

under which the investor of a trust entity invests in an SDA product, is a contract between the trust entity and its investor. The BSP is not a party to such agreement, hence the BSP does not guarantee to the investor the payment of the principal and interest on the SDA product of the trust entity. Upon maturity of the SDA, the obligation of the BSP is to pay the trust entity the principal and interest on the SDA and not to the investor of the trust entity.³

13. Are participations of trustors in SDA placements of trust entities insured with or covered by the Philippine Deposit Insurance Corp. (PDIC)?

NO. All funds received, managed and held in custody by trust entities under a trust and other fiduciary relationship (regardless of whether funds are invested in SDA or not), are not covered by PDIC.

14. What is the responsibility of trust entities to prospective trustors?

The primary duty and responsibility of trust entities is to observe and implement the prudent man rule as provided in Section 80 of the General Banking Law of 2000 (R.A. No. 8791). Trust entities are responsible for transparency and full disclosure to prospective trustors. Client profiling/client suitability assessment should be done aside from explaining to the trustor all the risks pertinent to the desired investment outlet.

¹ Refers to banks, non-bank financial institutions or trust corporations authorized by BSP to engage in trust and other fiduciary business under Section 79 of R.A. No. 8791 (The General Banking Law of 2000)

² Refers to clients of trust entities

³ per Office of the General Counsel and Legal Services (OGCLS), BSP, dated 22 April 2009

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Special Deposit Acct SDA Questions: BSP Answers

SUPERVISION AND EXAMINATION SECTOR

1. What is the Bangko Sentral ng Pilipinas Special Deposit Account (BSP-SDA) ?

The BSP-SDA is one of the BSP's monetary tools used to siphon off excess liquidity in the system to help prevent potential inflationary pressure. It is a fixed-term deposit open to banks and trust-entities of BSP-supervised financial institutions (FI).

2. Can individuals and non-individuals (SDA investors) invest with the BSP?

NO. Only banks, non-banks with quasi-banking functions and trust units of institutions under BSP supervision may deposit in the SDA. The BSP does not deal directly with the public.

3. Who can sell-down/offer SDA Facility to its clients?

Trust entities of BSP-supervised FIs with access to this facility can offer this to investors via participation. Participation means investors may purchase or invest in smaller amounts together with other investors to arrive at the minimum placement required by BSP. Hence, SDA investors may place their excess cash in this facility through trust entities allowed to offer this product.

4. What do trust entities do with the placements of SDA investors?

Trust entities in turn deposit the SDA placements of individuals and non-individuals in the BSP-SDA facility. The BSP's counterparty in this transaction is the trust entity and not the individual and non-individual investors.

5. What is the minimum amount that SDA investors can place in this facility?

The amount that SDA investors may place varies among trust entities ranging from Php 100,000.00 to Php 5,000,000.00.

6. What are the tenors for placements of SDA investors?

The tenor for SDA placements will be based on the SDA tenors and will vary among trust entities. Currently, trust entities offer SDA placements with tenors ranging from two (2) weeks to a maximum of one (1) month.

7. What is the interest rate of an SDA?

The interest rate is based on BSP published SDA rate.

8. What is the proof of ownership for participations of natural and institutional persons in the SDA placements of trust entities with the BSP?

Participations of natural and institutional persons in SDAs of trust entities are evidenced by a Participation Agreement or Certificate of Participation.

9. Is the interest income from SDA subject to tax?

YES. The interest earned by trust entities from the BSP-SDA is subject to a 20% final withholding tax, except for trust entities whose managed funds of tax exempt institutions invested in the SDA were allowed by the BSP to avail of the tax-exemption privilege, subject to certain documentary compliance.

Interest earned by trustors/principals in SDA placements of trust entities are likewise subject to a 20% final withholding tax.

10. Do trust entities charge trust fee for SDA placements?

YES. Trust entities charge trust fee for services rendered. Every trust entity has its own trust fee rate policy which shall be explicitly stated in the covered trust agreements. It could be as high as 1% of total placements to as low as 0.125% depending on the amount placed. Usually, the net interest quoted to the trustor is net of the 20% final withholding tax and trust fee.

11. Can participation of trustors in SDA placements of trust entities be preterminated?

Trust entities may or may not allow pretermination. However, if a pretermination is allowed, a fee/penalty may be charged depending on the number of days the investments were held prior to maturity date. Terms and conditions of the trust agreement which may include the pretermination of investments and termination of the relationships should be mutually acceptable to the trustor and trust entity.

12. Are the returns and principal participation of trustors in SDA placements of trust entities "GUARANTEED" by the BSP?

NO. The special deposit of a trust entity with the BSP is a contract between the BSP and the trust entity making the special deposit. On the other hand, the trust agreement,