



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 1119

Series of 2021

Subject: Amendments to Derivatives Regulations of Banks, Quasi-Banks and Trust Corporations

The Monetary Board, in its Resolution No. 585 dated 12 May 2021, approved amendments to the regulations governing the derivatives activities of banks under Sections 613 and 622 of the Manual of Regulations for Banks (MORB) and of quasi-banks and of trust corporations under Sections 613-Q and 302-T of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), Manual of Regulations on Foreign Exchange Transactions (FX Manual), and other related provisions set out in this Circular.

These amendments demonstrate the continuing commitment of the Bangko Sentral to support the development of the Philippine financial markets by further expanding the menu of financial derivative instruments available to banks, quasi-banks, trust entities and their clients for risk management and diversification of exposures, and at the same time ensuring the prudent use of the same.

Section 1. Section 613 of the MORB is hereby amended to read, as follows:

"613 DERIVATIVES ACTIVITIES

XXX

Definition of terms.

- a. *Credit default swaps (CDS)* - refers to a credit derivative wherein the protection buyer may exchange the reference asset or any deliverable obligation of the reference entity for cash equal to a specified amount, or get compensated to the extent of the difference between the par value and market value of the asset upon the occurrence of a defined credit event.
- b. *Credit derivative* - a contract wherein one party called the protection buyer or credit risk seller transfers the credit risk of a reference asset or assets issued by a reference entity or entities, which it may or may not own, to another party called the protection seller or credit risk buyer. In return, the protection buyer pays a premium or interest-related

payments to the protection seller reflecting the underlying credit risk of the reference asset/s.

- c. *Credit-linked note (CLN)* - refers to a pre-funded credit derivative instrument wherein the note holder acts as a protection seller while the note issuer is the protection buyer. As such, the repayment of the principal to the note holder is contingent upon the non-occurrence of a defined credit event. All references to CLNs shall be taken to generically include similar instruments, such as credit-linked deposits (CLDs). Unless otherwise stated in this section, the term shall refer only to plain vanilla CLNs. Plain vanilla CLNs are composed of a debt or deposit instrument and a CDS. Non-plain vanilla CLNs are those that are leveraged and/or include features of other SPs (e.g., coupon payments linked to interest or FX rate movements) and/or contains more than one (1) embedded derivative.
- d. *Currency swaps* - XXX
- e. *Financial futures* - refers to standardized forward contracts traded on exchanges. For purposes of this section, "analogous financial futures" pertain to exchange-traded contracts similar to the instruments being referred to. For instance, interest rate futures are considered analogous to forward rate agreements.
- f. *Forward FX contracts* - XXX
- g. *Forward rate agreement (FRA)* - XXX
- h. *FX options* - XXX
- i. *FX swaps* - XXX
- j. *Global peso notes (GPN)* - refers to obligations of the issuer to pay the prevailing USD equivalent of the nominal PhP amount from the computed coupon interest and bullet principal. They are effectively PhP-denominated bonds with settlement in USD at the prevailing USD/PhP rate.
- k. *Interest rate swaps (IRS)* - XXX
- l. *Non-deliverable forward (NDF)* - refers to a forward FX contract where only the net difference between the contracted forward rate and the market rate shall be settled at maturity.
- m. *Non-deliverable swap* - refers to a variation of an FX swap agreement where the exchange of currencies will occur only at the start or at the end of the contract.



n. *Structured product (SP)- XXX*

- o. *ROP's Paired Warrants Program* - refers to instruments that gives the holders the right to convert or exchange their Republic of the Philippines (ROP) Global Bond holdings into Peso GS at pre-determined tenors and exchange prices (par for par) at pre-agreed coupons. This right can only be exercised upon a ROP Event of Default on its foreign currency debt.

Generally authorized derivatives activities. A bank may engage in the following derivatives activities without need of prior Bangko Sentral approval: *Provided*, That it observes the provisions of Appendix 22 and meets the following conditions:

- a. UBs and KBs may transact in the following derivatives in the capacities specified:

(1) As a dealer. A UB or KB may originate, distribute or act as market maker for the following financial derivatives *Provided*, That the UB or KB complies with applicable market conventions and mechanisms for transparency and disclosure:

- (a) Deliverable FX forwards, FX swaps, currency swaps and analogous financial futures;
- (b) Non-deliverable FX forwards and FX swaps; and
- (c) Interest rate swaps, forward rate agreements and analogous financial futures;

Provided, further, That the issuance of a sub-participation in any derivatives held as an end-user shall be deemed as undertaking the role of a dealer: *Provided, finally*, That the dealer UB or KB observes the provisions of Section 612 and other pertinent securities laws, rules and regulations.

(2) As end-user.

- (a) A UB or KB may enter in any financial derivatives transactions for the purpose of hedging its own risks: *Provided*, That it observes all the requirements for hedging transactions under existing accounting standards.
- (b) A UB or KB may enter into financial derivatives transactions in order to take positions for its own account in financial instruments enumerated under Item "(1)" above. It can also take long positions in naked FX options.



- (c) RBU and EFCDU of UBs and KBs may invest, for their own account, in the following SPs:

- (i) xxx
- (ii) xxx

Provided, That the bank shall comply with the following conditions:

- (aa) Total carrying value of all investments in SPs shall not exceed 100% of the bank's qualifying Tier 1 capital; and
- (bb) xxx.

XXX

- (d) Global peso notes booked under the RBU; and
- (e) Transactions involving warrants issued under the ROP's "Paired Warrants Program".

(3) As a broker. XXX

- b. TBs, RBs and Coop Banks may transact in the following derivatives transactions as end-user:

(1) with Bangko Sentral – authorized dealers and brokers solely for hedging purposes: *Provided*, That they observe all the requirements for hedging transactions under existing accounting standards.

(2) Transactions involving warrants issued under the ROP's "Paired Warrants Program".

- c. A trust department of a UB or KB may transact as an institutional counterparty in the following financial derivatives instruments on behalf of its trustor/principal/s as may be authorized by such trustor/principal/s: *Provided*, That the trust department observes the relevant provisions of Appendix 22 and Appendix 86:

(1) Any financial derivative instrument solely for hedging purposes: *Provided*, That the trust department observes all the requirements for hedging transactions under existing accounting standards;

(2) Deliverable FX forwards, FX swaps, currency swaps;

(3) Interest rate swaps, forward rate agreements and analogous financial futures;



(4) Principal-protected foreign currency-denominated SPs, the revenue streams of which are linked to interest rate indices, interest rate instruments, listed equity shares or indices, FX rates, credit rating or index, or gold: *Provided*, That the maximum contractual maturity shall be five (5) years; and

(5) Plain vanilla single-name CLNs where the reference asset is an obligation issued or guaranteed by the Republic of the Philippines.

Provided, That the total carrying value of investment in SPs and CLNs shall not exceed fifty percent (50%) of such trustor/principal's assets being managed by the trust department.

Activities requiring additional derivatives authority. A bank shall apply for prior Bangko Sentral approval of additional derivatives authority to engage in all other financial derivatives activities not expressly allowed under this Section on Generally authorized derivatives activities and those that are not part of Activities requiring notification. A bank may apply for two (2) or more additional authorities. A bank applying for additional derivatives authority/ies must have and maintain a risk management system commensurate to the additional authority/ies being applied for, in accordance with the provisions of Section 612, Appendix 22 and meet other conditions specified under this Section.

A trust department shall apply for prior Bangko Sentral approval of additional derivatives authority as an end-user to engage in all other financial derivatives activities not expressly allowed under Generally authorized derivatives activities and those that are not part of Activities requiring notification. A trust department applying for additional derivatives authority/ies as an end-user must have and maintain a risk management system commensurate to the additional authority/ies being applied for, in accordance with the provisions of Appendix 22 and Appendix 86, and meet other conditions specified under this Section.

a. Classification of additional derivatives authority

(1) Type 1 – Expanded dealer authority

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(3) Type 3 – Limited user authority

Any bank may apply for a Type 3 authority. A UB or KB with a Type 3 authority may transact, as an end-user, in specific types of derivatives products, with specific underlying reference, as applied for by the bank.



A TB, RB or Coop Bank with a Type 3 authority may transact, as an end-user for purposes other than hedging, in specific types of derivatives products, with specific underlying reference: *Provided*, That the applicant bank agrees to be covered by all regulations prescribing capital for market risk, notwithstanding any provision to the contrary.

A trust department of a bank may apply for a Type 3 authority. A trust department of a bank with a Type 3 authority may enter into derivatives transactions, as an end-user, on behalf of its trustor/principal/s as may be allowed by the trustor/principal/s, in specific types of products, with specific underlying reference, as applied for by the trust department.

(4) Type 4 – Special broker authority

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A bank with additional Type 1, 2 or 4 authorities shall be responsible for complying with pertinent securities laws, rules and regulations.

For purposes of this Section, the types of derivatives are classified as follows: forwards, swaps, options, and structured products. Underlying reference pertains to the following: interest, FX, equity, credit and commodity.

b. Qualification requirements. XXX

c. Application procedures. XXX

(1) A copy of the board resolution xxx

Xxx

(5) The Bangko Sentral will not accept applications lacking xxx

(6) A bank whose application for additional authority/ies xxx

(7) A bank that holds an additional derivatives authority xxx

Activities requiring notification. A bank or its trust department shall notify the Bangko Sentral prior to engaging in any of the derivative instruments below:

- a. Any variant of a stand-alone derivative (i) which a UB or KB is allowed to transact in as part of its Generally authorized derivatives activities as dealer; (ii) for which a bank has an existing type 2 or type 3 additional



derivatives authority; (iii) which a trust department of a UB or KB is allowed to transact in as part of its Generally authorized derivatives activities; or (iv) for which a trust department has an existing type 3 additional derivatives authority.

For this purpose, a variant refers to an instrument where the features of the authorized product are altered to effect a change in the timing and amount of cash flows, the commencement of the contract, or the basis of payments (e.g., amortizing or accreting notional amount). The adoption of a different underlying for a previously-authorized product (e.g., a different reference entity of a credit default swap, if the latter has been approved under a Type 2 or Type 3 authority) would likewise result in the creation of a variant;

- b. A structure or combination of (i) two or more separate stand-alone derivatives contracts, or (ii) stand-alone derivatives contract/s and a plain vanilla cash instrument, where the instruments are offered or distributed together, and where (all of) the derivative(s) is (are) either part of a UB/KB's Generally authorized derivatives activities as dealer or its existing type 2 or type 3 additional derivatives authority, or part of a trust department's existing type 3 additional derivatives authority.

The notification requirement does not apply to banks that have been granted a Type 1 expanded dealer authority.

The bank or trust department shall only transact in the instruments that are the subject of its notification to the Bangko Sentral in the capacity allowed for the previously-authorized product.

It is understood that the determination of a specific product as a structure or a variant, as defined under this Section, shall be made in accordance with a bank's/trust department's internal risk management processes and shall involve the risk management unit.

A bank or trust department that intends to engage in a variant or a structure as described in these provisions shall notify the appropriate supervising department of the Bangko Sentral in writing within ten (10) days from the approval of the same by the appropriate committee of the Bank/trust department and submit the following:

- a. A copy of the resolution of the appropriate board/management committee (or the equivalent management review body in the case of branches of foreign banks or trust departments) approving the bank's/trust department's intention to engage in the specific derivatives product(s);
- b. A certification signed jointly by the president, treasurer or trust officer, as applicable, and chief risk officer of the bank, stating that:

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- (1) The bank has reviewed the product(s) and has deemed that such would qualify as a variant(s) or a structure(s) as described under this framework; and
 - (2) The bank continues to comply with the prudential criteria under Section 111;
- c. The list of financial derivative variants and/or structures that the bank intends to enter into or offer, the reasons for doing so and the target market for the same, if any; and
 - d. References to existing product and/or operations manuals covering the process flows and relevant risk management processes governing the products subject of the notification to the Bangko Sentral.

Intra-group transactions. XXX

Accounting guidelines. A bank that engages in derivatives activities must strictly account for such transactions in accordance with the guidelines in Appendix 27.

Sanctions.

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Section 2. Section 613-Q of the MORNBFi is hereby amended to read as follows:

“613-Q DERIVATIVES ACTIVITIES

XXX

Definition of terms

- a. ***Credit default swaps (CDS)*** – refers to a credit derivative wherein the protection buyer may exchange the reference asset or any deliverable obligation of the reference entity for cash equal to a specified amount, or get compensated to the extent of the difference between the par value and market value of the asset upon the occurrence of a defined credit event
- b. ***Credit derivative*** – a contract wherein one party called the protection buyer or credit risk seller transfers the credit risk of a reference asset or assets issued by a reference entity or entities, which it may or may not own, to another party called the protection seller or credit risk buyer. In return, the protection buyer pays a premium or interest-related



payments to the protection seller reflecting the underlying credit risk of the reference asset/s.

- b. *Credit-linked note (CLN)* - refers to a pre-funded credit derivative instrument wherein the note holder acts as a protection seller while the note issuer is the protection buyer. As such, the repayment of the principal to the note holder is contingent upon the non-occurrence of a defined credit event. All references to CLNs shall be taken to generically include similar instruments, such as credit-linked deposits (CLDs). Unless otherwise stated in this section, the term shall refer only to plain vanilla CLNs. Plain vanilla CLNs are composed of a debt or deposit instrument and a CDS. Non-plain vanilla CLNs are those that are leveraged and/or include features of other SPs (e.g., coupon payments linked to interest or FX rate movements) and/or contains more than one (1) embedded derivative.
- c. *Currency swap* shall refer to an arrangement in which two parties exchange a series of cash flows in one currency for a series of cash flows in another currency, at specified exchange and/or interest rates and at an agreed intervals over an agreed period.
- d. *Financial futures* - refers to standardized forward contracts traded on exchanges. For purposes of this section, "analogous financial futures" pertain to exchange-traded contracts similar to the instruments being referred to. For instance, interest rate futures are considered analogous to forward rate agreements.
- e. *Foreign exchange swap* shall refer to a transaction involving the actual exchange of two (2) currencies (principal amount only) on a specific date at a rate agreed on deal date (the first leg), and a reverse exchange of the same two (2) currencies at a date further in the future (the second leg) at a rate (different from the rate applied to the first leg) agreed on deal date.
- f. *Foreign exchange forward* shall refer to a contract to purchase/sell a specified amount of currency against another at a specified exchange rate for delivery at a specified future date three (3) or more business days after deal date.
- g. *Forward rate agreement (FRA)* shall refer to an agreement fixing the interest rates for a specified period whereby the buyer receives (or pays) and the seller pays (or receives) the interest rate differential if the reference rate rises above (or falls below) the contract rate, respectively.
- h. *Interest rate swap (IRS)* shall refer to swaps to an agreement in which the parties agree to exchange interest cash flows on a principal

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amount at certain times in the future according to an agreed upon formula.

- i. **Structured product (SP)** shall refer to a financial instrument where the total return is a function of one (1) or more underlying indices, such as interest rates, equities and exchange rates. It is composed of a host contract (e.g., plain vanilla debt or equity securities) and an embedded derivative (e.g., swaps, forwards or options) that reshape the risk-return pattern of the hybrid instrument. For purposes of guidelines under this Section, the term SP does not include asset-backed securities.

Generally authorized derivatives activities. A QB may transact in the following financial derivatives instruments with Bangko Sentral-authorized dealers and brokers as an end-user without need of prior Bangko Sentral approval:

- a. Deliverable FX forwards, FX swaps, and currency swaps;
- b. Interest rate swaps, forward rate agreements and analogous financial futures; and
- c. Any financial derivative instrument solely for hedging purposes: *Provided*, That the QB observes all the requirements for hedging transactions under existing accounting standards: *Provided, further*, That it observes the provisions of Appendix Q-19.

A trust department of a QB may transact, as an institutional counterparty, in the following financial derivatives instruments with the Bangko Sentral-approved authorized dealers and brokers, on behalf of its trustor/principal/s as may be authorized by such trustor/ principals/s without need of prior Bangko Sentral approval: *Provided*, That it observes the provisions of Appendices Q-19 and Q-49:

- a. Any financial derivative instrument solely for hedging purposes: *Provided*, That the trust department observes all the requirements for hedging transactions under existing accounting standards;
- b. Deliverable FX forwards, FX swaps and currency swaps; and
- c. Interest rate swaps, forward rate agreements and analogous financial futures.

Activities requiring additional derivatives authority. A QB may apply for prior Bangko Sentral approval of additional derivatives authority to engage in all other financial derivatives activities not expressly allowed under Generally authorized derivatives activities and those that are not part of Activities requiring notification. A QB may apply for two (2) or more additional authorities. A QB applying for additional derivatives authority/ies



must have and maintain a risk management system commensurate to the additional authority/ies being applied for, in accordance with the provisions of Section 612-Q, Appendix Q-19 and meet other conditions specified under this Section.

A trust department of a QB shall apply for prior Bangko Sentral approval of additional derivatives authority as an end-user to engage in all other financial derivatives activities not expressly allowed under Generally authorized derivatives activities and those that are not part of Activities requiring notification. A trust department applying for additional derivatives authority/ies as an end-user must have and maintain a risk management system commensurate to the additional authority/ies being applied for, in accordance with the provisions of Appendices Q-19 and Q-49 and meet other conditions specified under this Section.

a. Classification of additional derivatives authority

XXX

For purposes of this Section, the types of derivatives are classified as follows: forwards, swaps, options, and structured products. Underlying reference pertains to the following: interest, foreign currencies/ foreign exchange, equity, credit and commodity.

b. Qualification requirements. A QB or its trust department applying for additional authority to engage in additional derivatives activities shall:

XXX

c. Application procedures. The applicant shall submit to the appropriate supervising department of the Bangko Sentral a written application for additional derivatives authority/ies accompanied by:

XXX

Activities requiring notification. A QB or its trust department shall notify the Bangko Sentral prior to engaging in any of the derivative instruments below:

a. Any variant of a stand-alone derivative for which a QB has an existing type 2 or type 3 additional derivatives authority; or for which a trust department has an existing type 3 additional derivatives authority.

For this purpose, a variant refers to an instrument where the features of the authorized product are altered to effect a change in the timing of cash flows, the commencement of the contract, or the basis of payments (e.g., amortizing or accreting notional amount). The adoption of a different underlying for a previously-authorized product



(e.g., a different reference entity of a credit default swap, if the latter has been approved under a Type 2 or Type 3 authority) would likewise result in the creation of a variant;

- b. A structure or combination of (i) two or more separate stand-alone derivatives contracts, or (ii) stand-alone derivatives contract/s and a plain vanilla cash instrument, where the instruments are offered or distributed together, where (all of) the derivative(s) is (are) part of a QB's existing type 2 or type 3 additional derivatives authority or part of a trust department's existing type 3 additional derivatives authority.

The QB or trust department shall only transact in the instruments that are the subject of its notification to the Bangko Sentral in the capacity allowed for the previously-authorized product.

It is understood that the determination of a specific product as a structure or a variant, as defined under this Section, should be made in accordance with a QB's/trust department's internal risk management processes and should involve the risk management unit.

A QB or trust department that intends to engage in a variant or a structure as described in these provisions shall notify the appropriate supervising body of the Bangko Sentral in writing within ten (10) days from the approval by the appropriate committee of the QB/trust department of QB and submit the following:

- a. A copy of the resolution of the appropriate board/management committee approving the QB or its trust department's intention to engage in the specific derivatives product(s);
- b. A certification signed jointly by the president, treasurer or trust officer, as applicable, and chief risk officer of the QB, stating that:
 - (1) The QB/trust department has reviewed the product(s) and has deemed that such would qualify as a variant(s) or a structure(s) as described under this framework; and
 - (2) The QB/trust department continues to comply with the prudential criteria under Section 111-Q;
- c. The list of financial derivative variants and/or structures that the QB/trust department intends to enter into or offer, the reasons for doing so and the target market for the same, if any; and
- d. References to existing product and/or operations manuals covering the process flows and relevant risk management processes governing the products subject of the notification to the Bangko Sentral.

Intra-group transactions. XXX

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Accounting guidelines. A QB that engages in derivatives activities must strictly account for such transactions in accordance with relevant existing accounting standards.

Sanctions

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Section 3. Section 622 of the MORB is hereby amended as follows:

"622 NON-DELIVERABLE FOREIGN EXCHANGE FORWARD CONTRACTS INVOLVING THE PHILIPPINE PESO

Policy Statement. The Bangko Sentral ng Pilipinas is cognizant that Non-Deliverable Forwards (NDFs) may, directly or indirectly, create system-wide risks even if there is no delivery of principal amounts and even when NDFs are used as a hedge. To mitigate the buildup of systemic risks and protect against undue concentration in market usage, the following prudential guidelines are set in place.

Definition of Terms. As used in this Section, the following terms are defined accordingly:

- a. **Peso Non-Deliverable Forwards (Peso NDF)** - refers to a forward foreign exchange (FX) contract involving the value of the Philippine peso against a foreign currency at a specified maturity date on an agreed notional amount. Only the net difference between the contracted forward exchange rate and the spot exchange rate between the Philippine peso and the foreign currency at the fixing date shall be settled. NDFs may be transacted by a bank with offshore or onshore counterparties.
- b. **Peso NDF Purchase from Non- Residents** - refers to an NDF contract undertaken by the bank with a non-resident counterparty to receive foreign currency at an agreed forward exchange rate with the Philippine peso over a specified tenor.
- c. **Peso NDF Sale to Non-Residents** - refers to an NDF contract undertaken by the bank with a non-resident counterparty to deliver foreign currency at an agreed forward exchange rate with the Philippine peso over a specified tenor.
- d. **Onshore Non-Deliverable Forward** - refers to an NDF contract undertaken by the bank with a resident counterparty. It may be an NDF purchase or an NDF sale.



- e. **Fixing Date** - refers to the date at which the difference between the prevailing market exchange rate and the agreed upon exchange rate or the reference rate is calculated.
- f. **Settlement Date** - refers to the date at which the payment of the difference between the contracted forward exchange rate and the spot exchange rate between the Philippine peso and the foreign currency at the fixing date is due to the party receiving payment.
- g. **Resident** - as defined in the Manual of Regulations on Foreign Exchange Transactions (FX Manual).
- h. **Non-resident** - as defined in the FX Manual.

Licensing Requirement. Only UBs and KBs are allowed to engage in NDFs, pursuant to the provisions of Section 613.

Other Requirements. All NDF contracts with residents shall be settled in Philippine pesos. NDF contracts shall not be pre-terminated before their fixing date.

Bank Limits on Peso NDF Exposures. To mitigate any potential build-up of systemic risks, a bank's total gross exposures to all forms of Peso NDF transactions, i.e., the sum of sales and purchases for both onshore and offshore transactions, shall be limited to a fixed percentage of the bank's capital base. The said limit is twenty percent (20%) of unimpaired capital for domestic banks. Foreign bank branches shall have a limit equal to 100 percent of their unimpaired capital as defined under Section 103 (Capital Requirements).

Bilateral Netting. A bank with purchase and sell positions against a counterparty which are maturing at the same fixing date may consolidate said positions for the purpose of bilateral net settlement.

Reportorial Requirements. All NDF transactions shall be covered by the Report on Non-Deliverable Forward (NDF) Transactions Against Pesos. NDF transactions shall likewise be included in the calculation of the capital adequacy ratio (CAR) and reflected in the CAR reports.

Sanctions. In addition to the sanctions that may be imposed by the Bangko Sentral under Section 002, any violation of the provisions of this Section shall constitute grounds for the following:

a. **First Offense**

- (1) Reprimand for the directors/officers responsible for the violation with a warning that subsequent violations will be subject to more severe sanctions.



(2) Banks in breach of the limits shall be required to submit a remedial plan to comply with the limits.

b. Subsequent Offense - A bank will be subject to any or all of the following, as may be recommended by the appropriate supervising department of the Bangko Sentral to the Monetary Board:

- (1) Restriction or prohibition on the bank from requesting new authority and/or licenses of any sort;
- (2) Restriction or prohibition on the bank from declaring dividends; and
- (3) Issuance of an order requiring the bank to cease and desist from conducting business in an unsafe or unsound manner and may further order that immediate action be taken to correct the conditions resulting from such unsafe or unsound banking."

Section 4. Section 302-T of the MORNBFi is hereby amended as follows:

302 - T APPLICABLE REGULATIONS ON TRUST AND OTHER FIDUCIARY ACTIVITIES

Trust operations and investment management activities of trust corporations shall be subject to the applicable regulations in Parts Five (Foreign Exchange Operations), Six (Treasury and Money Market Operations), Seven (Electronic Operations and Other Services) and Nine (Anti-Money Laundering Operations) of the MORNBFi, unless otherwise provided in this Manual. The provisions of Section 613 of the MORB that are applicable to trust departments of universal and commercial banks shall apply to trust corporations.

In addition to the provisions in the "T" regulation, trust operations and other fiduciary activities, including investment management shall be subject to the following regulations provided under Part Four of the MORNBFi, in so far as applicable to the TC:

XXX"

Section 5. Section 125 of the MORB is hereby amended as follows:

125 BASEL III RISK-BASED CAPITAL

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Capital treatment of exposures/investments in certain products. The guidelines on the capital treatment of bank's exposures/investments in the following products are in Part VI:



- a. Structured products in Sec. 625-A (*Capital treatment of banks' exposures to structured products*).
- b. Investment in securities overlying securitization structures in Sec. 627-A (*Capital treatment of investments in securities overlying securitization structures*).

XXX"

Section 6. Section 625-A of the MORB is hereby amended as follows:

"625-A CAPITAL TREATMENT OF BANKS' EXPOSURES TO STRUCTURED PRODUCTS

The following rules and regulations shall govern the capital treatment of banks' exposures to structured products.

- a. *Banking book.* XXX
- b. *Trading book.* XXX"

Section 7. Section 72 of the FX Manual is hereby amended as follows:

"Section 72. Authorized Transactions

XXX

2. UBs/KBs, which are authorized to operate under the expanded foreign currency deposit system may engage in the following transactions in any acceptable foreign currency:

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- g. Engage in foreign exchange trading, and subject to Section 613 of the MORB, engage in derivatives transactions;

XXX

- l. Invest in foreign currency denominated structured products issued by banks and special purpose vehicles (SPVs) of high credit quality subject to the provisions in Section 613 of the MORB;

XXX"

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Section 8. The Sections/Appendices and references to Sections of the MORB and MORNBF I are hereby deleted/renumbered as follows:

MORB/MORNBF I Section/Appendix	Title	Deleted/ Renumbered Section
Section 623-A	Guidelines on the Investments of Universal Banks and Commercial Banks in Credit-Linked Notes (CLNs), Structured Products and Securities Overlying Securitization	Deleted
Section 624-A	Credit-Linked Notes and Similar Credit Derivatives Products	Deleted
Section 626-A	Expanded Foreign Currency Deposit Unit Investments in Foreign Currency Denominated Structured Products	Deleted
Appendix 27	Guidelines on the Adoption of Philippine Financial Reporting Standards (PFRS 9) - Classification and Measurement	References to Section 624-A and 625-A shall instead refer to Section 613
Appendix 64 and Annex B	Regulatory Requirements in Investing in Credit-Linked Notes, Structured Products and Securities Overlying Securitization Structures by Universal Banks and Commercial Banks	Deleted references to "structured products", "credit-linked notes", and Sections 624-A, 625-A and 626-A
Appendix 65	Guidelines on the Accounting Treatment for Investments in Credit-Linked Notes (CLNs) and Other Structured Products	Deleted
Appendix 104	Guidelines for the Treatment of Non-Deliverable Forwards Involving the Philippine Peso	Deleted
Section 621-Q	Forward and Swap Transactions	Deleted
Section 801-N	Forward and Swap Transactions	Deleted

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Section 9. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:



BENJAMIN E. DIOKNO
Governor

07 June 2021 2021