BANGKO SENTRAL NG PILIPINAS

**OFFICE OF THE DEPUTY GOVERNOR**
**FINANCIAL SUPERVISION SECTOR**

**MEMORANDUM NO.: M-2020-** 061

To : **All BSP-Supervised Financial Institutions (BSFIs)**

Subject : **Supervisory Expectations on the Measurement of Expected Credit Losses and the Treatment of Regulatory Relief Measures Granted Amid the Novel Coronavirus Disease 2019 (COVID-19) Pandemic**

The Monetary Board, in its Resolution No. 967 dated 30 July 2020 approved the Supervisory Expectations on the Measurement of Expected Credit Losses (ECL) and the Treatment of Regulatory Relief Measures Granted amid the COVID-19 Pandemic.

All BSFIs shall be guided by the supervisory expectations on the measurement of ECL under the Philippine Financial Reporting Standards (PFRS) 9 considering the uncertainties brought about by the COVID-19 pandemic. The supervisory expectations likewise set out the prudential treatment of the implementation of the mandatory grace period under Section 4(aa) of Republic Act (R.A.) No. 11469, otherwise known as the "Bayanihan to Heal as One Act" as well as the relief measures granted by the Bangko Sentral under Memorandum No. M-2020-08, as amended by Memorandum No. M-2020-032 dated 27 April 2020.

The supervisory expectations provide that BSFIs that will avail of the regulatory relief measures to exclude eligible loans from past due and non- performing classifications and to stagger the booking of allowance for credit losses shall continue to report actual past due and non-performing loans and allowance for credit losses in the Financial Reporting Package (FRP) and the Capital Adequacy Ratio (CAR) reports. This is to facilitate the generation of industry statistics and provide the BSP with information on the true health of the banking system.

The application of the regulatory relief measures shall be reflected in the supplemental report that will be submitted to the BSP (Attached as Annex A). The adjusted past due, non-performing loans, and allowance for credit losses of the bank after applying the relief measures shall be used in supervisory assessments and in crafting the supervisory plan for the BSFI[1].

The supplemental report shall be submitted electronically to fss-somd@bsp.gov.ph copy furnished the appropriate supervising department. It shall be submitted following the submission timeline of the Solo Financial Reporting Package and Capital Adequacy Report.

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[1] For instance, the adjusted past due and non-performing loans and allowance for credit losses after applying the relief measures shall be used for purposes of determining compliance with the minimum capital adequacy ratio (CAR), liquidity coverage ratio (LCR), net stable funding ratio (NSFR) as well as with the reserve requirements, among other prudential requirements.

This issuance takes into account the guidance provided by the Basel Committee on Banking Supervision and the International Accounting Standards Board on the measurement of ECL.

For information and guidance.

**CHUCHI G. FONACIER**
Deputy Governor

03 August 2020

**Supervisory Expectations on the Measurement of Expected Credit Losses and the Treatment of Regulatory Relief Measures Granted Amid the Novel Coronavirus Disease 2019 (COVID-19) Pandemic**

The uncertainties caused by the COVID-19 pandemic posed significant challenges in implementing the expected credit loss (ECL) methodology under the Philippine Financial Reporting Standards (PFRS) 9. This is in view that the existing assumptions, scenarios, and forecast being used for ECL provisioning may no longer hold in this current environment. The implementation of the mandatory grace period under the "Bayanihan to Heal as One Act" and the relief measures granted by the BSP also add to the difficulty in measuring ECL.

This issuance provides the supervisory expectations on the measurement of ECL considering the challenges posed by the COVID 19 pandemic. It also clarifies the treatment of relief measures granted by the National Government (NG) and the Bangko Sentral for purposes of measuring the ECL and for prudential reporting.

**Section 1. Adherence to the Guidelines on Credit Risk Management and on the Adoption of PFRS 9**

BSFIs are expected to continue to adhere to the Guidelines on Credit Risk Management under Section 143/143-Q of the Manual of Regulation for Banks (MORB) and Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) as well as the Guidelines on the Adoption of PFRS 9- Financial Instruments: Impairment in Appendix 100/57-Q of the MORB/MORNBFI amid the COVID-19 pandemic.

Following said expectation, BSFIs should apply the same level of prudence in assessing the financial capacity of borrowers and in making credit decisions. Decisions to grant new loans or to modify the terms of existing loans should be based on sound assessment of the financial profile of the borrowers. Cognizant that the COVID-19 pandemic has affected the cash flows of households and businesses, BSFIs should conduct a comprehensive assessment of the impact of the pandemic on the loan portfolio. In this regard, BSFIs should be able to distinguish borrowers who are only facing temporary cash flow pressures from those with serious issues on capacity to repay the loan.

BSFIs are also expected to review the assumptions in their ECL models in view of the impact of the pandemic. BSFIs should use reasonable and supportable information about past events, current conditions, and the forecast of future conditions/and or outlook, without undue cost or effort. BSFIs should exercise prudent judgment in determining the qualitative and quantitative factors that should be considered in measuring ECL as well as in applying overlays or adjustments to the model.

Following the principles of sound credit risk management, the robustness of the model and relevance of the assumptions used should be validated. Moreover, any change in policies should be adequately documented and approved by the appropriate level of Management.

## Section 2. Treatment of Relief Measures for Purposes of Determining ECL

Relief measures were granted by both the public and private sectors to support households and businesses amid this unprecedented health crisis. While the measures provided may provide similar benefits to the public, the treatment of these measures for purposes of determining ECL will vary.

### a. Mandatory Grace Period under the "Bayanihan to Heal as One Act"

Under Republic Act (R.A.) No. 11469, otherwise known as the "Bayanihan to Heal as One Act" and its Implementing Rules and Regulations (IRR), all BSFIs are mandated to grant a 30-day grace period to loan payments falling due within the Enhanced Community Quarantine(ECQ)/Modified Enhanced Community Quarantine (MECQ) period.

Since the said provision of the law is mandatory, the application of the 30-day grace period should not be considered as an indicator of significant increase in credit risk and should not trigger the migration of the loan accounts to Stage 2 and Stage 3 provisioning. In the same vein, BSFIs are expected to exclude the mandatory grace period in the count of the number of days of missed payment of the loan. Non-payment of borrowers during the mandatory grace period should not lead to the classification of the loan as past due or non-performing.

### b. Relief Measures Extended by BSFIs

BSFIs also extend relief measures to ease cash flow pressures and improve the debt servicing capacity of their borrowers. These include measures that either extend the payment due date or change the terms of the loan. BSFIs should grant relief measures based on their assessment, using best available information, of the changes in the risk of default occurring over the expected life of the loans. They should also closely monitor the credit condition of their borrowers as new information emerges.

BSFIs should establish sound criteria in differentiating borrowers with temporary cash flow pressures from those who are considered as credit impaired. The grant of relief measures in the form of payment holidays, loan payment deferrals, and other similar schemes that effectively moves the payment due date of the loan should not automatically be considered as an indicator of significant increase in credit risk. Similarly, modifying the terms of the loan to match the changes in the cash flow of borrowers who continue to exhibit capacity to repay should not automatically be considered as an indicator of significant increase in credit risk. Loans falling under either of these two cases, are not classified as restructured loans.

In contrast, modifying the terms of the loan in view of the significant financial difficulty of the borrowers casting doubts on their capacity to pay will warrant migration of the accounts to Stage 2 or Stage 3 provisioning. The concerned accounts shall be considered as restructured loans. Under Section 143/143-Q of the MORB/MORBQ, restructured accounts shall be considered as non-performing loans. However, if prior to restructuring, the loans were classified as performing, such classification shall be retained.

**c. Government Guarantees**

The NG may also provide guarantees on loans extended to certain sectors. Loan accounts with direct guarantees from the NG are considered as risk-free exposures. The Bangko Sentral under Circular No. 1084 dated 28 April 2020 likewise recognized guarantees provided by the Agricultural Guarantee Fund Pool (AGFP), the Agricultural Credit Policy (ACPC) and the Philippine Guarantee Corporation (Philguarantee) as direct guarantees from the NG. Loan exposures to the extent guaranteed by the AGFP, ACPC and Philguarantee shall be considered as risk-free. These exposures may have nil provisions.

**Section 3. Treatment of Relief Measures[1] Granted by the Bangko Sentral**

The regulatory relief measures granted by the Bangko Sentral such as the exclusion of eligible accounts from past due and non-performing classifications and staggered booking of allowance for credit losses aim to incentivize BSFIs to provide equivalent financial relief to their borrowers and to provide financing to households and businesses.

BSFIs that shall avail of the regulatory relief measures to exclude eligible loans from past due and non- performing classifications and to stagger the booking of allowance for credit losses shall:

a. Continue to recognize eligible accounts as past due and non-performing in the Financial Reporting Package (FRP) and the Capital Adequacy Ratio (CAR) reports. The total allowance for credit losses determined after the comprehensive assessment of the loan portfolio shall also be immediately recognized in the FRP and CAR reports. This is to facilitate the generation of industry statistics and provide the BSP and the public with information on the true health of the banking system.

b. The application of the regulatory relief measures will be captured in a supplementary report that will be submitted by the BSFIs to the BSP (Attached as Annex A). The adjusted past due, non-performing loans, and allowance for credit losses of the bank after applying the relief measures shall be used in supervisory assessments and in crafting the supervisory plan for the BSFI[2].

*Exclusion from Past Due and Non-Performing Classifications*

BSFIs shall continue to determine the corresponding allowance for credit losses of accounts eligible for exclusion from past due or non-performing classifications. BSFIs may immediately recognize the total amount of allowance for credit losses computed or apply

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[1] As provided under BSP Memorandum No. M-2020-008 – Regulatory Relief for BSFIs affected by the COVID-19, as amended by Memorandum No. M-2020-032

[2] For instance, the adjusted past due and non-performing loans and allowance for credit losses after applying the relief measures shall be used for purposes of determining compliance with the minimum capital adequacy ratio, liquidity coverage ratio, net stable funding ratio as well as with the reserve requirements, among other prudential requirements.

for BSP approval for staggered booking of allowance for credit losses for a maximum period of five (5) years.

BSFIs should maintain a record of accounts that were excluded from past due and non-performing classifications as well as information on amount granted, outstanding balance, industry classification, loan terms (original and as revised), status of the account, and collateral, if any.

*Staggered Booking of Allowance for Credit Losses*

BSFIs are expected to conduct a comprehensive assessment of the quality of its loan portfolio before applying for the relief to book the allowance for credit losses on a staggered basis. BSFIs should assess each loan account in determining allowance for credit losses. If assessment on an individual account basis is not feasible, the assessment should be done on a collective basis or at the portfolio level. Consistent with the provisions of the Guidelines on Credit Risk Management, the propriety and adequacy of allowance for credit losses should be independently reviewed.

BSFIs may apply for approval of staggered booking of allowance credit losses until 8 March 2021. Upon receipt of BSP approval, BSFIs are expected to immediately book the amount of allowance for credit losses that should be recognized in the first year of the five year period.

**Section 4. BSFIs subject to Regulatory Guidelines in Setting up Allowance for Credit Losses under Appendix 15/Q10/N-11 of the MORB/MORNBFI:**

BSFIs that adopted the regulatory guidelines prescribed under the Appendix 15/Q10/N-11 of the MORB/MORNBFI on recognizing allowance for credit losses (ACL) shall be guided by the following:

a. In determining the loss rate that will be used under Appendix 15/Q10/N-11 of the MORB/MORNBFI, BSFIs shall count the number of days unpaid/with missed payment based on the new due date after implementing the mandatory grace period under the Bayanihan Act and after considering the relief measures granted by the BSFI that effectively extends the due date of the loan;

b. BSFIs that shall exclude eligible loans from the past due and non-performing classifications shall continue to recognize allowance for credit losses for the subject accounts based on the provisions of Appendix 15/Q10/N-11 of the MORB/MORNBFI. BSFIs may however, apply for staggered booking of allowance for credit losses determined subject to evaluation and approval of the Bangko Sentral.

**(Name of Bank)**

**ANNEX A**



**Supplemental FRP Report**
**Amounts in Php (Absolute figures)**
**(Reporting Period)**

| | Particulars | FRP Balance [A] | | | | | | Adjustments [B] | | | Adjusted FRP Balance [C= A - B ] | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Current | PDL | NPL | Gross Loans | ACL | Net Loans | PDL | NPL | ACL* | Current | PDL | NPL | Gross Loans | ACL | Net Loans |
| | **Residents** | | | | | | | | | | | | | | | |
| 1 | Loans to Government | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| 2 | Agrarian Reform / Other Agricultural Loans | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| 3 | Microenterprise Loans | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| 4 | Small and Medium Enterprise Loans | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| 5 | Contracts to Sell | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| 6 | Loans to Private Corporations | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| 7 | Loans to Individuals for Housing Purposes | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| 8 | Loans to Individuals Primarily for Personal Use Purposes | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| | A. Credit Card | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| | B. Motor Vehicle Loans | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| | C. Salary-Based General-Purpose Consumption Loans | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| | D. Others | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| 9 | Loans to Individuals for Other Purposes | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| | **Non-Residents** | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| 1 | Central Government/Central Banks | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| 2 | Public Sector Entities | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| 3 | Loans to Corporations | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| 4 | Loans to Individuals | | | | 0 | | 0 | | | | | | | 0 | 0 | 0 |
| | **Total** | | | | 0 | | **0** | | | | | | | **0** | **0** | **0** |

| **Impact of Relief Measure on the Booking of ACL** | **As of (Reporting Period)** |
|---|---|
| Total booked allowance for credit Losses (ACL) | |
| Total ACL approved for staggered booking | |
| Remaining ACL for staggered booking | |

A - The amount reflected in the FRP as of the reporting period

B - Outstanding loans subject of regulatory relief measure on the exclusion from the past due and non-performing classification and staggered booking of allowance for credit losses (ACL)

* For banks which have been authorized to stagger booking of ACL, indicate the remaining portion of ACL approved for staggered booking.

(Name of Bank)
Supplemental CAPITAL ADEQUACY RATIO Report
PART I. CALCULATION OF RISK-BASED CAPITAL ADEQUACY RATIO (In Absolute Amount)

| | | Without Regulatory Relief<br>A | Adjustments<br>B | With Regulatory Relief<br>C = A + B |
|---|---|---|---|---|
| | | (Reporting Period)<br>Amount | | (Reporting Period)<br>Amount |
| Nature of Item | Reference | | | |
| A. Qualifying Capital | | | | |
| A.1. Tier 1 Capital | Part II (Item A.7) | | | |
| A.1.1. Common Equity Tier 1 Capital | Part II (Item A.3) | | | |
| A.1.2. Additional Tier 1 Capital | Part II (Item A.6) | | | |
| A.2. Tier 2 Capital | Part II (Item B.3) | | | |
| A.3. Total Qualifying Capital (Sum of A.1 and A.2) | | | | |
| B. Total Risk Weighted Assets | | | | |
| B.1. Total Credit Risk-Weighted Assets | Part III (Item D) | | | |
| B.2. Total Market Risk-Weighted Assets | Part IV (Item C) | | | |
| B.3. Total Operational Risk-Weighted Assets | Part V (Column 10) | | | |
| B.4. Total Risk-Weighted Assets (sum of B.1 to B.3) | | | | |
| C. RISK-BASED CAPITAL ADEQUACY RATIO | | | | |
| C.1. Common Equity Tier 1 Ratio (in %) | | | | |
| C.1.1. Capital Conservation Buffer (in %) | | | | |
| C.2. Tier 1 Capital Ratio (in %) | | | | |
| C.3. Total Capital Adequacy Ratio (in %) | | | | |

A - The amount reflected in the CAR report as of the reporting period
B - Adjustments in the calculation in view of the application of the regulatory relief on the exclusion of eligible loans from the past due and non-performing classification and staggered booking of ACL.