



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 1107

Series of 2020

Subject: Prudential Requirements for Designated Clearing and Settlement Banks

The Monetary Board, in its Resolution No. 1606 dated 10 December 2020, approved the prudential requirements for designated clearing and settlement banks for purposes of compliance with directors, officers, stockholders and their related interests (DOSRI) regulations, as well as foreign currency deposit unit (FCDU) asset cover and minimum capital requirements.

Section 1. Section 342 of the Manual of Regulations for Banks (MORB) on the transactions, covered and not covered is hereby amended to read, as follows:

Sec. 342 TRANSACTIONS, COVERED AND NOT COVERED

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Transactions not covered. The terms *loans, other credit accommodations and guarantees* as used herein shall not refer to the following:

xxx

- e. Interbank call loan transactions; and
- f. Short-term exposures of designated clearing and settlement bank to other financial institutions that own or control directly or indirectly such clearing and settlement bank, pursuant to its function as designated clearing and settlement bank. The term designated clearing and settlement bank shall refer to the *designated settlement bank* as defined under Item "j(1)" of Section 362 (*Exclusions from loan limit*). For purposes of this Section, short-term exposures shall cover payment transactions pertaining to fund transfer services, check clearing, foreign exchange trades, security trades, security custody services, and other short-term payment transactions that pass through a clearing and settlement account. An exposure is considered short-term if the placement of funds into a clearing and settlement account does not exceed five (5) banking days. The designated clearing and settlement bank shall adopt appropriate control measures to ensure that the account opened in financial institutions that own or control directly or indirectly such clearing and settlement bank is maintained exclusively for facilitating the clearing and

settlement of short-term transactions as described in this Section, and said account is not subject to a minimum balance requirement.

***Applicability to credit card operations.* xxx**

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Section 2. Section 73 of the Manual of Regulations on Foreign Exchange Transactions (MORFXT) on Foreign Currency Cover Requirements is hereby amended to read, as follows:

Section 73. Foreign Currency Cover Requirements. Depository banks under the foreign currency deposit and expanded foreign currency deposit systems shall maintain at all times a 100% cover for their foreign currency liabilities, except for USD-denominated repurchase agreements (R/P) with the BSP. xxx. The foreign currency cover shall consist of the net carrying amount of the following:

1. For banks authorized to operate an FCDU:

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I. Due From Head Office/Branches/Agencies Abroad – FCDU, up to the extent of the Due To Head Office/Branches/Agencies Abroad – FCDU. Any resulting balance of Net Due From Head Office/Branches/Agencies Abroad – FCDU shall not be eligible for 100% asset cover: *Provided*, That in the case of a designated clearing and settlement bank, Due From Head Office/Branches/Agencies Abroad – FCDU representing deposits placed in the Head Office up to the extent of the deposits maintained by other resident banks in the designated clearing and settlement bank (as defined under Item “f” of Section 342 of the MORB *on Transactions not covered*) relative to its function shall be considered as eligible asset cover for the 100% asset cover requirement; *Provided further*, That the designated clearing and settlement bank shall adopt appropriate control measures to ensure that such deposits placed in the Head Office are appropriately accounted for and segregated from the other items in the Due From Head Office/Branches/Agencies Abroad – FCDU account; and

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Section 3. Section 103 of the MORB is hereby amended to read, as follows:

Sec 103 LIBERALIZED ENTRY AND SCOPE OF OPERATIONS OF FOREIGN BANKS.

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Capital requirements of foreign banks.

a. xxx

b. *For foreign bank branches*

(1) xxx

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- (4) Any *Net due* from head office, branches and subsidiaries outside the Philippines, excluding accumulated net earnings, shall be deducted from capital.

For designated clearing and settlement banks, such Net Due from head office, branches and subsidiaries account shall also exclude deposits placed in the Head Office up to the extent of the deposits maintained by other resident banks in the designated clearing and settlement bank relative to its function as clearing and settlement bank (as defined under Item "f" of Section 342 of the MORB *on Transactions not covered*): *Provided*, That the designated clearing and settlement bank shall adopt appropriate control measures to ensure that such deposits placed in the Head Office are appropriately accounted for and segregated from the other items in the Due From Head Office/Branches/Agencies account.

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Risk-based capital for foreign bank branch

a. xxx

xxx

- c. Any *Net due from* head office, branches and subsidiaries outside the Philippines, excluding accumulated net earnings shall be deducted from CET1 capital.

For designated clearing and settlement banks, such Net Due from head office, branches and subsidiaries account shall also exclude deposits placed in the Head Office up to the extent of the deposits maintained by other resident banks in the designated clearing and settlement bank relative to its function as clearing and settlement bank: *Provided*, That the designated clearing and settlement bank shall adopt appropriate control measures to ensure that such deposits placed in the Head Office are appropriately accounted for and segregated from the other items in the Due From Head Office/Branches/Agencies account.

d. xxx

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Section 4. Appendix 59 of the MORB is hereby amended to read, as follows:

Appendix 59 RISK-BASED CAPITAL ADEQUACY FRAMEWORK FOR THE PHILIPPINE BANKING SYSTEM

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Part II. Qualifying capital

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Section B. Branches of Foreign Banks CET 1 Capital

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Regulatory adjustments to CET1 capital

11. The regulatory adjustments to CET1 capital are provided in paragraph 4, as applicable.

In addition, the *Net due* from head office, branches and subsidiaries outside the Philippines, excluding accumulated net earnings shall be deducted from CET1 capital.

For designated clearing and settlement banks, such Net Due from head office, branches and subsidiaries account shall also exclude deposits placed in the Head Office up to the extent of the deposits maintained by other resident banks in the designated clearing and settlement bank relative to its function as clearing and settlement bank (as defined under Item “f” of Section 342 of the MORB *on Transactions not covered*): *Provided*, That the designated clearing and settlement bank shall adopt appropriate control measures to ensure that such deposits placed in the Head Office are appropriately accounted for and segregated from the other items in the Due From Head Office/Branches/Agencies account: *Provided further*, That such deposits placed in the head office which are excluded in the Net Due from account shall be risk weighted based on the credit rating of the head office following the applicable risk weights provided in Part V of this Appendix.

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Section 5. The amendments to the reporting templates of the Foreign Currency Cover Requirements, and the Risk-Based Capital Adequacy Ratio to implement the above changes, including the guidelines for designated clearing and settlement banks are provided in Annex A.

Section 6. This Circular shall take effect fifteen (15) calendar days after its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:



BENJAMIN E. DIOKNO
Governor

23 December 2020

**Amendments to the Report on Compliance with the Expanded/Foreign Currency
Deposit Unit (E/FCDU) Cover Requirement and the Capital Adequacy Ratio (CAR)
Reports for Designated Clearing and Settlement Banks**

Report on Compliance with the E/FCDU Cover Requirement

1. In computing for the "Net Due To Head Office (HO)/Branch (Br) Abroad - E/FCDU" under item A.2, the Due From HO/Br/Agencies Abroad – FCDU representing deposits placed in the HO up to the extent the deposits maintained by other resident banks in the designated clearing and settlement bank relative to its function shall be excluded. Footnote 1 will be amended to read as follows:

"Applicable to Philippine branches of foreign banks only. If the 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 the 100% asset cover. In the case of designated clearing and settlement bank, the deposits placed in the HO up to the extent the deposits maintained by other resident banks therein relative to its function shall be excluded first from the Due from HO, Branch Abroad before computing for the net amount."

2. Pending the issuance of the revised Financial Reporting Package containing the specific information on (a) the deposits placed in the HO and (b) the deposits maintained by other resident banks in the designated clearing and settlement bank relative to its function, the designated clearing and settlement bank shall submit the via email to: dsa-rod1@bsp.gov.ph within (15) banking days after the end of each reference period the following information:

Account Description	FCDU/EFCDU	
	In US \$	Peso Equiv.
Due from Head Office/Branches/Agencies Abroad- Philippine Branch of Foreign Banks - Deposit in the Head Office relative to clearing and settlement functions of designated clearing and settlement banks		
Deposit Liabilities - Deposits by other resident banks relative to clearing and settlement functions of designated clearing and settlement banks		

CAR Report

3. In computing for qualifying capital under Part II, the "Net Due from account" under item 24 of A.2 shall exclude the Due From HO/Branches/Agencies Abroad representing deposits placed in the HO up to the extent of the deposits maintained by other

resident banks in the designated clearing and settlement bank relative to its function. Footnote 14 will also be amended to read as follows:

"The balance of Net Due from head office, branches and subsidiaries account shall exclude accumulated earnings/losses that were included as part of CET1 capital. In the case of designated clearing and settlement banks, such Net Due from account shall also exclude deposits placed in the HO booked in the Due from HO/Branches/Agencies Abroad account up to the extent of the deposits maintained by other resident banks therein relative to its function."

4. In computing for the risk weighted on-balance sheet assets under Part III.1, such deposits booked in HO/Branches/Agencies Abroad account will be risk weighted using the percentage appropriate to the external credit rating of the HO. The same will be temporarily mapped under "Due from Other Banks - E/FCDUs/OBUs/Non-Resident" under Item D, which will contain the following footnote:

"In the case of designated clearing and settlement bank, this shall also include the Due from HO/Branches/Agencies Abroad representing deposits placed in the HO up to the extent of the deposits maintained by other resident banks therein relative to its function."

5. The foregoing adjustments shall be reflected in the aforementioned reports starting with the reference cut-off date as of end-December 2020.