

**CLARIFICATIONS ON RECENT REFORMS ON
THE FOREIGN EXCHANGE REGULATORY FRAMEWORK
CONTAINED IN CIRCULAR NO. 561 DATED 8 MARCH 2007
(Based on Inquiries Received from Banks)**

The issuance of Circular No. 561, which took effect on 2 April 2007, containing the recent reforms on the foreign exchange regulatory framework, has generated a number of queries from banks. The following seek to clarify such reforms.

Q1: *What is the rationale for the reforms?*

A: Improving macroeconomic fundamentals, ongoing banking and capital market reforms, and recent developments in the region require the restructuring of the foreign exchange regulatory framework to make it more responsive to the needs of an expanding, more dynamic economy that is increasingly integrated with global markets.

Q2: *What are the specific reforms in Circular No. 561?*

A: The reforms consist of:

1. Symmetrical limit of 20 percent of unimpaired capital with an absolute limit of US\$50 million on both overbought (OB) and oversold (OS) foreign exchange position of banks;
2. Increase to US\$10,000 (from US\$5,000) of the maximum allowable foreign exchange purchases by residents from banks, non-bank BSP-supervised entities (NBBSEs), and their subsidiary/affiliate forex corporations to cover payments to foreign beneficiaries for non-trade purposes (excluding those related to foreign loans/foreign currency loans and investments, whether inward or outward) without supporting documents;
3. Removal of notarization requirement for foreign exchange purchases for such non-trade purposes exceeding the prescribed limit (now US\$10,000) to simplify documentation requirements for foreign exchange purchases;
4. Elimination of the “no-splitting” within a 20-day period rule on foreign exchange purchases for such non-trade purposes that are not supported by documents; and
5. Increase to US\$12 million per investor per year (from US\$6 million) the allowable outward investments by residents that may be funded with foreign exchange purchased from the banking system without prior BSP approval and registration. For purposes of buying foreign exchange from banks, outward investments will now include residents’ investments in foreign currency-denominated bonds issued by the Republic of the Philippines (ROP) and other Philippine entities.

Q3: *What are the specific reforms on the foreign exchange open position limit of banks?*

A: The following are the specific reforms on the foreign exchange open positions of banks:

1. For both the overbought (OB) and oversold (OS) position, adoption of a symmetrical percentage limit of 20 percent of unimpaired capital (UC) or US\$50 million, whichever is lower;
2. Recalibration of the UC of foreign banks, for the sole purpose of complying with foreign exchange open position limits, as follows: permanently assigned capital plus *Net Due to Head Office*, provided that *Net Due to Head Office* does not exceed eight (8) times and six (6) times the permanently assigned capital of commercial banks and expanded commercial banks, respectively; and
3. Waiver of the penalties on banks' OB/OS positions when PDS trading is suspended.

Q4: *Can the FX purchased by a resident for non-trade purposes be credited or deposited to the purchaser's FCDU account?*

A: No. The clarification under Circular-Letter dated 8 November 1993, which was reiterated in Circular-Letter dated 28 April 2004, prohibiting the crediting or depositing to the purchaser's FCDU account remains in effect. It is understood that, except for foreign exchange purchases for travel purposes, all foreign exchange purchases shall be directly remitted to foreign beneficiaries abroad.

Q5: *Can the market expect more reforms on the foreign exchange regulatory framework?*

A: The BSP is continuously reviewing existing foreign exchange regulations to allow for a more open and liberalized regime to facilitate freer flow of capital and provide more flexibility to banks, corporates and individuals to meet their foreign currency needs and manage their risks. Harnessing gains from liberalization, however, requires a measured and multi-phase process that is consistent with the overall macroeconomic framework and the state of financial sector development.

Notwithstanding the liberalization of foreign exchange rules and regulations, banks are reminded to adopt and adhere to sound policies in undertaking their foreign exchange transactions.