



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE DEPUTY GOVERNOR
SUPERVISION AND EXAMINATION SECTOR

MEMORANDUM NO. M-2013-016

To: **ALL BSP SUPERVISED FINANCIAL INSTITUTIONS**

Subject: **Frequently Asked Questions on the Guidelines on the Treatment of Non-Deliverable Forwards Involving the Philippine Peso**

1. *What are the salient points of the guidelines on the treatment of non-deliverable forwards?*

- a. Limits on the amount of NDF exposures have been introduced at 20% and 50% of unimpaired capital for domestic banks and foreign bank branches, respectively.
- b. Requirement of a Type 2 derivative license with the specific authority to engage in NDF.
- c. Pre-termination of NDF contracts is no longer allowed.
- d. Prior BSP approval on NDF sale to non-residents is no longer required.

2. *When will the prudential limits' take effect?*

The circular took effect on 26 March 2013. However, banks with NDF position in excess of the NDF exposures limits as of 26 March 2013 are given two months transition period to comply within the prescribed limits.

3. *For banks who already met the prescribed limits, can they still exceed the limit during the two-month transition period?*

Banks that are already within the prescribed limits upon the effectivity of the circular are no longer allowed to go over their NDF exposure limits during the two months transitory period. The transition period applies to those banks with excess limits as of 26 March 2013.

4. *Is pre-termination still allowed during the two-month transitory period?*

Pre-termination is no longer allowed during the two-month transitory period.

5. *What would be the limits on Peso NDF Exposures?*

The limits are calculated as fixed percentage of the bank's capital base. Banks should limit their NDF transactions as follows:

- a. 20% of unimpaired capital for domestic banks; and
- b. 100% of unimpaired capital for foreign bank branches.

6. How is the NDF exposures computed?

The NDF exposures subject to the limits is a calculated as the sum of all forms of Peso NDF transactions, *i.e., the sum of sales and purchases for both onshore and offshore transactions.*

Sample calculation:

Bank entered into the following NDF transactions:

<i>Client A</i>	<i>NDF Purchase - resident</i>	<i>USD5 million</i>
<i>Client A</i>	<i>NDF Sale - resident</i>	<i>USD5 million</i>
<i>Client B</i>	<i>NDF Purchase - non-resident</i>	<i>USD4 million</i>

Total NDF Exposures subject to the prudential limits is USD14 million

7. Given the bilateral netting provision, does this mean an NDF Purchase and an NDF Sale to the same counterparty for the same fixing date can be offset for limit compliance purposes?

No. Please refer to the calculation of the NDF exposures in item no. 6. The section on bilateral netting provisions pertains to the settlement methodology only.

8. Given that prior BSP approval is no longer required on NDFs sale to non-residents, does it follow that there is no need for proper documentation?

Banks are expected to carry out its transactions with proper documentations, with or without BSP prior approval requirement.

9. Will there be new reporting requirements for NDF transactions that will be issued by the BSP?

Yes. A revised NDF reporting template incorporating the amendments and new provisions of the subject circular will be released prior to the end of the two month transitory period.

For information and guidance.


NESTOR A. ESPENILLA JR.
Deputy Governor

29 April 2013