the eligible foreign currency assets.

For purposes of this Appendix, the eligible foreign currency assets shall be in the form of:

a. Due from BSP – Foreign Currency;

b. Due from other banks (Other FCDUs/EFCDUs, OBUs and non-resident banks);

c. Investments in readily marketable foreign currency denominated debt instruments, except for the following:

(1) those which are sold/lent in repurchase agreement/securities lending and borrowing transactions and those used as additional collateral in repurchase agreements or as collateral of the borrowing

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bank in securities lending and borrowing transactions;

(2) those investments in structured products; and

(3) those Philippine debt papers which were restructured during the period of moratorium in the payment of external debt.

Provided, That these shall likewise be booked under the same category in the RBU book/(in the FCDU/EFCDU book) as they were before the transfer from the FCDU/EFCDU book/(from the RBU book).

2. Undivided Profits/(Losses). The transfer of 'Undivided Profits/(Losses) – FCDU/EFCDU' to the 'Retained Earnings Free' account in the RBU book at the end of calendar or fiscal year adopted by the bank shall refer to net realized profits/(losses) only and shall exclude the following:

a. 'Unrealized Gains/(Losses) from Marking to Market of Financial Assets and Liabilities Held for Trading (HFT)';

b. 'Unrealized Gains/(Losses) from Marking to Market of Financial Assets and Liabilities Designated at Fair Value through Profit or Loss (DFVPL)';

c. 'Foreign Exchange Profit/(Loss)', (i.e., arising from revaluation of foreign exchange transactions);

d. 'Unrealized Gains/(Losses) from Remeasurement of Hedging Instruments', and

e. 'Unrealized Gains/(Losses) from Remeasurement of Hedged Items'

(collectively referred to as 'Net Unrealized Gains/(Losses) from Operations' in this Appendix): Provided, That prior to the transfer of net realized FCDU/EFCDU profits/(losses) to the 'Retained Earnings Free'

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in the RBU book, the FCDU/EFCDU shall fully comply with BSP's provisioning requirements.

The net realized and unrealized FCDU/EFCDU profits/(losses) shall be credited/(debited) to 'Undivided Profits/(Losses) – FCDU/EFCDU' at the end of each reference month which account shall be credited/(debited) to 'Retained Earnings Free - FCDU/EFCDU' at the end of calendar or fiscal year adopted by the bank.

The transfer of net realized FCDU/EFCDU profits/(losses) to the RBU shall be made by a debit/(credit) to 'Retained Earnings Free – FCDU/EFCDU' and a corresponding transfer of eligible foreign currency assets from the FCDU/EFCDU to the RBU book/(from the RBU to the FCDU/EFCDU book) within a period of one month from the end of the calendar or fiscal year adopted by the bank: Provided, however, That if after the transfer of net realized FCDU/EFCDU profits/(losses) the balance of 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' exceeds the balance of 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity', the bank shall transfer eligible foreign currency assets from the RBU to the FCDU/EFCDU book on the same date of transfer of the net realized FCDU/EFCDU profits/(losses) by a credit to 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity': Provided, further, That if after the transfer of net realized FCDU/EFCDU profits/(losses) the balance of 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' exceeds the balance of 'Net

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Realized/Unrealized Losses Recognized in Profit or Loss and in Equity', the bank shall transfer eligible foreign currency assets from the FCDU/EFCDU to the RBU book on the same date of transfer of the net realized FCDU/EFCDU profits/(losses) by a debit to 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity'. The amount of eligible foreign currency assets to be transferred from the RBU to the FCDU/EFCDU book or from the FCDU/EFCDU to the RBU book, as the case may be, shall be that which will bring the balance of 'Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity' equal to the 'Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity'.

The balance of 'Retained Earnings Free – FCDU/EFCDU' account shall, after the transfer of net realized FCDU/EFCDU profits/(losses) to the RBU book, correspond to the cumulative unrealized gains/(losses) from operations from prior years arising from the following:

- a. Marking-to-market of 'Financial Assets and Liabilities Held for Trading (HFT)';
- b. Marking-to-market of 'Financial Assets and Liabilities Designated at Fair Value through Profit or Loss (DFVPL)';
- c. Revaluation of foreign exchange transactions;

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d. Remeasurement of 'Hedging Instruments'; and

e. Remeasurement of 'Hedged Items'.

For purposes of this Appendix, 'Retained Earnings – Free – FCDU/EFCDU', shall, in the case of Philippine branches of foreign banks refer either to 'Due to Head Office/Branches/Agencies Abroad – Unremitted Profits not yet approved by the BSP – FCDU/EFCDU' if credit balance or 'Due from Head Office/Branches/Agencies Abroad – Losses in Operation of Philippine Branch of Foreign Banks – FCDU/EFCDU' if debit balance: Provided, That for purposes of determining compliance with FCDU/EFCDU cover requirements the balance of 'Due to Head Office/Branches/Agencies Abroad – Unremitted Profits not yet approved by the BSP – FCDU/EFCDU' shall not be subject to FCDU/EFCDU asset and liquid asset cover requirements, while the balance of 'Due from Head Office/Branches/Agencies Abroad – Losses in Operation of Philippine Branch of Foreign Banks – FCDU/EFCDU' shall not be offset against the 'Due to Head Office/Branches/Agencies' account.

The amended illustrative accounting entries on the transfer of FCDU/EFCDU profits/(losses) which shall supercede *Appendix 85* is under *Appendix 16.1* of the FX Manual.

*(As amended by Circular No. 691 dated 23 June 2010)*

**Guidelines on the Conversion to Peso Loans/ROPA and  
Transfer to RBU of FCDU/EFCDU Loans/ROPA**

A. FCDU/EFCDU loans may be transferred to the RBU without prior BSP approval, subject to the following conditions:

i. The FCDU/EFCDU loan to be transferred must meet the following criteria: (a) current and performing; and (b) eligible to be serviced by the banking system: *Provided*, That a past due FCDU/EFCDU loan may be transferred to the RBU if it meets the following criteria: (a) eligible to be serviced by the banking system; (b) fully secured by real estate mortgage; (c) foreclosure of the collateral shall be effected within six (6) months from the date of transfer to the RBU if the loan remains to be past due; and (d) they are not eligible to be serviced by the banking system but loan is already outstanding as of 27 October 2000: *Provided, further*, That a past due partially secured or unsecured FCDU/EFCDU loan shall only be eligible for conversion/transfer to RBU if part of a multi-creditor rehabilitation or work-out plan acceptable to all creditors where the said plan requires the conversion of FCDU/EFCDU loans to peso;

ii. There shall be actual settlement in foreign currency, simultaneous with the transfer, by the RBU to the FCDU/EFCDU of the total amount of foreign currency-denominated loans being transferred to the RBU using the prevailing foreign exchange/conversion rate at the time of transfer;

iii. The transfer and conversion of foreign currency-denominated loans from the FCDU/EFCDU books to the RBU books including the prevailing foreign exchange/conversion rate to be used shall have the prior approval of the bank's board of directors, or the Country Head, in case of branches of foreign banks, and the prior

written consent of the borrower whose account will be transferred/converted, except for loans covered by credit/loan agreement allowing the bank to unilaterally convert and transfer the FCDU/EFCDU loan in which case the prior written consent requirement may be dispensed with;

iv. The converted/transferred FCDU/EFCDU loans are properly documented/covered by a written agreement/contract. *Provided*, That if the original loan agreement allows the bank to unilaterally convert/transfer the FCDU/EFCDU loan to peso, the said loan agreement should indicate the general terms and conditions of the converted/transferred peso loan: *Provided, further*, That upon conversion/transfer, the borrower must be informed in writing of the peso loan's new terms and conditions: *Provided, finally*, That once converted/transferred to a peso loan, the same loan should not be converted back to an FCDU/EFCDU loan;

v. No income shall be recognized by the FCDU/EFCDU or RBU on the transfer of FCDU/EFCDU loans to RBU;

vi. The status of the FCDU/EFCDU loan prior to the transfer, i.e., current or past due, performing or non-performing, and the loan classification, i.e., especially mentioned, substandard, doubtful or loss, shall be retained once the loan is transferred to the RBU books, which transfer shall also include the corresponding booked allowance for probable losses.

B. FCDU/EFCDU ROPA may also be transferred to the RBU without prior BSP approval, subject to items ii to vi above;

C. Conversions and transfers of FCDU/EFCDU loans and ROPA to RBU books that do not meet the above guidelines shall be subject to prior Monetary Board approval; and

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All foreign currency-denominated loans and ROPA in the FCDU/ EFCDU converted to peso and transferred to the books of the RBU shall be reported monthly to the BSP Supervision and Examination Sector within ten (10) banking days from end of reference month. The report, classified as Category B, shall include name of borrower, date

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transferred/converted, outstanding balance in foreign currency in the FCDU/ EFCDU, peso amount booked in the RBU, prevailing foreign exchange rate used, status and classification on date of transfer, collateral (if any) and date approved by bank's board Country Head. (A report is not required if no transfers were effected during the month.)

### Guidelines and Minimum Documentary Requirements for Foreign Exchange Forward and Swap Transactions

The following is a list of minimum documentary requirements for foreign exchange forward and swap transactions. Unless otherwise indicated, original documents\* shall be presented on or before deal date to banks.

#### **A. FORWARD SALE OF FOREIGN EXCHANGE TO COVER OBLIGATIONS – DELIVERABLE AND NON-DELIVERABLE**

##### **1. FORWARD SALE OF FOREIGN EXCHANGE – TRADE**

###### **1.1 Trade Transactions**

###### **1.1.1. Under Letters of Credit (LC)**

- a. Copy of LC opened; and
- b. Accepted draft or Commercial invoice/ Bill of Lading

###### **1.1.2. Under Documents against Acceptances (DA)/Open Account (OA) Arrangements**

- a. Certification of reporting bank on the details of DA/OA under Schedule 10 (Import Letters of Credits Opened and D/A-O/A Import Availments and Extensions) of FX Form 1 (Consolidated Report on Foreign Exchange Assets and Liabilities);
- b. Copy of commercial invoice.

In addition to the above requirements, the bank shall require the customer to submit a Letter of Undertaking that:

- i. Before or at maturity date of the forward contract, it (the importer) shall comply with the documentation requirements on sale of foreign exchange for trade transactions under Appendix 4 of the Manual; and

- ii. No double hedging has been obtained by the customer for the covered transactions.

###### **1.1.3 Direct Remittance**

Original shipping documents indicated in item II.a of Appendix 4 of the Manual, as amended.

##### **2. NON-TRADE TRANSACTIONS**

Only non-trade transactions with specific due dates shall be eligible for forward contracts, and shall be subject to the same documentation requirements under Appendix 1 of the Manual, with the following additional guidelines for foreign currency loans and investments.

###### **2.1 Foreign Currency Loans owed to non-residents or AABs**

###### **2.1.1 Deliverable Forwards**

The maturing portion of the outstanding eligible obligation, i.e., those that are registered with the BSP, including interest and fees thereon as indicated in the BSP registration letter, may be covered by a deliverable forward subject to the documentary requirements under Item B of Appendix 1 of the Manual. A copy of the creditor's billing statement may be submitted on or before the maturity date of the contract.

###### **2.1.2 NDFs**

The outstanding eligible obligation, i.e., those that are registered with the BSP, including interests and fees thereon as indicated in the BSP registration letter, may be covered by a NDF, subject to the documentary requirements under Item B of Appendix 1 of the Manual, except for the creditor's billing statement which need not be submitted.

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\* If copy is indicated, it shall mean photocopy, electronic copy or facsimile of original

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The amount of the forward contract shall not exceed the outstanding amount of the underlying obligation during the term of the contract.

**2.2 Inward Foreign Investments**

The unremitted amount of sales/maturity proceeds due for repatriation to non-resident investors pertaining to BSP-registered investments in the following instruments issued by a Philippine resident:

- a. shares of stock listed in the Philippine Stock Exchange (PSE);
- b. government securities;
- c. money market instruments; and
- d. peso time deposits with a minimum tenor of 90 days

may be covered by FX forward contracts subject to the presentation of the original Bangko Sentral Registration Documents (BSRD) on or before deal date. However, for Item 2.2.a above, original BSRD or BSRD Letter-Advice, together with the broker's sales invoice, shall be presented on or before maturity date of the FX forward contract, which date coincides with the settlement date of the PSE transaction.

Sales proceeds of BSP-registered investments in shares of stock that are not listed in the PSE may be covered by a deliverable FX forward contract only if determined to be outstanding as of deal date for the contract and payable on a specific future date as may be indicated in the Contract To Sell/Deed of Absolute Sale and subject to the same documentary requirements under Item C of Appendix 1 of the Manual.

**B. FORWARD SALE OF FOREIGN EXCHANGE TO COVER EXPOSURES – DELIVERABLE AND NON-DELIVERABLE**

**1. TRADE (DELIVERABLE AND NON-DELIVERABLE)**

**1.1 Under LC**

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- a. Copy of LC opened; and
- b. Proforma Invoice, or Sales Contract /Purchase Order

**1.2 Under DA/OA, Documents Against Payment (DP) or Direct Remittance (DR)**

Any of the following where delivery or shipment shall be made not later than one (1) year from deal date:

- a. Sales Contract
- b. Confirmed Purchase Order
- c. Accepted Proforma Invoice
- d. Shipment/Import Advice of the Supplier

In addition to the above requirements, the bank shall require the customer to submit a Letter of Undertaking that:

- i. At maturity of the forward contract, it shall comply with the documentation requirements on the sale of foreign exchange for trade transactions under Appendix 4 of the Manual; and
- ii. No double hedging has been obtained by the customer for the covered transactions.

**2. NON-TRADE (NON-DELIVERABLE)**

The outstanding balance of BSP-registered foreign investments without specific repatriation date, appearing in the covering BSRD may only be covered by an NDF contract, based on its market/book value on deal date, subject to prior BSP approval and if already with BSRD, presentation of the covering BSRD and the proof that the investment still exists (e.g., stock certificate, or broker's buy invoice, or confirmation of sale, or certificate of investment in money market instruments, or certificate of peso time deposits). Hedging of permanently assigned capital of Philippine branches of foreign banks/firms is not allowed.

**C. FORWARD PURCHASE OF FOREIGN EXCHANGE**

Such foreign exchange forward contracts shall be subject to the bank's

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“Know Your Customer” policy and existing regulations on anti-money laundering. In addition, counterparties must be limited to those that are manifestly eligible to engage in foreign exchange forwards as part of the normal course of their operations, and which satisfy the bank’s suitability and eligibility rules for such transactions.

**D. FOREIGN EXCHANGE SWAP TRANSACTIONS**

1. FOREIGN EXCHANGE SALE (first leg)/FORWARD FOREIGN EXCHANGE PURCHASE (second leg) –

The same minimum documentary requirements for sale of foreign exchange under Appendix 1 of the

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Manual for non-trade transactions, and Appendix 4 of the Manual for trade transactions, shall be presented on or before deal date.

2. FOREIGN EXCHANGE PURCHASE (first leg)/FORWARD FOREIGN EXCHANGE SALE (second leg)-

The first leg of the swap will be subject to the bank’s “Know Your Customer” policy and existing regulations on anti-money laundering. The second leg of the swap will be subject to the swap contract between the counterparties.

Swap contracts of this type intended to fund peso loans to be extended by non-residents in favor of residents shall require prior BSP approval.

**Implementing Guidelines on the Computation of Open Foreign Exchange (FX) Position of AABs and Reporting Requirements under FX Form 1**

1. The following AABs shall render a daily report to the Supervisory Data Center (SDC) of the Supervision and Examination Sector (SES), on their net foreign exchange positions using Schedule 13 of FX Form 1:

- a) Universal Banks (UBs); and
- b) Commercial Banks (KBs)

2. The FX Form 1 together with all schedules shall be reported in USD equivalent except for Schedules 8 and 13 which shall be in multi-currency. All reports shall be submitted in accordance with Section 101 of the Manual.

In addition, an end of month report (Schedule 14) which shall be in multi currency shall be submitted not later than, fifteen (15) banking days from end of reference month.

3. The data shall be reported in whole currency units (e.g. nearest USD1; EURO1, etc.). The original currencies to be reported in Schedule 13 and Schedule 14 shall be converted to USD using the foreign exchange rates provided in the BSP Reference Exchange Rate Bulletin. The report for a particular banking day shall use the foreign exchange rates in the said BSP Bulletin issued the next banking day.

4. The balances to be reported in Schedules 13 and 14 shall be sourced from the banks' Multi Currency Control Ledgers (MCCL) or such other control records maintained by the reporting bank which contain the breakdown of foreign exchange assets and liabilities in their original currencies. The data from such MCCL or other control records should be equal to the balance of the corresponding accounts in the reporting bank's general ledger.

5. All transactions for the reference date shall be included. Transactions with deficient documents shall be reflected in the schedules with appropriate footnotes.

6. For purposes of computing the net FX position of reporting banks, AABs shall use the total USD equivalent of their net FX position as reflected in Item E of Schedule 13 and as computed in item 3 above.

7. The reporting bank's unimpaired capital as used in Schedule 13, shall be in accordance with the definition under Section X111 of the MORB and shall be converted to USD as in Item 3 above. AABs shall use the Unimpaired Capital Accounts as of the immediately preceding month-end. Thus, beginning with the month of February, end of month January balances shall be used for this purpose.

8. The following shall likewise be observed in the computation of banks' net open FX position limit:

- a. A bank shall have the option to exclude from its FX assets the following:
  - i. its foreign exchange holdings resulting from original investments in New Money Bonds (NMB),
  - ii. "Due from Head Office/Branches Agencies Abroad-Assigned Capital" account, to the extent of the lower of assigned capital approved by the BSP or the amount of capital actually remitted; and
  - iii. Amount of foreign currency denominated assets pertaining to the net proceeds of outstanding issues of foreign currency denominated Hybrid Tier 1 (HT1) capital instruments.

Banks shall signify in writing to the BSP through the International Department, their

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intention whether to exclude or to include their above assets from the computation of their net open FX position. Once a bank has opted to include (or to exclude) the said assets, the option signified can no longer be subsequently reversed or changed.

b. The following accounts shall be excluded:

i. 100% FX cover required by the foreign Monetary Authority to be deposited by Philippine UBs/KBs with its advising confirming bank in the foreign country for letters of credit issued; and,

ii. Equity investments in foreign subsidiaries.

c. Banks shall submit a supporting schedule in prescribed format (Annex O) on the Details of Accounts Excluded in the Computation of Net Open Exchange Position, which is an attachment to Schedule 13 of the FX Form I report.

9. Reporting. Banks shall submit a report on the daily consolidated foreign exchange position of banks which shall include a foreign currency position against pesos of any of the banks' branches/offices, subsidiaries and affiliates, here and abroad whether or not they are financial institutions, as long as the 'banks and their shareholders officers exercise reasonable influence or control over them, as well as any entity that is engaged in foreign exchange trading or foreign exchange corporation that is affiliated with the banks either by ownership, management control or influence by banks, their retirement fund, officers, directors or shareholders.

10. While it is recognized that the principal reason for being of forex subsidiaries/affiliates of banks is to trade in foreign exchange, they are nevertheless discouraged from taking net foreign exchange positions and whatever net foreign exchange positions are kept or maintained by them, are to be consolidated into the total

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net foreign exchange position of the respective banks with whom they are affiliated or are subsidiaries of.

The monthly certification by the President/Chief Executive Officer (CEO) or Country Manager (in case of branches of foreign banks) and Treasurer of the banks as well as the daily reportorial requirement on consolidated foreign exchange position of banks as required shall continue to be in effect. The Certification, as amended, by the President/CEO or Country Manager and Treasurer in the form and language substantially similar to the sample certification shown in Annex P and P.1, shall be deemed to satisfy and to be in compliance with this requirement.

11. UBs/KBs with expanded authority to write options shall include the net delta weighted positions of foreign currency options in their computation of the net FX position. UBs/KBs without authority to write options shall include the notional amounts of purchased options that are in or at the money and exclude those that are out of the money in their computation of the net FX position.

The USD equivalent of the positions arising from foreign currency options shall be reported as a manual adjustment to the net FX position amount reported in the bank's Consolidated Foreign Exchange Position Report (CFXPR). For banks with authority to write options, the USD equivalent of the foreign currency options position is equal to the sum of long delta weighted positions minus the sum of short delta-weighted positions arising from FX options contracts. The breakdown of the options positions by currency and a listing of outstanding contracts shall be annexed to the CFXPR. The amended format of the CFXPR, the detailed schedule for options positions, and the listing of outstanding contracts for banks with and without authority to write options (Annex C of the

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CFXPR) are attached as Annexes "Q", "R" and "R.1", "S" and "S.1". Bank shall submit the report on the daily consolidated foreign exchange position of Banks to the Supervisory Data Center of the BSP.

Deadline of submission of Consolidated Foreign Exchange Position Report (CFXPR) shall be on the third (3<sup>rd</sup>) banking day after reference date, to allow the banks more time to consolidate all transactions of branches, affiliates and subsidiaries. The reports submitted should be properly signed by the authorized Officer of the bank. Faxed reports shall be considered received within the prescribed deadline provided these are signed and the

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original is transmitted the following day. The monthly certification by the CEO and Treasurer in the form and language, as corrected, shall be submitted at the end of each month but not later than five (5) banking days from reference month. Banks that have certified that they do not have any affiliate/subsidiary need no longer submit the consolidated FX position report and monthly certification for the purpose. Late or incomplete submission within the above prescribed deadline shall constitute violation of the BSP reportorial requirements and subject the bank concerned to the fines and penalties provided under Section 103 of the Manual.

**PROCESSING GUIDELINES FOR MICROFINANCE OTHER  
BANKING OFFICES OR MICROBANKING OFFICES**  
*(Appendix to Subsection X160.3)*

The establishment of other banking offices and the notes on microfinance shall be guided by the following processing guidelines:

The processing of applications will be undertaken in a two-stage process.

Stage 1: Letter of Intent and Pre-qualification

Stage 2: Business Plan (Strategic and Operational Plan Assessment)

Stage 1: The applicant QB shall submit a letter of intent duly authorized by the Board of Directors, signed by the President or equivalent rank. The letter will be evaluated by the appropriate Supervision and Examination Sector (SES) Department based on safety and soundness considerations.

Stage 2: The applicant QB will be required to submit a business plan containing the strategic and operational details. Among others, such plan shall address the following questions:

1. Why is the QB establishing micro-banking offices and how does it relate to the overall corporate strategy?

2. How many are to be established in the next 1 (one) year, 3 (three) years, 5 (five) years? Where are these to be established? Why have these areas been identified?

3. What are the products and services to be offered?

4. How is the expansion to be funded?

5. How does the QB plan to maintain adequate command and control over the expanded network?

6. The proposed MBOs are to be linked operationally to which branches?

7. How does the QB propose to comply with the minimum fifty percent (50%) microfinance transaction requirement per MBO? (Microfinance transactions comprise of micro-loans and micro-deposits)

8. What is the policy on the minimum cash position of the MBO? This shall include arrangement for replenishment.

9. What are the management and organizational arrangements for the MBO? This shall include proposed staffing pattern and functions and qualification of the personnel in accordance with the requirements in X160.3.

10. What are the Management Information Systems (MIS) and financial accounting arrangements to support customer handling and proper recording and reporting of transactions?

11. What are the physical security arrangements? These arrangements shall be included in the overall security program of the bank.

A final decision will be made based on the quality of Stage 2 submissions. Stage 2 submissions will be evaluated whether the proposed operational plan is commensurate and proportionate to the strategy to ascertain safe and sound MBO operations. A QB may apply for additional MBOs, after six (6) months from approval of the initial set/batch. All MBOs must be opened within one (1) year from their approval. If not deemed satisfactory, the application may be denied. Re-application shall only be allowed after six (6) months from the date of receipt of denial.

All applications are to be submitted through the Central Application and Licensing Group (CALG) of the SES.

*(M-2010-040 dated 04 November 2010)*

**GUIDELINES ON THE GRANT OF REGULATORY RELIEF UNDER THE  
STRENGTHENING PROGRAM FOR RURAL BANKS  
(Appendix to Subsec. 3108.3)**

The following are the guidelines and the documentary requirements (Annex "A") on the grant of regulatory relief under the Strengthening Program For Rural Banks (SRPB). Said guidelines contain the merger or consolidation incentives which recipient RBs under the SRPB may avail in accordance with the provisions of the guidelines.

The SRPB is a joint undertaking of the BSP and the Philippine Deposit Insurance Corporation (PDIC) aimed at promoting mergers and consolidations as a means to further strengthen the rural banking system through the grant of financial assistance (FA) by the PDIC and regulatory relief by the BSP to eligible strategic third party investors (STPIs) which shall be RBs, desiring to enter into mergers and consolidations with eligible distressed RBs that may be considered under the SRPB.

Constituent RBs may, subject to prior BSP approval, avail themselves of any or all of the following merger or consolidation incentives under the SRPB:

1. Conversion of the existing head offices, branches and/or extension offices of the merging or consolidating RBs into head office, branches or extension offices of the merged/consolidated RB;
2. Relocation/opening of existing/approved but unopened branches, extension offices and/or other banking offices of the merged/consolidated RB within two (2) years from date of merger or consolidation subject to applicable requirements on relocation of branches, extension offices and/or banking offices;
3. Condonation of liquidated damages on past due rediscounting/emergency loans and/or monetary penalties for violation of BSP issuances on rediscounting/emergency

loans of eligible RBs as of the end of the month immediately preceding the date of request for loan restructuring;

4. Restructuring of past due rediscounting/emergency loans of the eligible RBs with the BSP, subject to compliance with the following guidelines:

a) Amount to be restructured

The amount to be restructured shall consist of the following:

Principal – outstanding balance of the principal obligation as of the end of the month immediately preceding the date of request for loan restructuring.

Accrued interest – accrued interest on the outstanding principal obligation as of the end of the month immediately preceding the date of request for loan restructuring.

b) Interest rate

Only the restructured principal obligation shall be charged interest at the rate equal to the prevailing 364-day treasury bill rate of the last auction immediately preceding the date of request for loan restructuring. No interest shall be charged on the restructured accrued interest.

c) Terms of repayment

The amount to be restructured shall be paid by the merged/consolidated RB in monthly amortizations over a period not exceeding ten (10) years.

d) Collateralization

A surety agreement shall be executed by the stockholders owning at least sixty seven percent (67%) of the shares of stock of the merged/consolidated RB.

e. Default clause

i. Event of default – failure to pay two (2) amortizations shall constitute an event of default and shall render the entire obligation due and demandable.

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ii. Consequence of default – the amount of liquidated damages on past due rediscounting/ emergency loans waived shall be restored and the payments already made shall be re-applied, first to liquidated damages, and the balance, if any, to interest, then to the principal loan. Monetary penalties for violation of BSP issuances on rediscounting, if any, shall also be restored and payment thereof in full shall be demanded against the defaulting merged/ consolidated RB.

iii. Legal action – The BSP may institute appropriate legal action without further need for demand or notice to the defaulting merged/consolidated RB.

f) Documentary requirement

The merged/consolidated RB shall execute a Letter of Understanding with the BSP covering the terms and conditions of the approved restructured loan/s together with the authority for the BSP to debit the surviving/consolidated RB's demand deposit account with the BSP for the amortizations due. Documentary requirements in applying for the regulatory relief are attached as *Annex "A"*.

5. Preferred shares for staggered redemption.

The shares for staggered redemption shall be the LBP preferred shares of stock of the eligible RBs, representing the rediscounting arrearages with BSP converted into LBP equity. Repayment arrangement should be made by the merged or consolidated RB directly with the LBP.

a) Dividend rate

The dividend rate shall be four percent (4%).

b) Redemption term

The staggered redemption shall be effected by the merged/ consolidated RB in monthly installments over a period not exceeding ten (10) years.

c) Waiver of dividends

Dividends due on the LBP preferred shares of stock of the eligible RBs as of date of merger or consolidation shall be waived.

d) Documentary requirement

Upon approval, the merged/ consolidated RB shall execute a written agreement with the LBP for the staggered redemption of LBP preferred shares of stock of the eligible RBs, copy furnished the BSP.

6. Rediscount ceiling of at least 150% of the adjusted capital accounts of the merged/ consolidated RB for a period of one (1) year reckoned from the date of merger or consolidation, subject to compliance with the existing eligibility requirements of the BSP as provided under Subsec. X268.3.

7. Waiver of monetary penalties imposed on the eligible RBs for violations of existing laws and BSP rules and regulations, except penalties accruing to the other parties, e.g. Micro, Small and Medium Enterprises), as amended, and Agricultural Guarantee Fund Pool (AGFP) and Philippine Corp. Insurance Corporation (PCIC) as provided under Section 10 of R.A. No. 10000 (The Agri-Agra Reform Credit Act of 2009), as of date of merger/consolidation.

**STRENGTHENING PROGRAM FOR RURAL BANKS**  
**Documentary Requirements**

1. Articles of Merger or Consolidation duly signed by the President or Vice President and certified by the corporate secretary or assistant corporate secretary of each of the Eligible STPI and Eligible RB (constituent institutions) setting forth the following as required in Section 78 of the Corporation Code:

- The Plan of Merger or Consolidation;
- The number of shares outstanding; and
- The number of shares voting for and against the Plan, respectively.

2. Plan of Merger or Consolidation setting forth the following:

- The names of the constituent institutions;
- The terms of merger or consolidation and the mode of carrying the same into effect;
  - A statement of the changes, if any, in the Articles of incorporation of the surviving institution in the case of merger; and in the case of consolidation, all the statements required to be set forth in the Articles of Incorporation; and
  - Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or desirable.

3. Resolution of the Board of Directors of the respective constituent institution approving the Plan of Merger or Consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

4. Resolution of the meeting of the stockholders in which at least two-thirds

(2/3) of the outstanding capital stock of each constituent institution have approved the plan of merger or consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

5. Financial statements:

- Latest financial statements as of month immediately preceding the date of application and latest three (3) year audited financial statements of the constituent institutions; and
- Ten (10)-year financial projections with valid assumptions of the merged or consolidated institutions' balance sheet and income statement.

6. List of regulatory relief the constituent institutions will avail from BSP;

7. Letter to BSP requesting restructuring of past due rediscounting/emergency loan; and letter to LBP requesting staggered redemption of matured LBP preferred shares;

8. List of stockholdings of each of the constituent institutions before and after the merger;

9. List of directors and officers of each of the constituent institutions;

10. List of proposed officer and directors of the merged or consolidated institution and the summary of their qualifications;

11. Organizational chart of the merged or consolidated institution including the number of offices and location thereof;

12. Inter-company transactions relative to the submitted Financial Statements;

13. Computation of Risk Based Capital Adequacy Ratio on the submitted financial statements;

14. Schedule of unbooked valuation reserves based on the latest BSP-ROE;

15. Viable operational plan with the following components:

- Marketing strategies
- Proposed target market
- Proposed loan portfolio diversification
- Deposit generation
- Proposed improvements in accounting system
- Operational control
- Computerization plan
- Communication system

16. The appraiser's report of reappraisal of bank premises, if any, done by an independent and licensed appraiser;

17. Proposed increase of capital stock of surviving bank;

18. Proposed amendments in the articles of incorporation of surviving bank;

19. Director's certificate (surviving bank) on the proposed amendment of the Articles of Incorporation increasing the authorized capital stock;

20. Copy of due diligence report on the eligible RB, if any; and

21. Any other reasonable requirement deemed material in the proper evaluation of the merger or consolidation as may subsequently be requested by the BSP and/or PDIC.

*(Circular 693 dated 06 August 2010)*

**GUIDELINES ON OUTSOURCING OF  
SERVICES BY ELECTRONIC MONEY ISSUERS (EMIs) TO  
ELECTRONIC MONEY NETWORK SERVICE PROVIDERS (EMNSP)  
(Appendix to Subsec. X780.11)**

I. *Statement of Policy.* It is the goal of the BSP to achieve a truly inclusive financial system. In line with achieving this goal, the BSP recognizes the potential of electronic money (E-Money) as an instrument to facilitate delivery of financial services affordably to the low-income, unbanked or underserved segments of the population, particularly in non-urbanized areas. The BSP likewise recognizes that efficient and effective delivery of financial services may necessitate Electronic Money Issuers (EMI) to develop business models that utilize outsourcing arrangements, considering the specialized operational and technological requirements in an E-money business. Outsourcing, however may introduce an EMI to certain operational and reputational risks that need to be properly managed. The BSP hereby issues the following guidelines to govern the outsourcing of E-Money related services.

II. *Definition.* An Electronic Money Network Service Provider (EMNSP) shall refer to a non-financial institution that provides automated systems, network infrastructure, including a network of accredited agents utilizing the systems, to enable clients of an EMI to perform any or all of the following:

- a. Convert cash to E-money and monetize e-money;
- b. Transfer funds from one electronic wallet to another;
- c. Use E-money as a means of payment for goods and services; and
- d. Conduct other similar and/or related e-money activities/transactions.

III. *Application to outsource.* An EMI intending to outsource the services

contemplated under Item "2" shall limit itself to an EMNSP as an outsource entity, and shall follow the procedures for outsourcing information technology systems/processes as provided under Subsec. X162.2. In addition to the documentary requirements under said Subsec., an EMI should also submit a certification signed by its President or any officer of equivalent rank and function certifying that a due diligence review had been conducted and that the selected EMNSP has met the minimum requirements provided under Item "V".

IV. *Responsibilities of an EMI.* Relative to the outsourcing of services to an EMNSP, it shall be the responsibility of an EMI to:

- a. Conduct due diligence review on an EMNSP in accordance with Item "V";
- b. Ensure that the relationship/arrangement with an EMNSP is supported by a written contract that should contain, at a minimum, the requirements prescribed under Subsec. X162.2. The contract should also stipulate that:

(1) the EMNSP shall allow the BSP to have access and to examine the E-money system, network infrastructure, operation of the network of accredited agents and all operations related to E-money services being outsourced by the EMI for the purpose of assessing the confidentiality, integrity, and reliability of the E-money system and determining compliance with BSP rules and regulations;

(2) that the EMNSP shall not further outsource or subcontract the activity being outsourced to the EMNSP; and

(3) that interconnection by the EMNSP with other networks shall be limited to networks of other EMNSPs and the BSP-recognized ATM consortia.

c. Ensure that the EMNSP employs a high degree of professional care in performing the outsourced activities as if these were conducted by the EMI itself. This would include, among others, making use of monitoring and control procedures to ensure compliance at all times with applicable BSP rules and regulations;

d. Ensure that the EMNSP has an accreditation process in the selection of agents participating in the retail network for the conversion of cash to E-money and its monetization and that the EMNSP has instituted mechanism to manage sufficient liquidity in the system/network.

e. Ensure that the EMNSP enforces a program that requires all cash-in and cash out agents under its network to undergo AML trainings and re-trainings every two (2) years; and

f. Comply with all laws and BSP rules and regulations covering the activities outsourced to the EMNSP, especially on compliance with anti-money laundering (AML) requirements.

V. *Due Diligence and Continuing Operational Review.* Prior to entering into an outsourcing arrangement with an EMNSP, an EMI should conduct appropriate due diligence review to assess the capability of an EMNSP in performing the service to be outsourced. The due diligence should take into consideration both qualitative and quantitative factors affecting the performance of the outsourced service, such as the financial condition and results of operation for the previous year/s, risk management practices, technical expertise which involve monitoring the velocity of e-money transactions and aggregation of monthly limits, among others, market share, reputation (both the company and its stockholders) and compliance with

anti-money laundering requirements and BSP rules and regulations.

An EMI should make sure that the EMNSP adheres to international standards on IT governance, information security, and business continuity in the performance of its outsourced activities. An EMI should endeavor to obtain independent reviews and market feedback on the EMNSP to supplement its own findings.

Operational review by an EMI of the EMNSP should be undertaken at least on an annual basis as part of risk management. This review should be documented as part of an EMI's monitoring and control process.

VI. *Delineation of Responsibilities.* The EMI and EMNSP shall 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 an EMI and an EMNSP on the sharing of responsibility, the EMI shall be responsible to its customers, without prejudice to further recourse, if any, by the EMI to the EMNSP.

VII. *Confidentiality and Security.* An EMI should review and monitor the security practices and control processes of the EMNSP 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 EMNSP. Considering that the EMNSP may service more than one EMI, the EMI should ensure that records pertaining to its transactions are segregated from those of other EMIs.

The EMI and EMNSP shall identify circumstances under which each party has

the right to change security requirements. An EMNSP should be required to report immediately any security breaches to the EMI.

In addition, the EMI should make sure the EMNSP have documented business continuity plans in place and that said plan periodically reviewed and tested with no significant test findings. An EMNSP shall provide the EMI with timely and adequate notification on any adverse development that may impact the former's performance and delivery of service to the EMI.

VIII. EMI-Others intending to be an EMNSP. An EMI-Others that intend to be an EMNSP because of its specialized technical expertise shall comply with the requirements for an EMNSP. In addition, an EMI-Others shall undertake risk-mitigating measures to ensure that liquid assets, corresponding to the outstanding balance of E-money issued by the EMI-

Others and maintained pursuant to Sec. X780 and Subsecs. X780.1 to X780.7, be insulated from risks arising from its liabilities as EMNSP. These measures may include ring fencing the liquid assets through an escrow or trust account in a financial institution acceptable to BSP.

IX. *Sanctions.* Violations committed by EMIs pertaining to outsourcing of activities to EMNSP shall be subject to monetary penalties as graduated under *Appendix 29* and/or other non-monetary sanctions under Section 37 of RA No. 7653.

X. *Transitory Provisions.* EMIs that were granted an authority to outsource their E-Money activities to an EMNSP may continue to exercise such authority provided that they have to conform to this guidelines within a six (6)-month period from date of its effectivity.

*(Circular No. 704 dated 22 December 2010)*

Deadline Within Five (5) banking days  
from date of reclassification

**CERTIFICATION ON COMPLIANCE WITH RULES AND REGULATIONS ON THE  
RECLASSIFICATION OF REAL AND OTHER PROPERTIES ACQUIRED (ROPA) TO BANK  
PREMISES, FURNITURE, FIXTURE AND EQUIPMENT**

\_\_\_\_\_  
(Name of Bank)

I hereby certify that the reclassification of Real and Other Properties Acquired (ROPA) to Bank Premises, Furniture, Fixture and Equipment was made in accordance with the provisions of Subsec. X160.3 of the MORB, in particular, I certify that:

1. The reclassification, which involves the property(ies) described in Schedule 1 was duly authorized by ( name of bank )'s board of directors, in a (specify whether regular/special meeting of the board) held on (specify date of board meeting) for the purpose stated therein;
2. The approval of said reclassification was manifested in a resolution passed by the board of directors of ( name of bank ) during the meeting, a certified true copy of which is attached as Annex A. Said resolution of the board of directors, along with the supporting records and documents involving the reclassified ROPA account, shall be made available for inspection by BSP examiners;
3. Only such acquired asset or a portion thereof, that will be (i) immediately used, or (ii) ready and available for use within a two (2)-year period from the date of reclassification (in case of ROPA earmarked for future use) was reclassified to Bank Premises, Furniture, Fixture and Equipment;
4. ROPA reclassified to Bank Premises, Furniture, Fixture and Equipment was recorded at its net carrying amount where the amounts booked as cost, accumulated depreciation and allowance for losses for bank premises, furniture, fixture and equipment corresponds to the balance of these accounts under ROPA at the time of reclassification. As such no gains/(losses) were recognized in our books from such reclassification; and
5. The reclassification did not cause the bank to exceed the prescribed ceiling on investment in real estate and improvements thereon, including bank equipment, under Subsection X160.2 of the MORB, as shown below.

Description	Before Reclassification	After Reclassification
Ratio of bank's investment in real estate and improvements thereon, including bank equipment, to net worth		

\_\_\_\_\_  
Signature above Printed Name  
President/Officer of Equivalent Rank

Date \_\_\_\_\_

SUBSCRIBED and SWORN to before me, this \_\_\_\_\_ day of \_\_\_\_\_, affiant  
exhibiting his Community Tax Certificate as indicated below:

Name	Community Tax Certificate No.	Date/Place of Issue
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Notary Public

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_