



MANUAL OF REGULATIONS

FOR BANKS

Volume 2

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GUIDELINES FOR THE ISSUANCE OF A UNIVERSAL BANKING AUTHORITY
[Appendix to Subsec. X102.1 (2008 - X101.2)]

I. QUALIFICATION REQUIREMENTS

A. Minimum Capital Required. A KB applying for a universal banking (UB) authority shall have capital equivalent to at least the amount prescribed by the Monetary Board for UBs. The term *capital* shall have the same meaning as defined in Sec. X111 prescribing the required minimum capitalization for each bank category.

The merger or consolidation of banks, or that of a bank and an investment house as a means of meeting the minimum capitalization requirement for a UB is encouraged. The revaluation of the premises, improvements and equipment of the institutions involved in a merger or consolidation may be allowed under Sec. X108.3.

B. Financial Resources, Past Performance and General Compliance with Banking Laws and Regulations

1. Applicant bank shall not have incurred any deficiency in the minimum capital to risk assets ratio prescribed by the Monetary Board pursuant to Section 34 of R.A. No. 8791 for the year preceding the filing of application. It shall have sufficient valuation reserves to cover estimated losses.

2. Applicant bank shall not have incurred net deficiencies in its reserves against deposit and deposit substitute liabilities for the three (3)-month period immediately preceding the filing of application. In addition, applicant bank's liquidity ratios such as primary reserves to deposit liabilities and primary and secondary reserves to deposit and demand liabilities shall at least be equal to the

averages of the UB sector as of the end of the quarter immediately preceding the date of application.

3. Applicant bank shall show profitable operations for the past calendar year immediately preceding the filing of application. Its ratio of net earnings to average capital accounts should indicate satisfactory returns on stockholders' investments.

4. Applicant bank has substantially complied with banking laws or orders, instructions, or regulations issued by the Monetary Board or orders, instructions, or rulings by the Governor. Major/important exceptions and findings by BSP examiners have been corrected or satisfactorily explained.

C. Banking Facilities, Managerial Capability, Competence, Experience and Integrity of Directors, Principal Officers and Key Personnel

1. The applicant bank shall manifest adequate banking facilities and managerial capability in commercial banking operations as shown by, among other things, its branch network, subsidiaries and allied undertakings, FCUD/EFCDU and foreign trade transactions, participation in syndicated lending, trust services, etc.

2. The applicant bank shall indicate in the application those officers and key personnel having the appropriate training and/or experience in investment banking and related functions are available/obtainable by the bank.

The application shall be supported by the updated bio-data of the bank's directors and principal officers, including the officers and key personnel who will handle the investment banking and related functions.

II. FEASIBILITY STUDY

The applicant bank shall submit a feasibility study, which shall include, in addition to the usual content of such study, the following information:

A. Capitalization and Ownership

- 1. A schedule showing the computation of the applicant bank’s capital accounts taking into consideration *capital* as defined under Sec. X111 and, if applicable, the merger or consolidation scheme to meet the capitalization requirement as allowed under Sec. X108 and Subsec. X108.3.
- 2. A list of direct and indirect loans to DOSRI which are unsecured, indicating the original amount, date granted, outstanding balance and classification (i.e., whether current or past due) of each DOSRI loan.
- 3. A summary of holdings of stockholders classified as to citizenship and family/business group indicating the number of shares subscribed in the applicant bank and the corresponding percentage of each shareholding to total shareholdings.
- 4. A list of individual stockholders grouped according to family/business group, indicating the TIN, citizenship, type of shares held (whether voting or non-voting, common or preferred), number of shares subscribed and percentage of holdings to total of each shareholder.
- 5. A list of individual stockholders in the applicant bank with equity investment in other financial institutions, indicating the type and number of shares held in the other institution and the corresponding percentage of holdings to total of each shareholder.

B. Organization and Management

- 1. The names of the members of the board of directors and principal officers of the applicant bank.
- 2. The proposed organization chart of the department within the applicant bank

that will be responsible for the investment banking functions, indicating the designation of officers and other key positions and the names of persons proposed for appointment to those positions.

C. Financial Capability and Previous Year’s Operation.

A brief discussion of the applicant bank’s general financial condition, operating performance, solvency and liquidity position, supported by appropriate financial ratios as seen from the latest condensed balance sheet and income statement. The discussion shall include major banking activities, exposure concentrations (in terms of top borrowers and major industries), equity and credit exposures in subsidiaries and affiliates, and other significant information.

D. Corporate Strategy

- 1. The statement of corporate strategy of the proposed UB, its immediate and long-term goals and objectives.
- 2. The lending program and special policies lined up for the first five (5) years including details on guidelines and standards to be established on exposure limits, portfolio diversification, collateral requirements, geographical expansion, assistance to pioneer and priority areas of economic activities and relationship with clients.
- 3. The investment policies and programs to be implemented within the first five (5) years of operation including broad categories of undertakings in which the proposed UB will invest, the portfolio mix to be observed, the extent of control over subscribed capital stock and voting stock to be exercised in the financial allied undertakings, QBs and non-financial allied undertakings.
- 4. The fund generation program for the first five (5) years of operation to support the expansion in loans and investments.

5. The quarterly underwriting program for one (1) year stating industry of issuer, the volume of underwriting business classified into equity and debt, public offering and private placement and other information.

E. Financial Projections

1. The detailed statement of underlying assumptions made in projecting the financial statements and ratios.

2. The detailed projected statement of income and expenses for the first five (5) years of operation.

3. The projected operating ratios for the first five (5) years of operation.

4. The actual statement of condition of applicant bank at month-end before filing of application and the projected statement of condition as of the first five (5) years-end of operation.

5. The projected balance sheet ratios as of the first five (5) years-end of operation.

6. The projected funds flow for the first five (5) years of operation.

2. The offering bank shall accept offers to buy or invest in its publicly offered shares of stock from new investors or from existing stockholders whose stockholdings, together with those of their relatives within the fourth degree of consanguinity or affinity or of firms, partnerships, corporations or associations, at least a majority of the voting stock of which are owned by such stockholders, constitute less than twenty percent (20%) of the bank's subscribed capital stock. The bank's articles of incorporation shall have an explicit provision stating that existing stockholders who are disqualified under these rules shall waive their pre-emptive rights to the additional shares to be publicly offered unless the articles of incorporation already provide that such stockholders do not have pre-emptive rights. The waiver may be limited to three (3) months after which period the disqualified stockholders may purchase shares from the unsubscribed/unsold publicly offered shares.

The publicly offered shares of stock shall be sold to at least twenty-one (21) qualified buyers or group of buyers but the total shares of stock which may be purchased by any qualified buyer or group of buyers shall not exceed ten percent (10%) of the publicly offered shares of stock.

Buyers of publicly offered shares shall in no case exceed the ownership ceilings under Sections 11, 12, and 13 of R.A. No. 8791 and Section 2 of R.A. No. 7721.

3. The bank shall fix the price of the shares of stock. In the case of subscribed and fully paid-up shares which shareholders are willing to divest, the price shall be set by agreement of the parties.

4. The offering bank shall submit to the appropriate supervising and examining department for evaluation, a prospectus containing the following minimum information:

- (a) Name and address of issuing bank;
- (b) A brief history of the bank's operations and a description of its premises and facilities;

III. PUBLIC OFFERING AND LISTING OF BANK SHARES

A domestic bank applying for a UB authority shall cause the public offering and listing of its shares under the following terms and conditions:

1. The shares to be publicly offered may be voting or non-voting shares and may come from the bank's existing authorized and unsubscribed stock or from an increase in its authorized capital stock: *Provided*, That in the case of an applicant bank whose authorized capital has been fully subscribed and paid-up and that bank does not intend to increase its authorized capital stock, the shares to be publicly offered may come from existing stockholders who may be willing to divest themselves of such holdings.

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(c) The current authorized capital stock and the stock offered for subscription/sale to the public indicating the classes of stock and the amount for each class presented in tabular form;

(d) Features of the offer:

(i) The number and amount of each class of stock offered;

(ii) The per share and aggregate offering price of each class of stock and the per share and aggregate proceeds to be received by the bank;

(iii) The proposed means of distribution;

(iv) Specific terms of the offer (minimum subscription, payment terms, etc.); and

(v) The expiry date of the offer.

(e) Audited statements of condition (format similar to published statement of condition) and earnings and expenses for the last three (3) calendar years; *Provided*, That banks in operation for less than three (3) years shall disclose their audited financial statements from the start of operations to the year last ended;

(f) Names and addresses of all directors and principal officers and their respective designations, and stock options and other similar plans for directors and officers; and

(g) A list of stockholders owning ten percent (10%) or more of the subscribed capital stock, the number of shares held by each, whether voting or non-voting, and the par value of such shares. The list shall likewise show the ratio of subscribed capital

stock held by directors and principal officers to the authorized capital stock; the ratio of the publicly offered shares of stock to the authorized capital stock, the citizenship and family groupings of stockholders with their corresponding percentage of ownership.

5. The bank shall cause the publication of the public offering in a newspaper of general circulation at least twice within a period of one (1) month prior to the offering.

6. The provisions of the guidelines on public offering shall be deemed substantially complied with if the bank causes its shares of stock to be publicly offered in the manner and under the conditions herein prescribed for a period of three (3) months. In cases where there are no buyers willing and/or qualified to purchase or invest in the shares of stock being publicly offered within said period, the bank, after written notice to the appropriate supervising and examining department of the BSP, may sell said shares to its existing stockholders, subject to the limitations on equity holdings prescribed by law and regulations.

The requirements of public offering and listing shall be complied with by all applicant banks including those that are able to meet the prescribed minimum capital requirement on their own or through merger/consolidation with other banks or non-bank financial intermediaries.

**PRESCRIBED APPLICATION FORMS FOR THE ENTRY OF
FOREIGN BANKS**
[Appendix to Subsec. X105.1 (2008 - X121.1)]

**A. Sample Application for Authority to Invest in an Existing Domestic Bank in the
Philippines**

Name of Applicant

Address of Head Office

Cable Address

Telefax/Fax Number

Date

The Governor
Bangko Sentral ng Pilipinas
Manila, Philippines

S i r :

We hereby apply for authority to invest in _____ percent (__%) of the voting
stock of _____, an existing domestic bank in the Philippines.

In support of this application, we submit the following documents:

1. A copy of the Memorandum of Understanding between the bank and the investee domestic bank;
2. A copy of the Board Resolution authorizing the bank to invest in such domestic bank, and designating the person who will represent the bank in connection therewith;
3. Historical background of the bank, as follows:

(a) Date and place of incorporation;

(b) Number of branches and agencies in the home country;

(c) List of foreign branches, agencies, other offices, parent (if any), subsidiaries and affiliates, and their location and line of business (if different from banking);

(d) Range of banking services offered; and

(e) Financial and commercial relationship with the Philippine Government, local banks, business entities and residents, past or present;

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4. A copy each of the latest amended articles of incorporation and by-laws;
5. List of the bank's directors and their citizenship;
6. List of principal officers of the head office;
7. Number of stockholders and list of stockholders owning more than fifteen percent (15%) of the voting stock, if any;
8. A copy each of the bank's audited financial statements (i.e., statement of condition and statement of income and expenses) for the last two (2) years prior to the filing of application;
9. A copy of the bank's annual report to the stockholders for the year immediately preceding the date of filing of application;
10. A certification from the bank's home country supervisory authority that:
 - (a) The bank's home country supervisory authority has no objection to the bank's investment in an existing domestic bank in the Philippines;
 - (b) Adequate information on the bank and its subsidiaries will be provided to the Bangko Sentral ng Pilipinas to the extent allowed under existing laws; and
 - (c) The Philippine banks may likewise be allowed to establish subsidiaries and/or branches in the bank's home country, subject to compliance with the rules and regulations governing admission which are applicable to all foreign banks;
11. If the investment will constitute majority ownership or give the investor bank control of management, business plan supported by projected financial statements for one (1) year, and how such business plan can accomplish the policy objectives of R.A. No. 7721; and
12. Undertaking to fully share technology, e.g. services/products and facilities such as computer hardware/software.

Should this application be approved, the following additional documents shall be submitted:

1. Bio-data sheet for each of the new directors and new principal officers;
2. Evidence of citizenship for each of the new directors and new principal officers in the investee domestic bank, such as:
 - (a) Passport;
 - (b) Birth certificate; or
 - (c) Naturalization certificate;
3. National Bureau of Investigation (NBI) and Bureau of Internal Revenue (BIR) clearances or similar police and tax clearances for each of the new directors and new principal officers who are Filipino citizens or residents of the Philippines;

- 4. Authorization for the Bangko Sentral ng Pilipinas to conduct investigation and to obtain information from other sources in order to establish the authenticity of information/representations submitted; and
- 5. Other relevant information as the Bangko Sentral ng Pilipinas may require.

Very truly yours,

Signature of Authorized Officer
Over Printed Name

Designation

Attachments

B. Sample Application for Authority to Establish a Subsidiary in the Philippines

Name of Applicant

Address of Head Office

Cable Address

Telex/Fax Number

Date

The Governor
Bangko Sentral ng Pilipinas
Manila, Philippines

S i r :
We hereby apply for authority to establish a _____ percent (____ %)-owned
(Specify the type of bank) banking subsidiary in the Philippines.

In support of this application, we submit the following information/documents:

- 1. A copy of the board resolution authorizing the bank to establish such subsidiary, and designating the person who will represent the bank in connection therewith;

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2. Historical background of the bank, as follows:
 - (a) Date and place of incorporation;
 - (b) Number of domestic branches and agencies in the home country;
 - (c) List of foreign branches, agencies, other offices, subsidiaries and affiliates, and their location and line of business (if different from banking);
 - (d) Range of banking services offered; and
 - (e) Financial and commercial relationship with the Philippine Government, local banks, business entities and residents, past or present;
3. A copy each of the bank's latest amended articles of incorporation and by-laws;
4. List of the bank's directors and their citizenship;
5. List of principal officers of the head office;
6. A certification from the bank's Corporate Secretary that the bank or its holding company has at least fifty (50) stockholders and that no stockholder owns more than fifteen percent (15%) of the capital stock of the bank or its holding company, or that more than fifty percent (50%) of the capital stock of said bank or its holding company is owned by the government;
7. A certification from the bank's home country stock exchange authorized by the government that the bank is listed therein;
8. A copy each of the audited financial statements (i.e., statement of condition and statement of income and expenses) for the last two (2) years prior to the filing of application of the applicant bank, and other corporate stockholders, if any, in the proposed subsidiary;
9. Statement of Assets and Liabilities of each of the non-corporate subscribers/stockholders* as of a date not earlier than ninety (90) days prior to the filing of application, sworn to by the subscriber/stockholder* himself, with supporting schedules;
10. A copy of the bank's annual report to the stockholders for the year immediately preceding the date of filing of application;
11. Certified photo copies of income tax returns of each of the subscribers/ stockholders* for the last two (2) calendar/fiscal years;
12. A certification from the bank's home country supervisory authority:
 - (a) That the bank's home country supervisory authority has no objection to the bank's establishment of a subsidiary in the Philippines;
 - (b) That adequate information on the bank and its subsidiaries will be provided to the Bangko Sentral ng Pilipinas to the extent allowed under existing laws;

* Owning at least 2% of the subscribed capital stock

- (c) That the Philippine banks may likewise be allowed to establish subsidiaries and/or branches in the bank’s home country, subject to compliance with the rules and regulations governing admission which are applicable to all foreign banks;
 - (d) As to the ranking of the applicant bank in the home country on the basis of net worth as well as on the basis of on-book total assets of the head office and all branches, excluding subsidiaries and affiliates; and
 - (e) That the bank complies with the capital requirements as prescribed by the laws and regulations of the home country;
13. Business plan supported by projected financial statements for one (1) year, and how such business plan can accomplish the policy objectives of R.A. No. 7721;
14. National Bureau of Investigation (NBI) and Bureau of Internal Revenue (BIR) clearances or similar police or tax clearance for each of the non-corporate subscribers/stockholders* and proposed directors who are Filipino citizens or residents of the Philippines;
15. Undertaking to fully share technology, e.g. services/products and facilities such as computer hardware/software;
16. Agreement to Organize a (specify type of bank) Bank in the Philippines (See prescribed format in Item C below); and
17. Authorization for the Bangko Sentral ng Pilipinas to conduct investigation and to obtain information from other sources in order to establish the authenticity of information/representations submitted.

Should this application be approved, we shall submit the articles of incorporation of the proposed subsidiary together with an application for authority to register the same with the Securities and Exchange Commission (SEC) the Articles of Incorporation (See prescribed format in Item D below).

Very truly yours,

Signature of Authorized Officer
Over Printed Name

Designation

Attachments

* Owning at least 2% of the subscribed capital stock

C. Sample Agreement to Organize a Subsidiary Bank

AGREEMENT TO ORGANIZE A (Specify type of Bank) BANK

An agreement, made this ____ day of _____, 19__ by and among the following:

<u>Name</u>	<u>Residence</u>	<u>Citizenship</u>
-------------	------------------	--------------------

Whereas, the parties hereto are desirous of forming a corporation under the following terms:

1. That a corporation to be known as _____ shall forthwith be formed for the purpose of carrying on the business of a _____ bank as provided for by law;
2. That the place where the principal office of the corporation is to be established or located is in _____;
3. That the number of directors of the said corporation shall be _____ and that the names, residences and citizenship of the proposed directors of the corporation are, as follows:

<u>Name</u>	<u>Residence</u>	<u>Citizenship</u>
-------------	------------------	--------------------

4. That the capital stock of said corporation is _____ pesos (_____) Philippine Currency, and said capital shall be divided into (number) preferred shares with a par value of _____ each share:

(If there are preferred shares, their preferences should be described.)

5. That the amount of said capital stock which is proposed to be subscribed initially by the stockholders is _____ pesos (P _____) and the amount proposed to be paid thereof upon organization is _____ pesos (P _____), as follows:

<u>Name</u>	<u>Residence</u>	<u>Citizenship</u>	<u>Amount to be</u> <u>Subscribed</u>	<u>Paid-In</u>
-------------	------------------	--------------------	--	----------------

T o t a l _____

6. That _____, one of the organizers, is hereby authorized to sign the application to the Bangko Sentral ng Pilipinas for the issuance of the certificate of authority to establish a _____ bank.

IN WITNESS WHEREOF, we have hereunto set our hands this _____ day of _____, 20__ in the _____, Philippines.

SIGNATURES

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

SIGNED IN THE PRESENCE OF:

_____	_____
Witness	Witness

NOTARIAL ACKNOWLEDGMENT

D. Sample Letter to BSP Submitting Bank’s Articles of Incorporation for Issuance of the Certificate of Authority for SEC Registration

Date

The Governor
Bangko Sentral ng Pilipinas
Manila, Philippines

Sir :

I have the honor to submit herewith the Articles of Incorporation of _____.

By way of supporting documents, I am also submitting the following:

1.

Names of the proposed principal officers with their proposed designations and duties;

2.

Bio-data sheet for each of the incorporators, proposed directors and principal officers;

3.

Evidence that at least 40% of the voting stock of the corporation is owned by citizens of the Philippines;

4.

Evidence of citizenship for each of the directors and principal officers in the banking subsidiary, such as:

(a)

Passport;

(b)

Birth certificate; or

(c)

Naturalization certificate;

5.

National Bureau of Investigation (NBI) and Bureau of Internal Revenue (BIR) clearances or similar police or tax clearance for each of the proposed principal officers who are Filipino citizens or residents of the Philippines; and

6.

Location and banking premises, as follows:

(a)

Proposed location; and

(b)

Bank premises (indicate if purchased, built, or leased).

If you find the Articles of Incorporation in order, we are requesting for the issuance of the necessary certificate of authority for its registration with the Securities and Exchange Commission.

Very truly yours,

Authorized Representative
of the Organizers

Attachments

E. Sample Application for Authority to Establish Branch/es in the Philippines

Name of Applicant

Address of Head Office

Cable Address

Telex/Fax Number

Date

The Governor
Bangko Sentral ng Pilipinas
Manila, Philippines

S i r :
We hereby apply for authority to establish branch/es with full banking authority in the Philippines.

In support of this application, we submit the following information/documents:

1. A copy of the board resolution authorizing the bank to establish such branch/es in the Philippines, and designating the person who will represent the bank in connection therewith;
2. Historical background of the bank, as follows:

(a) Date and place of incorporation;

(b) Number of branches and agencies in the home country;

(c) List of foreign branches, agencies, other offices, subsidiaries and affiliates, and their location and line of business (if different from banking);

(d) Range of banking services offered; and

(e) Financial and commercial relationship with the Philippine Government, local banks, business entities and residents, past or present;
3. A copy each of the latest amended articles of incorporation and by-laws;
4. List of directors and their citizenship;
5. List of principal officers of the head office;

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- 6. A certification from the bank’s Corporate Secretary that the bank or its holding company has at least fifty (50) stockholders and that no stockholder owns more than fifteen percent (15%) of the capital stock of the bank or its holding company, or that more than fifty percent (50%) of the capital stock of said bank or its holding company is owned by the government;
- 7. A certification from the bank’s home country stock exchange authorized by the government that the bank is listed therein;
- 8. A copy each of the bank’s audited financial statements (i.e., statement of condition and statement of income and expenses) for the last two (2) years prior to the filing of application;
- 9. A copy of the bank’s annual report to the stockholders for the year immediately preceding the date of filing of application;
- 10. A certification from the bank’s home country supervisory authority;
- 11. Business plan supported by projected financial statements for one (1) year, and how such business plan can accomplish the policy objectives of R.A. No. 7721;
- 12. Undertaking to fully share technology, e.g. services/products and facilities such as computer hardware/software; and
- 13. Authorization for the Bangko Sentral ng Pilipinas to conduct investigation and to obtain information from other sources in order to establish the authenticity of the information/representations submitted.

Should this application be approved, we undertake to submit another application for the issuance of the necessary certificate of authority to obtain license from the Securities and Exchange Commission (SEC) to operate branch/es in the Philippines (See prescribed format in Item F below).

Very truly yours,

Signature of Authorized Officer
Over Printed Name

Designation

Attachments

F. Sample Request for BSP Authority to Obtain License from SEC to Establish Branches of Foreign Banks

Date

The Governor
Bangko Sentral ng Pilipinas
Manila, Philippines

S i r:
I have the honor to request for a certificate of authority to obtain license from the Securities and Exchange Commission (SEC) for the establishment of branch/es in the Philippines.

In support of this request, I am pleased to submit the following papers/documents and other information:

- 1. Names of the proposed principal officers with their proposed designation and duties;
- 2. Bio-data sheet for each of the proposed principal officers;
- 3. Evidence of citizenship for each of the proposed principal officers, such as:
 - (a) Passport;
 - (b) Birth certificate; or
 - (c) Naturalization certificate;
- 4. National Bureau of Investigation (NBI) and Bureau of Internal Revenue (BIR) clearances or similar police or tax clearances for each of the proposed principal officers who are Filipino citizens or residents of the Philippines;
- 5. Location and banking premises, as follows:
 - (a) Proposed location; and
 - (b) Bank premises (indicate if purchased, built or leased); and
- 6. Head office guarantee (See suggested format in Item G below).

Very truly yours,

Name of Bank

By:

Signature of Authorized Officer
Over Printed Name

Designation

Attachments

G. Sample Guarantee Undertaking to Establish Branches of Foreign Banks

GUARANTEE

KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, under the provisions of Republic Acts No. 8791, as amended, and No. 7721 of the Republic of the Philippines, the licensing, supervision and regulation of banks, both foreign and domestic, are vested with the Bangko Sentral ng Pilipinas;

WHEREAS, under said Republic Act No. 7721, entitled: “An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for Other Purposes”, Name of Bank (hereinafter called Guarantor) has been authorized to operate a branch or branches in the Philippines.

WHEREAS, under the provisions of Republic Act No. 7721, banks organized under laws other than those of the Republic of the Philippines shall guarantee the full payment of all liabilities of its branch or branches in the Philippines for the purpose of providing effective protection and security to the interests of the depositors and other creditors of said branch or branches; and

WHEREAS, Guarantor is willing, desirous and ready at any time to give such full guarantee as well as to comply with whatever conditions required in said Republic Act No. 7721.

NOW, THEREFORE, for the purpose above mentioned, Guarantor hereby agrees that in the event any branch of Guarantor located in the territory of the Republic of the Philippines should fail to promptly pay any lawful debt, claim or liability of any kind or character, due and payable under the laws of the Republic of the Philippines and pursuant to the terms of said debt, claim or liability, then Guarantor upon the demand of the Bangko Sentral shall promptly pay said debt, claim or liability to the person or persons entitled thereto under the laws of the Republic of the Philippines. Any such debt, claim or liability, not so promptly paid, shall bear interest at a rate per annum as may be prescribed by the Monetary Board. Said debts, claims or liabilities, interest thereon and any cost or expenses incidental to the collection thereof, shall be paid in the currency in which the obligations are expressed, or in which the costs or expenses were incurred.

The obligation of Guarantor upon default of any of its branches located in the territory of the Republic of the Philippines is primary, direct and immediate and not contingent on any remedy or recourse upon any asset, property or right which its branch or branches within the territory of the Republic of the Philippines may have, in such a way that any depositor or creditor of its branch or branches in the Philippines may take, at any time, any action on this Guaranty whether or not said depositor or creditor has simultaneously taken or will thereafter take, any direct or indirect action under the laws of the Philippines against said branch or branches, or against any assets, property or rights thereof: *Provided, however,* That Guarantor shall have the right to set-off should it have any claim or claims against any depositor or creditor taking any action by virtue of the provisions of its Guarantee.

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The right on this Guarantee is independent of and separate from whatever right, security or action which any depositor or creditor of said branch or branches in the Philippines may have, take or pursue to protect his interest, and whatever action or measure the Bangko Sentral ng Pilipinas may adopt in the exercise of its supervisory and regulatory powers allowed and provided for in said Republic Acts No. 8791, as amended, and No. 7721 of the Republic of the Philippines, such as requiring Guarantor to assign to its Philippine Branch or Branches an amount of capital sufficient to meet the minimum capital required in said Republic Act No. 7721, or any measure it may be authorized to take under the provisions of said Republic Act No. 8791, as amended, in the case of capital deficiencies; in such case or cases, the liability created hereunder shall not in the least be minimized or affected, it being the purpose of this undertaking that Guarantor shall at all times be responsible and obligated for any such obligations or liabilities of its branch or branches in the Philippines, and to the extent that the same has been fully paid or satisfied only will said Guarantor be relieved from its primary obligations hereunder.

No technicality in the law or in the language of this Guarantee or in any contract, agreement or security, held by or with said branch or branches in the Philippines, shall defeat the nature and purpose of this Guarantee as a primary and direct obligation of Guarantor to the end that the interest of the depositors and creditors of the said branch or branches in the Philippines may be fully protected and satisfied in accordance with Section 5 of Republic Act No. 7721. Guarantor hereby acknowledges having full knowledge of said Republic Act No. 7721 in accordance with which this primary and principal obligation is given.

Guarantor hereby recognizes the jurisdiction of Philippine courts and hereby authorizes its branch office and/or offices in the Philippines to accept summons, processes and notices from the Philippine courts.

The Guarantee shall be governed by Philippine law.

IN WITNESS WHEREOF, this Guarantee has been executed by Guarantor acting by and through its Officers thereunto duly authorized this ____ day of _____, 19__.
(As amended by Circular No. 774 dated 16 November 2012)

**GUIDELINES FOR THE ISSUANCE OF A UNIVERSAL
BANKING AUTHORITY FOR BRANCHES OF FOREIGN BANKS**
[Appendix to Subsec. X105.8 (2008 - X121.8)]

**I. QUALIFICATION AND
DOCUMENTATION REQUIREMENTS**

A. Minimum Capital Required. A branch of a foreign bank applying for a universal banking (UB) authority shall have capital equivalent to at least the amount prescribed for UBs under Subsec. X111.1.

The capital of a Philippine branch of a foreign bank which is authorized to operate as a UB shall consist of its permanently assigned capital plus *Net Due to account: Provided*, That at no time shall the aggregate of said accounts fall below the amount prescribed under Subsec. X111.1: *Provided further*, That the amount of the *Net Due to* which may be added to permanently assigned capital shall not exceed the equivalent of three (3) times the amount of the permanently assigned capital.

The capital as described in the immediately preceding paragraph shall be net of (a) such unbooked valuation reserves and other capital adjustments as may be required by the BSP; (b) total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders, and their related interests (DOSRI); (c) deferred income tax; (d) equity investment of a bank in another bank or enterprise whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank, in which case, the investment of the bank or the reciprocal investment of the other bank or enterprises, whichever is lower; and (e) appraisal increment reserves (revaluation surplus) arising from an appreciation or an increase in the book value of bank assets.

The list of direct and indirect loans to DOSRI which are unsecured, the original amount of the loan and date granted and the outstanding balance classified into current and past due shall be submitted by the applicant banks to the BSP.

B. Financial Resources, Past Performance and General Compliance with Banking Laws and Regulations. Applicant bank shall not have incurred deficiency in the required capital-to- risk assets ratio (10%) under Section 34 of R.A. No. 8791, as amended, and Subsecs. X105.5 and X105.6, for the year preceding the filing of application. It shall have sufficient valuation reserves to cover estimated losses.

Applicant bank shall not have incurred net deficiencies in its reserves against deposit liabilities and/or deposit substitute liabilities for the three (3)-month period immediately preceding the filing of the application. In addition, such ratios as primary reserves to deposit liabilities and primary and secondary reserves to deposit and demand liabilities shall show that applicant bank is in a liquid position.

Applicant bank has substantially complied with banking laws or orders, instructions or regulations issued by the Monetary Board or orders, instructions or rulings by the Governor. Major/important exceptions and findings by BSP examiners have been corrected or satisfactorily explained.

C. Knowledge, Competence, Experience and Integrity of Officers and Key Personnel. The applicant shall indicate in the

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application that officers and key personnel having the appropriate training and/or experience in investment banking and related functions are available/obtainable by the bank.

An updated bio-data shall be submitted by each of the officers and key personnel who will handle investment banking and related functions.

II. PROJECT FEASIBILITY STUDY

The project feasibility study to be submitted by the applicant bank shall include, in addition to the regular content of such study, the following information in the format prescribed.

A. Organization and Management

1. The proposed organization (position) chart of department within the applicant bank which shall be responsible for the investment banking functions, indicating for each position the name of the personnel proposed for appointment.

2. Bio-data that should be prepared for each of the proposed key personnel in the investment banking department.

B. Corporate Strategy

1. The statement of corporate strategy of the UB and the immediate and long-term goals and objectives.

2. The lending program and special policies lined up for the first five (5) years including details on guidelines and standards to be established on exposure limits, portfolio diversification, collateral requirements, geographical expansion, assistance to pioneer and priority areas of economic activities and relationship with clients.

3. Investment policies and program to be implemented within the first five (5)

years of operation including the broad categories of undertakings in which the UB may invest, the portfolio mix to be observed, the extent of control over subscribed capital stock and voting stock to be exercised in financial allied undertakings, quasi-banks and non-financial allied undertakings.

4. Local branches of foreign banks may invest in the equity of financial as well as non-financial allied undertakings and non-allied undertakings wherein locally incorporated commercial banks with UB authority are allowed to invest. However, the branches' equity investments shall be subject to equity ceilings set in pertinent laws.

5. Fund generation program for the first five (5) years of operation to support the expansion in loans and investments.

6. Quarterly underwriting program for one (1) year stating industry of issuer, the volume of underwriting business classified into equity and debt, public offering and private placement and other information.

C. Financial Projections

1. The detailed statements of the underlying assumptions made in projecting the financial statements and ratios.

2. The detailed projected statement of income and expenses for the first five (5) years of operation.

3. The projected operating ratios for the first five (5) years of operation.

4. The actual statement of condition of UB at month-end before filing of application and the projected statement of condition as of the first five (5) years-end of operation.

5. The projected balance sheet ratios as of the first five (5) years of operation.

6. The projected funds flow for the first five (5) years of operation.

(As amended by Circular Nos. 696 dated 29 October 2010)

FORMAT OF AFFIDAVIT ON TRANSACTIONS INVOLVING
VOTING SHARES OF STOCKS
[Appendix to Subsecs. X126.2.c.3 and X126.2.d.3]

REPUBLIC OF THE PHILIPPINES)
_____) S.S.

AFFIDAVIT

I, _____, also known as _____ with
business address at _____, after having been duly sworn to in accordance with
law depose and state that:

1. I am the subscriber, purchaser, transferee, or recipient of (state quantity) shares
representing ____ percent of voting stocks of (state name of bank), hereinafter to be referred
to as “Bank”, by virtue of (state instrument of subscription, purchase/sale, transfer, acquisition,
etc.) dated _____.

2. In acquiring equity in the Bank, I acted with full awareness and understanding
that the Bank is a duly organized domestic banking corporation, exercising and enjoying a
right, franchise and privilege to engage in _____ banking business, decreed by law to
be a nationalized industry, wherein at least _____ percent of the voting stock should be
owned by citizens of the Philippines and that there exist prohibitions under the law against
the holding by any person, of voting shares of stock in excess of _____ of the voting shares
of stock of the Bank.

I am also aware of the requirement for prior Monetary Board approval of significant
ownership of voting shares of stock by any person, natural or juridical, or by one (1) group of
persons as provided in Subsec. X126.2.b of the Manual of Regulations for Banks (MORB).

3. Consonant with the policy of the Government as provided for in Commonwealth
Act No. 108, as amended (The Anti-Dummy Law) and R. A. No. 8791 (The General Banking
Law of 2000), I hereby declare as follows:

- a. The (state instrument of transfer) was not simulated to evade the provisions of
the Constitution and Commonwealth Act No. 108, as amended, or the provisions
of R. A. No. 8791, particularly Sections 11, 12 and 13 imposing maximum equity
holdings by any person, whether natural or juridical, in banks;
- b. That I acquired said voting shares of stocks for valuable consideration from my
own funds;
- c. As such subscriber, purchaser, transferee, or recipient, I have title over said voting
shares of stock; and

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- d. That I am the bona fide owner of voting shares of stock of the bank in my own right, and not as an agent, assignee, proxy, nominee or dummy of any person, whether natural or juridical.

4. This Affidavit is executed for the purpose of stating under oath my bona fide title over the voting shares of stocks of the Bank; that in acquiring title over said voting shares I gave valuable consideration; and that I shall comply with the requirements of all laws, rules and regulations with respect to my conduct as stockholder of the Bank.

IN WITNESS WHEREOF, I hereby affix my signature this ____ day of _____, 20__ at _____.

Affiant

SUBSCRIBED and sworn to before me this ____ day of _____ 20__, affiant exhibiting to me his (valid identification document/s) No. _____, issued at _____ on _____ 20__.

Notary Public

Doc. No. _____
Page No. _____
Book No. _____
Series of _____

STANDARD PRE-QUALIFICATION REQUIREMENTS
FOR THE GRANT OF BANKING AUTHORITIES
(Appendix to Subsections Indicated Below)

A. Banks Applying For Authority to –

- 1. Establish additional branches of foreign banks (Subsec. X153.2);
- 2. Establish offices abroad (Subsec. X154.2);
- 3. Accept or create demand deposits (Subsec. X201.1);
- 4. Accept NOW accounts (Subsec. X223.1); and
- 5. Issue NCTDs (Subsec. X233.1);
- 6. Accept government deposits (Subsec. X240.3);
- 7. Engage in quasi-banking operations (Subsec. X234.2);
- 8. Operate an EFCDU/FCDU (Please refer to Circular No. 645 dated 13 February 2009); and
- 9. Engage in derivatives transactions [Subsec. X611.1 (2008 - X602.1)]

B. Standard Pre-Qualification Requirements

Banking Authorities

- | | |
|--|---|
| <ul style="list-style-type: none">• To establish additional branches of foreign bank | <ul style="list-style-type: none">• To establish offices abroad;• To accept demand, NOW NCTDs and• To accept government deposits; and• To engage in quasi-banking, EFCDU/FCDU and derivatives transactions |
|--|---|

1. The bank has complied, during the period indicated immediately preceding the date of application, with the following:

- | | | |
|---|---------|------------|
| a. Risk-based capital adequacy ratio; | 90 days | 60 days |
| b. Ceilings on credit accommodation to DOSRI; and | 90 days | continuing |
| c. Liquidity floor on government deposits; | 90 days | continuing |

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2. The bank has not incurred net weekly reserve deficiencies;	12 weeks	8 weeks
3. The bank has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or BSP Management;	a	a
4. The bank’s past due loans do not exceed twenty percent (20%) of its total loan portfolio as of the date of application;	a	a
5. The bank has corrected as of date of application the major violations noted in its latest examination particularly relating to –		
a. single borrower’s limit; and	a	a
b. total investment in real estate and improvements thereon, including bank equipment, does not exceed fifty percent (50%) of net worth as of date of application;	a	a
6. The bank’s accounting records, systems, procedures and internal control systems are satisfactorily maintained;	a	a
7. The bank does not have float items outstanding for more than sixty (60) calendar days in the “Due From/To Head Office/Branches/Offices” accounts and the “Due From Bangko Sentral” account exceeding one percent (1%) of the total resources as of end of preceding month;	a	a
8. The bank has no past due obligation with the BSP or with any FI as of date of application;	a	a
9. The bank’s facilities pertinent to the authority applied for are adequate;	a	a
10. The officers who will be in-charge of the operation relating to the authority applied for have actual experience of at least two (2) years in another bank as in-charge (or at least as assistant-in-charge) of the same operation;	a	a

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11. The bank personnel who will handle the operation relating to the authority applied for, have attended appropriate seminars, workshops or on-the-job training or have experience of at least six (6) months;	a	a
12. The bank has complied with the mandatory allocation of credit resources to small and medium enterprises for two (2) quarters immediately preceding the date of application;	a	a
13. The bank has not been found engaging in unsafe and unsound banking practices during the last six (6) months immediately preceding the date of application where applicable;	a	n/a
14. The bank has complied with the twenty percent (20%) aggregate limit on real estate loans as of end of preceding quarter (for UBs/KBs only);	a	n/a
15. The bank has set up the prescribed allowances for probable losses, both general and specific, as of date of application;	a	n/a
16. The bank is a member of the Philippine Deposit Insurance Corporation in good standing as of date of application (for TBs/RBs/Coop Banks only)	a	n/a

(As amended by Circular Nos. 645 dated 13 February 2009 and 613 dated 18 June 2008)

a - applicable
n/a - not applicable

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**PREREQUISITES FOR THE GRANT OF AUTHORITY TO OPERATE
FOREIGN CURRENCY DEPOSIT UNIT**

*(Please refer to Circular No. 645 dated 13 February 2009, as amended by Circular No.
674 dated 10 December 2009)*

**QUALIFICATION REQUIREMENTS FOR A BANK/NBFI APPLYING FOR
ACCREDITATION TO ACT AS TRUSTEE ON ANY MORTGAGE OR
BOND ISSUED BY ANY MUNICIPALITY, GOVERNMENT-OWNED OR
-CONTROLLED CORPORATION, OR ANY BODY POLITIC
(Appendix to Subsec. X409.16)**

A bank/NBFI applying for accreditation to act as trustee on any mortgage or bond issued by any municipality, government-owned or controlled corporation, or any body politic must comply with the following requirements:

- a. It must be a bank or NBFI under BSP supervision;
- b. It must have a license to engage in trust and other fiduciary business;
- c. It must have complied with the minimum capital accounts required under existing regulations, as follows:

UBs and KBs	The amount required under existing regulations or such amount as may be required by the Monetary Board in the future
Branches of Foreign Banks	The amount required under existing regulations
Thrift Banks	P650.0 million or such amounts as may be required by the Monetary Board in the future
NBFIs	Adjusted capital of at least P300.0 million or such amounts as may be required by the Monetary Board in the future.

- d. Its risk-based capital adequacy ratio is not lower than twelve percent (12%) at the time of filing the application;
- e. The articles of incorporation or governing charter of the institution shall include among its powers or purposes, acting as trustee or administering any trust or holding property in trust or on deposit for the use, or in behalf of others;

f. The by-laws of the institution shall include among others, provisions on the following:

- (1) The organization plan or structure of the department, office or unit which shall conduct the trust and other fiduciary business of the institution;
- (2) The creation of a trust committee, the appointment of a trust officer and subordinate officers of the trust department; and
- (3) A clear definition of the duties and responsibilities as well as the line and staff functional relationships of the various units, officers and staff within the organization.
- g. The bank's operation during the preceding calendar year and for the period immediately preceding the date of application has been profitable;
- h. It has not incurred net weekly reserve deficiencies during the eight (8) weeks period immediately preceding the date of application;
- i. It has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or BSP Management in the last two (2) preceding examinations prior to the date of application, particularly on the following:
 - (1) election of at least two (2) independent directors;
 - (2) attendance by every member of the board of directors in a special seminar for board of directors conducted or accredited by the BSP;
 - (3) the ceilings on credit accommodations to DOSRI;
 - (4) liquidity floor requirements for government deposits;

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(5) single borrower's loan limit; and
(6) investment in bank premises and other fixed assets.

j. It maintains adequate provisions for probable losses commensurate to the quality of its assets portfolio but not lower than the required valuation reserves as determined by the BSP;

k. It does not have float items outstanding for more than sixty (60) calendar days in the "Due From/To Head Office/Branches/Other Offices" accounts and the "Due from BSP" account exceeding one percent (1 %) of the total resources as of date of application;

l. It has established a risk management system appropriate to its operations characterized by clear delineation of

responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal controls and complete, timely and efficient risk reporting system;

m. It has a CAMELS Composite Rating of at least 3 in the last regular examination with management rating of not lower than 3; and

n. It is a member of the PDIC in good standing (for banks only);

Compliance with the foregoing as well as with other requirements under existing regulations shall be maintained up to the time the trust license is granted. A bank that fails in this respect shall be required to show compliance for another test period of the same duration.

REPORTS REQUIRED OF BANKS
[Appendix to Sec. X192 (2008 - X162)]

A. UBs/KBs

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-1	Form 2B/2B.1 (BSP-7-16-03)	X192.9 (Cir. No. 576 dated 08.08.07 and M-030 dated 10.04.07)	Balance Sheet (BS)/Consolidated Balance Sheet (CBS)	Quarterly	12th banking day from the date of the Call Letter	Diskette/CD/e-mail to SDC ^{1/} sdckb-pbs@bsp.gov.ph
			Published BS/CBS		20th banking day from the date of the Call Letter	SDC Postal/messengerial services/Fax to 523-3461 or 523-0230
A-1	Unnumbered	X191.2 (Cir. No. 512 dated 02.03.06, as amended by M-006 dated 07.07.06, MAB dated 03.07.06, Cir. No. 568 dated 05.08.07, M-015 dated 05.28.07, M-026 dated 09.20.07, Cir. No. 600 dated 02.04.08, M-011 dated 03.07.08, M-012 dated 03.14.08, M-016 dated 06.16.10, M-021	Financial Reporting Package (FRP)			
			Balance Sheet (FRP)			
			- Solo basis (Head Office and branches)	Monthly	15th banking day after end of reference month	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			- Consolidated basis (together with applicable schedules) ^{2/}	Quarterly	30th banking day after end of reference quarter	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.
^{2/} Only banks with financial allied subsidiaries, excluding insurance subsidiaries, shall submit the reports on consolidated basis.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		<i>dated 07.20.10, M-032 dated 09.27.10, Cir. No. 701 dated 12.13.10, M-052 dated 11.29.12, M-058 dated 12.17.12, Cir. No. 773 dated 11.20.12)</i>	Income Statement (FRP): - Solo basis (Head Office and branches) - Consolidated basis (together with applicable schedules) ^{2/} Schedules (Solo Report): 1 - Checks and Other Cash Items (COCI) 2 - Due from Other Banks 3 - Financial Assets Held for Trading 3a - Breakdown of Held for Trading (HFT) Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements 4 - Derivatives Held for Trading (HFT) 4a - Derivatives Held for Trading - Matrix of Counterparty and Type of Derivatives Contracts	Quarterly -do- Monthly -do- Quarterly -do- Monthly	15th banking day after end of reference quarter 30th banking day after end of reference quarter 15th banking day after end of reference month -do- -do- 15th banking day after end of reference quarter -do- -do- 15th banking day after end of reference month	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph -do- -do- -do- -do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.
^{2/} Only banks with financial allied subsidiaries, excluding insurance subsidiaries, shall submit the reports on consolidated basis.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
		5	Financial Assets Designated at Fair Value through Profit or Loss	Monthly	15th banking day after end of reference month	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
		6	- Available-for-Sale Financial Assets	-do-	-do-	-do-
		6a	- Breakdown of Available for Sale Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15th banking day after end of reference quarter	-do-
		6b to 6b4	- Available-for-Sale Financial Assets- Classified as to Status	-do-	-do-	-do-
		6c to 6c4	- Available-for-Sale Financial Assets Movements in Allowances for Credit Losses	Annually	15th banking day after end of reference year	-do-
		7	- Held to Maturity (HTM) Financial Assets	Monthly	15th banking day after end of reference month	-do-
		7a	- Breakdown of Held to Maturity Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15th banking day after end of reference quarter	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			7b - Fair Value of Held to Maturity (HTM) Financial Assets	Annually	15th banking day after end of reference year	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			7c to - Held to Maturity Financial Assets 7c4 Classified as to Status	Quarterly	15th banking day after end of reference quarter	-do-
			7d to - Held to Maturity Financial Assets 7d4 Movements in Allowances for Credit Losses	Annually	15th banking day after end of reference year	-do-
			8 - Unquoted Debt Securities Classified as Loans	Monthly	15th banking day after end of reference month	-do-
			8a - Fair Value of Unquoted Debt Securities Classified as Loans	Annually	15th banking day after end of reference year	-do-
			8b to - Unquoted Debt Securities Classified as 8b4 Loans Classified as to Status	Quarterly	15th banking day after end of reference quarter	-do-
			8c to - Unquoted Debt Securities Classified as 8c4 Loans-Movements in Allowances for Credit Losses	Annually	15th banking day after end of reference year	-do-
			9 - Investment in Non-Marketable Equity Securities	Monthly	15th banking day after end of reference month	-do-
			10 - Interbank Loans Receivables	-do-	-do-	-do-
			11 - Loans and Receivables - Others (Net Carrying Amount)	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			11a to - Loans and Receivables - Others 11a4 Classified as to Status	-do-	-do-	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			11b to - Restructured Loans and Receivables 11b4 Classified as to Status	Monthly	15th banking day after end of reference month	-do-
			11c to - Loans and Receivables - Others 11c4 Movements in Allowances for Credit Losses	Quarterly	15th banking day after end of reference quarter	-do-
			11d to - Gross Loans and Receivables - Others 11d4 Classified as to Type of Business/Industry of Counterparty	Monthly	15th banking day after end of reference month	-do-
			11e to - Loans and Receivables - Others 11e4 Classified as to Status per PAS 39	Annually	15th banking day after end of reference year	-do-
			11f - Schedule of Agri/Agra, Microfinance and SME Loans and Receivables Classified as to Counterparty	Monthly	15th banking day after end of reference month	-do-
			11g1 - Real Estate Exposure	Quarterly	15th banking day after end of reference quarter	-do-
			11g2 - Investment in Debt and Equity Securities issued by Real Estate Companies	-do-	-do-	-do-
			11g3 - Original Maturity and Earliest Repricing of Real Estate Exposure	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

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Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	Monthly	15th banking day after end of reference month	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			12a to 12a4 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions-Matrix of Counterparty and Issuer of Collateral Securities	Quarterly	15th banking day after end of reference quarter	-do-
			13 - Fair Value Adjustments in Hedge Accounting	-do-	-do-	-do-
			13a - Derivatives Held for Fair Value Hedge	-do-	-do-	-do-
			13b - Derivatives Held for Cash Flow Hedge	-do-	-do-	-do-
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	-do-	-do-	-do-
			13d - Financial Derivatives Held for Portfolio Hedge of Interest Rate Risk (Market to Market Amount)	-do-	-do-	-do-
			14 - Accrued Interest Income/Expense from Financial Assets and Liabilities	-do-	-do-	-do-
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	Monthly	15th banking day after end of reference month	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			15a - Equity Investment in Subsidiaries, Associates and Joint Ventures - Classified as to Nature of Business	Quarterly	15th banking day after end of reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			15b - Details of Equity Investment in Subsidiaries, Associates and Joint Ventures	-do-	-do-	-do-
			16 - Bank Premises, Furniture, Fixture and Equipment	-do-	-do-	-do-
			17 - Real and Other Properties Acquired/Non-current Assets Held for Sale	-do-	-do-	-do-
			17a - Aging of ROPA and NCAHS Accounts	Annually	15th banking day after end of reference year	-do-
			17b - Movement in ROPA and NCAHS Accounts	-do-	-do-	-do-
			18 - Schedule of Tax Assets and Liabilities	-do-	-do-	-do-
			19 - Other Assets	Monthly	15th banking day after end of reference month	-do-
			20 - Breakdown of Due from and Due to Head Office/Branches/Agencies Abroad - Philippine Branch of Foreign Banks	-do-	-do-	-do-
			21 - Liability for Short Position	Quarterly	15th banking day after end of reference quarter	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		22	- Deposit Liabilities Classified as to Type of Deposit	Monthly	15th banking day after end of reference month	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
		22a	- Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/ Branches	Quarterly	15th banking day after end of reference quarter	-do-
		23	- Due to Other Banks	Monthly	15th banking day after end of reference month	-do-
		24	- Bills Payable	-do-	-do-	-do-
		25	- Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	Quarterly	15th banking day after end of reference quarter	-do-
		26	- Fair Value of Financial Liabilities	Annually	15th banking day after end of reference year	-do-
		27	- Financial Liabilities Associated with Transferred Assets	Quarterly	15th banking day after end of reference quarter	-do-
		28	- Other Liabilities	Monthly	15th banking day after end of reference month	-do-
		29	- Interest Income/Expense from Financial Instruments	Quarterly	15th banking day after end of reference quarter	-do-
		29a	- Interest Income from Due from Other Banks Classified as to Type of Deposits	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			29b - Interest Income from Held for Trading, Designated at FVPL, Available for Sale, Held to Maturity Financial Assets and Unquoted Debt Securities Classified as Loans	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			29c - Interest Income from Interbank Loans Receivables	-do-	-do-	-do-
			29d to - Interest Income from Loans and Receivables- Others - Classified as to Status	-do-	-do-	-do-
			29d4			
			29e - Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	-do-	-do-	-do-
			30a - Interest Expense on Deposit Liabilities - Classified as to type of deposit	-do-	-do-	-do-
			30b - Interest Expense on Bills Payable	-do-	-do-	-do-
			30c - Interest Expense on Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	-do-	-do-	-do-
			31 - Dividend Income	-do-	-do-	-do-
			32 - Gains/(Loss) on Financial Assets and Liabilities Held for Trading	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			33 - Gains/(Losses) from Sale/Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			34 - Compensation/Fringe Benefits	-do-	-do-	-do-
			35 - Other Administrative Expenses	-do-	-do-	-do-
			36 - Depreciation/Amortization Expense	-do-	-do-	-do-
			37 - Impairment Loss	-do-	-do-	-do-
			38 - Off-Balance Sheet	-do-	-do-	-do-
			38a - Compliance with Section X347	-do-	-do-	-do-
			39 & 39a - Residual Maturity Performing Financial Assets and Financial Liabilities	-do-	-do-	-do-
			40 & 40a - Repricing - Performing Financial Assets and Financial Liabilities	-do-	-do-	-do-
			41 - Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs	-do-	-do-	-do-
			42 - Disclosure of Due From FCDU/RBU and Due to FCDU/RBU	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			Schedules (Consolidated Report): Control Prooflist	Quarterly	30th banking day after end of reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdckb frp@bsp.gov.ph
			1 - Checks and Other Cash Items	-do-	-do-	-do-
			2 - Due from Other Banks	-do-	-do-	-do-
			3 - Financial Assets Held for Trading	-do-	-do-	-do-
			3a - Breakdown of Held for Trading (HFT) Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-
			4 - Derivatives Held for Trading (HFT)	-do-	-do-	-do-
			4a - Derivatives Held for Trading-Matrix of Counterparty and Type of Derivative Contracts	-do-	-do-	-do-
			5 - Financial Assets Designated at Fair Value through Profit or Loss	-do-	-do-	-do-
			6 - Available-for-Sale Financial Assets	-do-	-do-	-do-
			6a - Breakdown of Available-For-Sale Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			6b - Available-for-Sale Financial Assets-Classified as to Status	Quarterly	30th banking day after end of reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			6c - Available-for-Sale Financial Assets Movements in allowances for credit losses	Annually	30th banking day after end of reference year	-do-
			7 - Held to Maturity (HTM) Financial Assets	Quarterly	30th banking day after end of reference quarter	-do-
			7a - Breakdown of Held to Maturity Financial Assets Purchased/ Sold/ Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-
			7b - Fair Value of Held to Maturity Financial Assets	Annually	30th banking day after end of reference year	-do-
			7c - Held to Maturity Financial Assets Classified as to Status	Quarterly	30th banking day after end of reference quarter	-do-
			7d - Held to Maturity Financial Assets Movements in Allowances for Credit Losses	Annually	30th banking day after end of reference year	-do-
			8 - Unquoted Debt Securities Classified as Loans	Quarterly	30th banking day after end of reference quarter	-do-
			8a - Fair Value of Unquoted Debt Securities Classified as to Status	Annually	30th banking day after end of reference year	-do-
			8b - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	30th banking day after end of reference quarter	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			8c - Unquoted Debt Securities Classified as Loans Movements in allowances for Credit Losses	Annually	30th banking day after end of the reference year	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			9 - Investment in Non-Marketable Equity Securities	-do-	-do-	-do-
			10 - Interbank Loans Receivables	Quarterly	30th banking day after end of reference quarter	-do-
			11 - Loans and Receivables - Others	-do-	-do-	-do-
			11a - Loans and Receivables - Others Classified as to Status	-do-	-do-	-do-
			11b - Restructured Loans and Receivables Classified as to Status	-do-	-do-	-do-
			11c - Loans and Receivables - Others Movements in Allowances for Credit Losses	-do-	-do-	-do-
			11d - Gross Loans and Receivables - Others Classified as to Type of Business/Industry of Counterparty	-do-	-do-	-do-
			11e - Loans and Receivables - Others Classified as to status per PAS 39	Annually	30th banking day after end of reference year	-do-
			11f - Schedule of Agri/Agra SME, DIL and Microfinance Loans and Receivables Under Sched 11 Classified as to Counterparty	Quarterly	30th banking day after end of reference quarter	-do-
			11g1 - Report on Real Estate Exposure	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			11g2 -Investment in Debt and Equity Securities Issued by Real Estate companies	Quarterly	30th banking day after end of reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			11g3 -Original Maturity and Earliest Repricing of Real Estate Exposure	-do-	-do-	-do-
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions - By Counterparty	-do-	-do-	-do-
			12a - Loans and Receivables Arising from Repurchase Agreements, Cerificates of Assignment/Participation with Recourse and Securities Lending and Borrowing transactions Matrix of Counterparty and Issuer of Collateral Securities	-do-	-do-	-do-
			13 - Fair Value Adjustments in Hedge Accounting	-do-	-do-	-do-
			13a - Derivatives Held for Fair Value Hedge	-do-	-do-	-do-
			13b- Derivatives Held for Cash Flow Hedge	-do-	-do-	-do-
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	-do-	-do-	-do-
			13d- Derivatives Held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount)	-do-	-do-	-do-
			14 - Accrued Interest Income/Expense from Financial Assets and Liabilities	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	Quarterly	30th banking day after end of reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			15a - Equity Investment in Subsidiaries, Associates and Joint Ventures - Classified as to Nature of Business	-do-	-do-	-do-
			15b - Details of Equity Investment in Subsidiaries, Associates and Joint Ventures	-do-	-do-	-do-
			16 - Bank Premises, Furniture, Fixture and Equipment	do-	-do-	-do-
			17 - Real and Other Properties Acquired/Non-Current Assets Held for Sale	-do-	-do-	-do-
			17a - Aging of ROPA and NCAHs Accounts	Annually	30th banking day after end of reference year	-do-
			17b - Movement in ROPA and NCAHs Accounts	-do-	-do-	-do-
			18 - Schedule of Tax Assets & Liabilities	-do-	-do-	-do-
			19 - Other Assets	Quarterly	15th banking day after end of reference quarter	-do-
			20 - Breakdown of Due from and Due to Head Office/Branches/Agencies Abroad - Philippine Branch of a Foreign Bank	-do-	-do-	-do-
			21 - Liability for Short Position	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			22 - Deposit Liabilities Classified as to Type of Deposit	Quarterly	30th banking day after end of reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/ Branches	-do-	30th banking day after end of reference quarter	-do-
			23 - Due to Other Banks	-do-	-do-	-do-
			24 - Bills Payable	-do-	-do-	-do-
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	-do-	-do-	-do-
			26 - Fair Value of Financial Liabilities	Annually	30th banking day after end of reference year	-do-
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	30th banking day after end of reference quarter	-do-
			28 - Other Liabilities	-do-	-do-	-do-
			29 - Interest Income/Expense from Financial Instruments	-do-	-do-	-do-
			29a - Interest Income from Due from Other Banks Classified as to Type of Deposits	-do-	-do-	-do-
			29b - Interest Income from Held for Trading, Designated at FVPL, Available for Sale, Held to Maturity Finacial Assets and Unquoted Debt Securities Classified as Loans	-do-	-do-	-do-
^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.						

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			29c - Interest Income from Interbank Loans Receivables	Quarterly	30th banking day after end of reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			29d - Interest Income from Loans and Receivables - Others - Classified as to Status	-do-	-do-	-do-
			29e - Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	-do-	-do-	-do-
			30a - Interest Expense on Deposit Liabilities Classified as to Type of Deposit	-do-	-do-	-do-
			30b - Interest Expense on Bills Payable	-do-	-do-	-do-
			30c - Interest Expense on Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	-do-	-do-	-do-
			31 - Dividend Income	-do-	-do-	-do-
			32 - Gains/(Loss) on Financial Assets and Liabilities Held for Trading	-do-	-do-	-do-
			33 - Gains/(Losses) from Sale/Redemption Derecognition of Non-Trading Financial Assets and Liabilities	-do-	-do-	-do-
			34 - Compensation/Fringe Benefits	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 708-7554 or hard copy via postal/messengerial services.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			35 - Other Administrative Expenses	Quarterly	30th banking day after end of reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdckb-frp@bsp.gov.ph
			36 - Depreciation/Amortization Expense	-do-	-do-	-do-
			37 - Impairment Loss	-do-	-do-	-do-
			38 - Off-Balance Sheet	-do-	-do-	-do-
			39 - Residual Maturity Performing Financial Assets and Financial Liabilities	-do-	-do-	-do-
			40 - Repricing - Performing Financial Assets and Financial Liabilities	-do-	-do-	-do-
			41 - Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs	-do-	-do-	-do-
			42 - Disclosure of Due from FCDU/RBU and Due to FCDU/RBU	-do-	-do-	-do-
A-1	Unnumbered	X116.5 1115.2 (Cir. Nos. 475 dated 02.14.05, 503 dated 12.22.05, 574 dated 07.10.07, 740 dated 11.16.11 and M-062 dated 12.12.11, M-049 dated 10.22.12)	Computation of the Adjusted Risk-Based Capital Adequacy Ratio Covering Combined Credit Risk, Market Risk, and Operational Risk	-do-	-do-	-do-
			- solo basis (head office and branches)	-do-	15th banking day after end of reference quarter	SDC
			- consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies)	-do-	30th banking day after end of reference quarter	SDC - hard copy

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 708-7554 or hard copy via postal/messengerial services.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-1	Unnumbered	X611.5 (Cir. No. 594 dated 01.08.08, as amended by M-009 dated 02.27.08)	CAR Summary Report			
			- solo basis	Quarterly	15th banking day after end of reference quarter	sdckb-car574@ bsp.gov.ph
			- consolidated basis	-do-	30th banking day after end of reference quarter	-do-
			Derivatives Report	Monthly	15th banking day after end of reference month	CMSG cc: SDC cmsg@bsp.gov.ph. sdc-derivatives@bsp.gov.ph
			Schedules: Report on Outstanding Derivatives Contracts (Stand - Alone - RBU, Stand - Alone - FCDU, Hybrid) Report on Trading (Gains/Losses) on Financial Derivatives			
A-1	Unnumbered	X191.3 X388.5 (As amended by Cir. No. 708 dated 01.10.11,	Certification (Hard Copy)	Monthly	15th banking day after end of reference month	CMSG cc mail: SDC sdckb-pfrs@bsp.gov.ph
			Reports Relative to the Initial Adoption of PFRS 9	One-time	For FIs which initially apply PRFS 9 on or before 31 December 2010 - not later than 31 January 2011;	SDC

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		733 dated 05.08.11 and M- 048 dated 08.26.11, Cir. No. 761 dated 07.20.12)			For FIs which initially apply PFRS(in 2011- not later than fifteen (15) banking/business days from the end of the month when such initial adoption is reflected in their books; and	SDC
					For FIs which initially apply PFRS 9 on or after 01 January 2012 - not later than fifteen (15) banking/business days from the end of the calendar or fiscal year of initial application of PFRS 9	SDC
			Supplementary Report on Early Adoption of PFRS 9	Monthly	15th banking day after end of reference month	SDC
A-1	Unnumbered	X141.3c(9) (Circular Nos. 757 dated 05.08.12 and 749 dated 02.27.12)	Report on Group Structures ^{1/}	Annually	30 calendar days after the end of the calendar year	Hardcopy to CPCD I
A-1	Unnumbered	X141.3c(9) (Circular No. 749 dated 02.27.12)	Replacement of the Chief Risk Officer	As changes occur	5 calendar days from the time of approval of the board of directors	Appropriate department of the SES

^{1/}The report for the year ended 31 December 2011 shall be submitted on or before 31 March 2012.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-1	Unnumbered	X141.3c(9) (Circular Nos. 757 dated 05.08.12 and 749 dated 02.27.12)	Report on Intra-Group Transactions	Quarterly	20 calendar days after end of reference quarter	Hard copy to appropriate department of the SES
A-2	DCB I/II Form 1 (Revised June 2001)	X116.3 X105.5 X258	Consolidated Daily Report of Condition: Schedules: Schedule 1 - Other Non-Risk Assets Schedule 2 - Selected Domestic Accounts and Control Proofsheets Annexes - Weekly Inventory of GS Held	Weekly	3rd banking day after end of reference week	cc mail: SDC at sdckb-cdrc@bsp.gov.ph SDC via Fax No. (02)708-7554 or postal/messengerial service
	KAR 230KB (BSP-SES1.03) KAR 240KB (BSP-SES1.04) KAR 250KB (BSP 7-16-07) KAR 260KB (BSP 7-16-01.1-3) KUB 265DR		CARE Reports Reports on Required and Available Reserves on: - Deposit Substitutes/Interbank Loans; and - Deposit Liabilities Reports on Minimum Capital Required Under Section 34 of R.A. No. 8791 Summary Utilization of Available Reserves & Liquidity Floor on Gov't Funds Held	Weekly	Upon completion of Processing by SDC	(Note: CDRC-sourced reports generated by SDC are furnished to the appropriate department of the SES)
A-2	Unnumbered	X405.9	Report on Peso-Denominated Common Trust Fund and Other Similarly Managed Funds	Weekly	3rd banking day after end of reference week	In diskette format hardcopy via postal/messengerial service via electronic mail at sdckb-trust@bsp.gov.ph to SDC

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
A-2	Unnumbered	X405.9 <i>(CL dated 08.20.98)</i>	Report on TOFA-Others	Weekly	3rd banking day after end of reference week	In diskette format hardcopy via postal/messengerial service via electronic mail at sdckb-trust@bsp.gov.ph to SDC
A-2	Unnumbered	X425.2 <i>(Cir. 609 dated 05.26.08 as amended by M-022 dated 06.26.08)</i>	Financial Reporting Package for Trust Institutions Schedules: Balance Sheet A1 to A2 Main Report B to B2 Details of Investments in Debt and Equity Securities C to C2 Details of Loans and Receivables D to D2 Wealth/Asset/Fund Management - UITF E Other Fiduciary Accounts E1 to E1b Other Fiduciary Services - UITF Income Statement Control Prooflist	Quarterly -do-	20th banking day after the end of reference quarter 20th banking day after the end of reference quarter	SDC sdckb-frpti@bsp.gov.ph SDC
A-2	Unnumbered (no prescribed form)	X141.9 <i>(Cir. No. 283 dated 05.17.01 as amended by Cir. No. 749 dated 02.27.12 and Cir. No. 758 dated 05.11.12)</i>	Certification under oath of directors that they have received copies of the general responsibility and specific duties and responsibilities of the board of directors and of a director and that they fully understand and accept the same	Upon election as first-time director within a bank or banking group	10th banking day after date of election	Hardcopy to appropriate department of the SES

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
A-2	Unnumbered	X807 (Revised May 2002, as amended by Cir. Nos. 612 dated 06.03.08 and 706 dated 01.05.11)	Covered Transaction Report (CTR)	As transaction occurs	10th banking day from the occurrence of the transaction	Original and duplicate to Anti-Money Laundering Council (AMLC)
			Suspicious Transaction Report (STR)	-do-	-do-	-do-
A-2	Unnumbered	(Cir. No. 607 dated 04.30.08, as amended by M-021 dated 06.16.08)	Report on Microfinance Loans	Monthly	15th banking day after end of the reference month	SDC sdckb-micro@bsp.gov.ph
			Control Prooflist	-do-	-do-	SDC via Fax at (02) 708-7554
A-2	Unnumbered	(Cir. No. 607 dated 04.30.08, as amended by M-021 dated 06.16.08)	Income Statement on Microfinance Operations	Quarterly	15th banking day after end of the reference quarter	SDC sdckb-micro@bsp.gov.ph
			Control Prooflist	-do-	-do-	SDC via Fax at (02) 708-7554
A-2	Unnumbered	X181.5 (Cir. No. 620 dated 09.03.08)	Self-Assesment and Certification of Compliance with Rules and Regulations on Bank Protection/Updated Security Program	Annually	On or before 30 January	Appropriate department of the SES

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
A-2	DCB I/II Form 4 (BSP 7-16-11)	X192.7 (Cir. No. 533 dated 06.19.06, as amended by Cir. No. 718 dated 04.28.11)	Consolidated List of Stockholders and their Stockholdings	Annually/ quarterly when any change occurs	12th banking day after end of calendar year and if there are changes, 12th banking day after end of the reference quarter	Original - Appropriate department of the SES

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	BSP-7-16-32 A (Rev. August 2003)	X192	Report on Credit and Equity Exposures to Individuals/ Companies/Groups aggregating P1.0 million and above (Bank Proper and Trust Department)	Quarterly	15th banking day after end of reference quarter	Electronic submission/ diskette - SDC
A-3	Unnumbered	X393 <i>(Cir. No. 613 dated 06.18.08, as amended by M-032 dated 10.31.08)</i>	Report of Selected Branch Accounts Schedules Selected Balance Sheet Accounts Selected Balance Sheet and Income Statement Accounts Aging of Loans and Receivables - Others Breakdown of Deposit Liabilities Bank Loans-to-Deposits Ratio Reconciling Items Outstanding for More than Six (6) Months on the Due From/Due To Head Office, Branches and Agencies Account	Semestral	20th banking day after end of reference semester	cc: Mail - SDC sdckb-bris@bsp.gov.ph.
A-3	DCB I/II Form 5 (BSP-7-16-07-A)	X331 X409.3	Daily Report on Compliance with Aggregate Ceiling on Direct/Indirect Credit Accommodations to Directors/Officers/Stockholders (DOSRI), Secured and Unsecured Loans	Weekly	4th banking day after end of reference week	Original and duplicate-Appropriate department of the SES, as combined report w/ Form 5 above
A-3	DCB I/II Form 5A (BSP-7-16-07-B)	X330 X409.3	Daily Report on Compliance with Ceiling on Outstanding Unsecured Direct and Indirect Credit Accommodations to Directors/Officers/Stockholders (DOSRI)	Weekly	4th banking day after end of reference week	Original and duplicate-Appropriate department of the SES, as supporting schedules to Form 5A above
A-3	SES I/VI Form 5A.1 (BSP-716-07B.1)	X330 X409.3	Daily Report on Compliance with Individual Ceilings on Direct/Indirect Credit Accommodations to DOSRI, secured and unsecured loans together with a certification by authorized signatories that no one has exceeded the prescribed individual ceilings	-do-	-do-	Original and duplicate-Appropriate department of the SES

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-3	DCB I/II Form 5B (BSP-7-16-13)	X335 X409.3	Consolidated Report on Compliance With Aggregate Ceiling on Credit Accommodations to DOSRI	Semestral	15th banking day after end of reference semester	-do-
A-3	DCB I/II Form 5D (BSP-7-16-17)	X334	Report on Compliance with Section 36 of R.A. No. 8791 Transmittal of Board resolution/Written approval on credit Accommodation to DOSRI in compliance with Sec. 36 R.A. No. 8791	As loan to DOSRI is approved	20th banking day after approval of direct or indirect loan granted any director or officer, stockholder (DOSRI)	-do-
A-3	Unnumbered	X328.5 (Cir. No. 560 dated 01.31.07)	Transmittal of Board Resolution/Written Approval On Credit Accommodation to Subsidiaries and/or Affiliates	As loan to subsidiaries and/or affiliates is approved	20th banking day after approval	Original and duplicate-Appropriate department of the SES
A-3	DCB I/II Form 6	X342.6 (MAB dated 04.28.03, as amended by M-035 dated 11.19.08 and Cir. No. 625 dated 10.14.08)	Report on Compliance with Mandatory Credit Allocation Required by R.A. No. 6977 as amended by R.A. Nos. 8289 and 9501 (Solo and Consolidated Reports) Schedules: 1A - Computation of Total Loan Portfolio for Purposes of Determining Amount of Mandatory Credit Allocation for MSMEs 1A-1 - Wholesale Lending of a Bank to Conduit NBFIs w/o QB Authority other than those for On-Lending to MSMEs 1A-2 - Loans Granted under Special Financing Program other than for MSMEs 1A-3 - Loans Granted to MSMEs other than to BMBEs which are Funded by Wholesale Lending of or Rediscounted with Another Bank	Quarterly	15th banking day after end of reference quarter	cc: Mail/e-mail/Diskette-SDC sdckb-sme@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			1B - Details of Eligible Investments for Compliance with the Required Credit Allocation for MSMEs			
			1B-1 - Loans Granted to MSMEs Other Than to BMBEs which are Funded by Wholesale Lending of or Rediscounted with Another Bank			
			1B-2 - Wholesale Lending or Rediscounting Facility Granted to Participating Financial Institutions for On-Lending to MSMEs other than to BMBEs			
			2 - Loans Granted to BMBEs			
			3 - Reconciliation of Loans granted to MSMEs as Reported Under Schedules 1B,1B-1 and 2 and FRP Balance of Microfinance and SME Loans			
A-3	DCB I/II Form 2E	X192.12	Control Prooflist, duly notarized and signed by the authorized official	Quarterly	15th banking day after end of reference quarter	Via Fax at (632) 5233461 or 5230230
			Statement of Condition (For subsidiaries/affiliates abroad of domestic banks) with schedules, as follows:	-do-	-do-	Original and duplicate-Appropriate department of the SES
			1 - Analysis of Due to Parent Firm/Bank and/or Other Subsidiaries/Affiliates; and	Semestral		ID
			2 - Schedule of Selected Accounts - Classified by Country	-do-		Attachment to Main Report
A-3	DCB I/II Form 3D	X192.12	Statement of Income and Expenses (For subsidiaries affiliates abroad of domestic KBs)	Quarterly	15th banking day after end of reference quarter	Original and duplicate-Appropriate department of the SES

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-3	Unnumbered	(CL-050 dated 10.04.07 and CL-059 dated 11.28.07)	Report on Borrowings of BSP Personnel	Quarterly	15th banking day after end of reference quarter	Original to SDC
A-3	BSP 7-16-27	X192.2 (Cir.No.736 dated 7.20.11 and M-2011-052 dated 09.16.11, as amended by M-2011-064 dated 12.15.11)	Report on Compliance with the Mandatory Agri-Agra Credit	Quarterly	15 banking days after end of reference quarter	cc mail: SDC sdckb-pfrs@bsp.gov.ph
			Control Prooflist	-do-	-do-	-do-
B	DCB I/II Form 6C (BSP 7-16-20)	X339.4 (Revised June 2005 per Cir. No. 487 dated 06.03.05)	Availments of Financial Assistance to Officers and Employees Under an Approved Plan	Semestral	15th banking day after the end of reference semester	Original and duplicate- Appropriate department of the SES
B	DCB I/II Form 6E (BSP 7-16-16)	X156.2	Report on New Schedule of Banking Days/Hours	As changes occur	7th banking day before the intended effectivity of the change	Original and duplicate - Appropriate department of the SES
B	DCB I/II Form 6F (BSP 7-16-18)	X144 (CL dated 01.19.01, as amended by M-024 dated 07.31.08) MAB dated 09.02.04 Cir. No. 758 dated	Biographical Data of Directors/Officers with ID pictures - If submitted in CD form- Notarized first page of each of the directors'/officers' Biographical Data saved in CD and control prooflist - if sent by electronic mail - Notarized first page of Biographical Data or Notarized list of names of Directors/Officers whose Biographical Data were submitted thru electoric mail to be faxed to SDC	Upon every election/re-election or appointment/promotion or if change in name occurs or if requesting	10th banking day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted 10th banking day from the date change of name	Hard copy to appropriate department of the SES -do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		05.11.12)		for approval of interlocks	occurred	
		X144 (Cir.No. 758 dated 05.11.12)	Certification under oath of the independent director that he/she is an independent director as defined under Subsec. X141.2 and that all the information thereby supplied are true and correct	Upon election	10th banking day from date of election	Hard copy to appropriate department of the SES
		X144 (Cir.No. 758 dated 05.11.12)	Duly accomplished and notarized authorization form for querying the BSP watchlist files	U p o n election or appointment/ promotion as first time director/ officer within a bank or banking group	10th banking day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	-do-
B	Unnumbered (no prescribed form)	X141.9 (Cir. No. 758 dated 05.11.12)	Certified under oath of directors/officers with rank of senior vice-president and above, and officer whose appointment requires prior Monetray Board approval	Upon election	10th banking day from date of election	-do-
		X143.3 (Cir. No. 513 dated 02.10.06)	Verified Statement of Director/officer that he/she has all the abovesaid qualifications and none of the disqualifications	A f t e r election or appointment and as c h a n g e s occur	7th banking day as changes occur or affter election/ appointment	-do-
B	Unnumbered	X144	Notarized List of Members of the Board of Directors	Annually	10th banking day	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		(As amended by Cir. No. 758 dated 05.11.12)	and Officers		from the annual election of the board of directors	
B	SES Form 6G	X192.4 (As amended by Cir. Nos. 587 dated 10.26.07 and 486 dated 06.01.05)	Report on Crimes/Losses	As crimes or incidents occur	Not later than ten (10) calendar days from knowledge of crime/incident and complete report not later than twenty (20) calendar days from termination of investigation	SDC and SITD
B	Unnumbered (no prescribed form)	X143.4	Report on Disqualification of Director/Officer	As disqualification occurs	Within 72 hours from receipt of report by the BOD	Appropriate department of the SES
B	DCB I/II Form 6H (BSP-7-16-21)	X306.5 (As amended by Cir. No. 745 dated 01.10.12)	Notice/Application for Write-Off of Loans, Other Credit Accommodations, Advances and Other Assets	As write-off occurs	Within 30 banking days after every write-off	Original and duplicate-Appropriate department of the SES
B	Unnumbered	X192.10	Report on Consolidated Financial Statements of Banks and their Subsidiaries Engaged in Allied Financial Undertakings together with audited financial reports of such subsidiaries	Annually	120th calendar day after the end of reference year or adopted fiscal period	-do-
B	Unnumbered	X190.6	Annual Report of Management to Stockholders Covering Results of Operations for the Past Year	-do-	180th calendar day after the close of the calendar/fiscal year elected by the bank	-do-

B	Unnumbered	X190	Financial Audit Report - Bank Proper a. Audited Financial Statements ^{1/} b. Opinion of the Auditor Together with attachments listed in Appendix 61	-do-	120th calendar day after the close of the calendar or fiscal year	-do-
B		X426.2	Financial Audit Report - Trust Department a. Audited Financial Statements ^{1/} b. Opinion of the Auditor together with attachments listed in Appendix 61	-do-	-do- ^{2/}	-do-
B	Unnumbered	X190 X190.1	Annual Audit Report ^{2/} - Bank Proper a. Audited Financial Statements ^{1/} b. Opinion of the Auditor together with attachments listed in Appendix 61	Annually	30th banking day after receipt of the report	Original and duplicate-Appropriate department of the SES
B	Unnumbered	X426.2	Annual Audit Report ^{2/} - Trust Department a. Audited Financial Statements ^{1/} b. Opinion of the Auditor together with attachments listed in Appendix 61	-do-	-do- ^{3/}	-do-

^{1/} Solo and Consolidated basis

^{2/} For banks under the concurrent jurisdiction of the BSP and COA

^{3/} The deadline for filing for the financial reporting period beginning 01 January 2008 with the BSP is hereby extended up to 30 June 2009, in view of the longer time period needed to prepare the AFS due to the adoption of the new accounting standards.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	Unnumbered	X192.12	Audited Financial Statements of the Foreign Banking Offices and Subsidiaries	-do-	30th banking day from date of submission/ release of said reports to the foreign banking offices and subsidiaries of Philippine banks	Original and Duplicate- Appropriate department of the SES
B	Unnumbered	X192.12	Examination Reports Done by the Foreign Bank Supervisory Authority	As examination occurs	-do-	-do-
B	Unnumbered	X192.3	Report on Change of Required Information on Bank's Profiles, Organizational Structure and Operating Policies	As changes occur	15th banking day from such change/issuance	-do-
B	Unnumbered	X192.1	Report on Designation of Authorized Signatories of Bank's Reports Classified as Category A-1, A-2, A-3 and B	As designation by bank's board of directors occurs	3rd banking day from date of designation/ and as changes occur	-do-
B	Unnumbered	X343.2c	Report on Reconciliation Statement of Demand Deposit Account with the BSP	Monthly	7th banking day from receipt of BSP statement	Original and Duplicate - Appropriate department of the SES
B	Unnumbered	X233.9	Registry Bank Report of Compliance with Prohibition on Holdings of LTNCTDs	-do-	10th banking day after end of reference month	-do-
B	Unnumbered	X262.3	Certification of Compliance with Section 55.4 of R.A. No. 8791(prohibits banks from employing casual, non-regular personnel)	Semestral	7th banking day after end of June and Dec.	Original - Appropriate department of the SES

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	Unnumbered	Cir. 342 ,As amended by Cir. No. 366 dated 01.21.03 Section 72, Item 3 of Part V	Certification on Funds Borrowed from FCDU/EFCDU	Monthly	5th banking day after end of reference month	Original and Duplicate - Appropriate department of the SES
B	Unnumbered	Cir. No. 420 dated 02.10.04; App.17 of App.92	Conversion/Transfer of FCDU loans to RBU (A report is not required if no transfers were effected during the month)	Monthly	10th banking day from end of reference month	Appropriate department of the SES
B		X409.16	Waiver of the Confidentiality of Information under Sections 2 and 3 of R.A. No. 1405, as amended	As transaction occurs		-do-
B	Unnumbered	X235.12 (Cir. No. 467 dated 01.10.05)	Report on Undocumented Repurchase Agreement	-do-	Within 72 hours from knowledge of transaction	do-
		X235.12 (Cir. No. 467 dated 01.10.05)	Notarized Certification that the bank did not enter into repurchase agreement covering government securities, commercial papers and other non-negotiable securities or instruments that are not documented	Semestral	5th banking day after end of reference semester	-do-
B	SEC Form	(MAB dated 09.02.05)	General Information Sheet	Annual	30 days from date of annual stockholders' meeting or if changes occur, 7 days from date of change	Drop box - SEC Central Receiving Section
B		(M-005 dated 02.04.08)	Disclosure Statement on SPV Transactions Report on	Quarterly	15th banking day after end of reference quarter	SDC

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	Form 1 Schedule 1	X780 (Cir. No. 649 dated 03.09.09)	Report on Electronic Money Transactions Statement of E-Money Balances and Activity - Volume of Amount of E-Money Transactions Schedule 1 - E - Money Balances	-do-	-do-	e-mail at sdckb-emonney@ bsp.gov.ph or hardcopy - SDC
DES/IOD Reports:						
A-3	Unnumbered (Per CL dated 09.05.97)	X503 (As amended by Cir. No. 445 dated 08.20.04)	Consolidated FX Position Report of Bank's branches/ offices, subsidiaries/affiliates, here and abroad with certification of its CEO and treasurer at month-end	Daily	3rd banking day after end of reference date	cc: Mail to appropriate department of the SES/ DES/ID & hardcopy to ID
A-3	FX Form 1 Sch. 1 (Formerly FED Form I, Sch.16)		Consolidated Foreign Exchange Assets and Liabilities in Original Currency - RBU & FCDU	Monthly	15th banking day after end of reference month	cc: Mail to appropriate department of the SES/ DES/ID
B	RS Form 1A (CBP 5-17-30 (Revised July 2001)	1192.13	Volume and Interest Rates on Loans and Discounts Granted	Weekly	Not later than 4:00 p.m. Thursday after the reference week	Original-DES
B	RS Form 1B (CBP 5-17-30) (Revised July 2001)	1192.13	Report on the Weighted Average Interest Rates on Outstanding Loans and Discounts and Weighted Average Interest Rates on Savings Deposits	Monthly	Not later than 10 banking days after reference month	-do-
B	RS Form 1B (BSP-5-17-27)	1192.13	Daily Report on Volume of Money Market Transactions	Daily	Not later than 3:00 p.m. on reference day	-do-
B	RS Form 2A (BSP 5-17-33) (Revised July 2001)	1192.13	Report on the Volume and Interest Rates on Deposits	Weekly	Not later than 4:00 p.m. of Thursday after the reference week	-do-

^{1/}Excluding cross country swaps

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	RS Form 2C (BSP 5-17-36) (Revised July 2001)		Report on Quoted Rates of Dollar Savings and Time Deposits	Weekly	Not later than 4:00 p.m. of Thursday after the reference week	Original-DES
B	RS Form 2D (Revised July 2001)		Daily Report on the Volume and Weighted Average Interest Rates on Promissory Notes and Time Deposits	Daily	Not later than 4:00 p.m. of the following day	-do-
B	Daily Quoted Lending and SSA Rate Report		Daily Report on the Quoted Lending Rate and 30-Day Special Savings Deposit Rate	-do-	Not later than 3:00 p.m. on reference date	-do-
	Unnumbered	(M-019 dated 05.03.08, as amended by M-2011-028 dated 05.26.11)	Report on Non-Deliverable Forward Transactions against Philippine Peso Control Prooflist	-do-	2nd banking day after end of reference date	cc: Treasury Dept. fx-omo@bsp.gov.ph
B	Combined BSP 05-1702 and BSP 05-17-31		Report on Credits granted by outstanding - By banking unit	Monthly	15th banking day after end of reference month	In Diskette format to DES
B	Unnumbered	1625.5 (As amended by Cir. No. 591 dated 12.27.07)	Report on Cancellations, Roll-overs and Non-Delivery of FX Forwards Purchase - Sales Contracts and Forward Leg of Swap Contracts ^{1/} (For banks with derivatives license)	Monthly	5th banking day after end of reference month	SDC via Fax at (632) 523-3461 or 523-0230
	Unnumbered	CL-003 dated 01.11.08	Report on Purchase of Foreign Currency (FC) from Refund of Advance Payment of Importations up to \$100,000.00	Monthly	Within the first 5 days of the month succeeding the receipt of the refund	SDC at e-mail address: sdcfxkbdom@bsp.gov.ph sdcfxkbfor@bsp.gov.ph.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
B	IOS Form 4 (BSP 6-22-01)		Consolidated Report on Loans Granted by FCDUs/ EFCDUs	Monthly	15th banking day after end of reference month	Original - Appropriate department of the SES Duplicate - ID
B	Unnumbered	<i>As amended by Cir. No. 591 dated 12.27.07</i>	Report on FX Swaps with Customers ^{1/} where 1st Leg is a Purchase of FX Against Pesos (For banks with derivatives license)	-do-	5th banking day after end of reference month	ID at e-mail address: iod@bsp.gov.ph. SDC @ e-mail address: sdcfxkdbom@bsp.gov.ph
For other DES/IOD Reports:		Please refer to Chapter I, Part V, Manual of Regulations on Foreign Exchange Transactions Part V of this Manual				
Domestic Operation Sector Report						
	DOS Form I (DLC Form G)		Report on Negotiation of Accounts Rediscounted with Bangko Sentral	Monthly	15th banking day after end of reference month	Original - DLC
		<i>M-029 dated 08.14.09</i>	Quarterly monthly report for medium and long-term loans	Quarterly	30th day of the month following the end of the quarter	-do-

^{1/}Excluding cross country swaps

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B. TBs						
A-1	Unnumbered	X191.2 (Cir. No. 512 dated 02.03.06, as amended by MAB dated 03.07.06, M-006 dated 07.07.06, Cir. No. 568 dated 05.08.07, M-015 dated 05.28.07, M-026 dated 09.20.07, Cir. No. 600 dated 02.04.08, M-011 dated 03.07.08, M-012 dated 03.14.08, Cir. No. 658 dated 06.23.09, M-016 dated 06.16.10, M-021 dated 07.20.10,	Financial Reporting Package (FRP) Balance Sheet (FRP): - Solo basis (head office and branches) - Consolidated basis (together with applicable schedules) ^{2/} Income Statement (FRP): - Solo basis (head office and branches) - Consolidated basis (together with applicable schedules) ^{2/} Schedules (Solo Report): 1 - Checks and Other Cash Items (COCI) 2 - Due from Other Banks 3 - Financial Assets Held for Trading	Monthly Quarterly Monthly -do- -do-	15th banking day after end of reference month 30th banking day after end of reference quarter 15th banking day after end of reference quarter 30th banking day after end of reference quarter 15 banking day after end of the reference month -do- -do-	Diskette/CD/e-mail to SDC ^{1/} sdctbfrp@bsp.gov.ph -do- -do- -do-
^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.						
^{2/} Only banks with financial allied subsidiaries, excluding insurance subsidiaries, shall submit the reports on consolidated basis.						

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		M-032 dated 09.27.10, Cir No. 701 dated 12.13.10, M-045 dated 12.14.10, M-052 dated 11.29.12 and M-058 dated 12.17.12)	3a - Breakdown of Held for Trading (HFT) Financial Assets Purchased/Sold/Lent under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15 banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			4 - Derivatives Held for Trading (HFT)	-do-	-do-	-do-
			4a - Derivatives Held for Trading - Matrix of Counterparty and Type of Derivative Contracts	Monthly	15th banking day after end of the reference month	-do-
			5 - Financial Assets Designated at Fair Value through Profit or Loss	-do-	-do-	-do-
			6 - Available-for-Sale Financial Assets	-do-	-do-	-do-
			6a - Breakdown of Available for Sale Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15th banking day after end of the reference quarter	-do-
			6b to 6b3 - Available-for-Sale Financial Assets Classified as to Status	-do-	-do-	-do-
			6c to 6c3 - Available-for-Sale Financial Assets Movements in Allowances for Credit Losses	Annually	15th banking day after end of the reference year	-do-
			7 - Held to Maturity (HTM) Financial Assets	Monthly	15th banking day after end of the reference month	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			7a - Breakdown of Held to Maturity Financial Assets Purchase/Sold/Lent Under Repurchase Agreements, Certificates of Assignment Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			7b - Fair Value of Held to Maturity (HTM) Financial Assets	Annually	15th banking day after end of the reference year	-do-
			7c to 7c3 - Held to Maturity Financial Assets Classified as to Status	Quarterly	15th banking day after end of the reference quarter	-do-
			7d to 7d3 - Held to Maturity Financial Assets Movements in Allowances for Credit Losses	Annually	15th banking day after end of the reference year	-do-
			8 - Unquoted Debt Securites Classified as Loans	Monthly	15th banking day after end of the reference month	-do-
			8a - Fair Value of Unquoted Debt Securities Classified as Loans	Annually	15th banking day after end of the reference year	-do-
			8b to 8b3 - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	15th banking day after end of the reference quarter	-do-
			8c to 8c3 - Unquoted Debt Securities Classified as Loans-Movements in Allowances for Credit Losses	Annually	15th banking day after end of the reference year	-do-
			9 - Investment in Non-Marketable Equity Securities	Monthly	15th banking day after end of the reference month	-do-
			10 - Interbank Loans Receivables	-do-	-do-	-do-

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<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			11 - Loans and Receivables - Others (Net of Carrying Amount)	Monthly	15th banking day after end of the reference month	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			11a to - Loans and Receivables - Others 11a3 Classified as to Status	-do-	-do-	-do-
			11b to - Restructured Loans and Receivables 11b3 Classified as to Status	-do-	-do-	-do-
			11c to - Loans and Receivables - Others 11c3 Movements in Allowances for Credit Losses	Quarterly	15th banking day after end of the reference quarter	-do-
			11d to - Gross Loans and Receivables - Others 11d3 Classified as to Type of Business/Industry of Counterparty	Monthly	15th banking day after end of the reference month	-do-
			11e to - Loans and Receivables - Others 11e3 Classified as to Status per PAS 39	Annually	15th banking day after end of the reference year	-do-
			11f - Schedule of Agri/Agra, Microfinance and SME Loans and Receivables as to Counterparty	Monthly	15th banking day after end of the reference month	-do-
			11g1 - Real Estate Exposure	Quarterly	15th banking day after end of the reference quarter	-do-
			11g2 - Investment in Debt and Equity Securities Issued by Real Estate Companies	-do-	-do-	-do-
			11g3 - Original Maturity and Earliest Repricing of Real Estate Exposure	-do-	-do-	-do-

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<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	Monthly	15th banking day after end of the reference month	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			12a to 12a3 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions-Matrix of Counterparty and Issuer of Collateral Securities	Quarterly	15th banking day after end of the reference quarter	-do-
			13 - Fair Value Adjustments in Hedge Accounting	-do-	-do-	-do-
			13a - Derivatives Held for Fair Value Hedge	-do-	-do-	-do-
			13b - Derivatives Held for Cash Flow Hedge	-do-	-do-	-do-
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	-do-	-do-	-do-
			13d - Derivatives Held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount)	-do-	-do-	-do-
			14 - Accrued Interest Income/Expenses from Financial Assets and Liabilities	-do-	-do-	-do-
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	Monthly	15th banking day after end of the reference month	-do-

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<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			15a - Equity Investment in Subsidiaries, Associates and Joint Ventures - Classified as to Nature of Business	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			15b - Details of Equity Investment in Subsidiaries, Associates and Joint Ventures	-do-	-do-	-do-
			16 - Bank Premises, Furniture, Fixture and Equipment	-do-	-do-	-do-
			17 - Real and Other Properties Acquired/ Non-Current Assets Held for Sale	-do-	-do-	-do-
			17a - Aging of ROPA and NCAHS Accounts	Annually	15th banking day after end of the reference year	-do-
			17b - Movement in ROPA and NCAHS Accounts	-do-	-do-	-do-
			18 - Schedule of Tax Assets and Liabilities	-do-	-do-	-do-
			19 - Other Assets	Monthly	15th banking day after end of the reference month	-do-
			20 - Breakdown of Due from and Due to Head Office/Branches/Agencies Abroad - Philippine Branch of a Foreign Bank	-do-	-do-	-do-
			21 - Liability for Short Position	Quarterly	15th banking day after end of the reference quarter	-do-
			22 - Deposit Liabilities Classified as to Type of Deposit	Monthly	15th banking day after end of the reference month	-do-

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<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices Branches	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			23 - Due to Other Banks	Monthly	15th banking day after end of the reference month	-do-
			24 - Bills Payable	Monthly	15th banking day after end of the reference month	-do-
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	Quarterly	15th banking day after end of the reference quarter	-do-
			26 - Fair Value of Financial Liabilities	Annually	15th banking day after end of the reference year	-do-
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	15th baking day after end of the reference quarter	-do-
			28 - Other Liabilities	Monthly	15th banking day after end of the reference month	-do-
			29 - Interest Income/Expense from Financial Instruments	Quarterly	15th banking day after end of the reference quarter	-do-
			29a - Interest Income from Due from Other Banks Classified as to Type of Deposits	-do-	-do-	-do-
			29b - Interest Income from Held for Trading, Designated at FVPL, Available for Sale, Held to Maturity Financial Assets and UDSC	-do-	-do-	-do-
			29c - Interest Income from Interbank Loans Receivables	-do-	-do-	-do-
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<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			29d to- Interest Income from Loans and Receivables - 29d4 Others - Classified as to Status	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			29e - Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	-do-	-do-	-do-
			30a - Interest Expense on Deposit Liabilities - Classified as to Type of Deposit	-do-	-do-	-do-
			30b - Interest Expense on Bills Payable	-do-	-do-	-do-
			30c - Interest Expense on Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	-do-	-do-	-do-
			31 - Dividend Income	-do-	-do-	-do-
			32 - Gains/(Loss) on Financial Assets and Liabilities Held for Trading	-do-	-do-	-do-
			33 - Gains/(Losses) from Sale/Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities	-do-	-do-	-do-
			34 - Compensation/Fringe Benefits	-do-	-do-	-do-
			35 - Other Administrative Expenses	-do-	-do-	-do-
			36 - Depreciation/Amortization Expense	-do-	-do-	-do-
			37 - Impairment Loss	-do-	-do-	-do-

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Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			38 - Off-Balance Sheet	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			39 - Residual Maturity Performing Financial Assets and Financial Liabilities	-do-	-do-	-do-
			39a			
			40 - Repricing- Performing Financial Assets and Financial Liabilities	-do-	-do-	-do-
			40a			
			41 - Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs	-do-	-do-	-do-
			42 - Disclosure of Due From FCDU/RBU and Due to FCDU/RBU	-do-	-do-	-do-
			Schedules (Consolidated Report):	-do-	30th banking day after end of the reference quarter	-do-
			1 - Checks and Other Cash Items	-do-	-do-	-do-
			2 - Due from Other Banks	-do-	-do-	-do-
			3 - Financial Assets Held for Trading	-do-	-do-	-do-
			3a - Held for Trading (HFT) Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-
			4 - Derivatives Held for Trading (HFT)	-do-	-do-	-do-

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<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			4a - Derivatives Held for Trading-Matrix of Counterparty and Type of Derivative Contracts	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			5 - Financial Assets Designated at Fair Value through Profit or Loss	-do-	-do-	-do-
			6 - Available-for-Sale Financial Assets	-do-	-do-	-do-
			6a - Breakdown of Available for Sale Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-
			6b - Available-for-Sale Financial Assets-Classified as to Status	-do-	-do-	-do-
			7 - Held to Maturity (HTM) Financial Asset	-do-	-do-	-do-
			7a - Breakdown of Held to Maturity Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-
			7c - Held to Maturity Financial Assets Classified as to Status	-do-	-do-	-do-
			7d - Held to Maturity Financial Assets Movements in allowances for Credit Losses	Annually	30th banking day after end of the reference year	-do-

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<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			4 - Derivatives Held for Trading (HFT)	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			4a - Derivatives Held for Trading-Matrix of Counterparty and Type of Derivative Contracts	-do-	-do-	-do-
			5 - Financial Assets Designated at Fair Value through Profit or Loss	-do-	-do-	-do-
			6 - Available-for-Sale Financial Assets	-do-	-do-	-do-
			6a - Breakdown of Available for Sale Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-
			6b - Available-for-Sale Financial Assets-Classified as to Status	-do-	-do-	-do-
			7 - Held to Maturity (HTM) Financial Asset	-do-	-do-	-do-
			7a - Breakdown of Held to Maturity Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-
			7c - Held to Maturity Financial Assets Classified as to Status	-do-	-do-	-do-
			7d - Held to Maturity Financial Assets Movements in allowances for Credit Losses	Annually	30th banking day after end of the reference year	-do-

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Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			8 - Unquoted Debt Securities Classified as Loans	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			8a - Fair Value of Unquoted Debt Securities Classified as to Status	Annually	30th banking day after end of the reference year	-do-
			8b - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	30th banking day after end of the reference quarter	-do-
			8c - Unquoted Debt Securities Classified as Loans Movements in allowances for Credit Losses	Annually	30th banking day after end of the reference year	-do-
			9 - Investment in Non-Marketable Equity Securities	Quarterly	30th banking day after end of the reference quarter	-do-
			10 - Interbank Loans Receivables	-do-	-do-	-do-
			11 - Loans and Receivables - Others	-do-	-do-	-do-
			11a - Loans and Receivables - Others Classified as to Status	-do-	-do-	-do-
			11b - Restructured Loans and Receivable Classified as to Status	-do-	-do-	-do-
			11c - Loans and Receivables - Others Movements in Allowances for Credit Losses	-do-	-do-	-do-
			11d - Gross Loans and Receivables - Others Classified as to Type of Business/Industry of Counterparty	-do-	-do-	-do-
			11e - Loans and Receivables - Others Classified as to Status per PAS 39	Annually	30th banking day after end of the reference year	-do-

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<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			11f - Schedule of Agri/Agra SME, DIL and Microfinance Loans and Receivables Under Sched 11 Classified as to Counterparty	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			11g1 - Report on Real Estate Exposure	-do-	-do-	-do-
			11g2 - Investment in Debt and Equity Securities issued by Real Estate Companies	-do-	-do-	-do-
			11g3 - Original Maturity and Earliest repricing of the Real Estate Exposure	-do-	-do-	-do-
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions - By Counterparty	-do-	-do-	-do-
			12a - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions Matrix of Counterparty and Issuer of Collateral Securities	-do-	-do-	-do-
			13 - Fair Value Adjustments in Hedge Accounting	-do-	-do-	-do-
			13a - Derivatives Held for Fair Value Hedge	-do-	-do-	-do-
			13b - Derivatives Held for Cash Flow Hedge	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			13d - Derivatives held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount)	-do-	-do-	-do-
			14 - Accrued Interest Income/Expense from Financial Assets and Liabilities	-do-	-do-	-do-
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	-do-	-do-	-do-
			15a - Equity Investment in Subsidiaries, Associates and Joint Ventures - Classified as to Nature of Business	-do-	-do-	-do-
			15b - Details of Equiity Investment in Subsidiaries, Associates and Joint Ventures	-do-	-do-	-do-
			16 - Bank Premises, Furniture, Fixture and Equipment	-do-	-do-	-do-
			17 - Real and Other Properties Acquired/ Non-Current Assets Held for Sale	-do-	-do-	-do-
			17a - Aging of ROPA and NCAHS Accounts	Annually	30th banking day after end of the reference year	-do-
			17b - Movement in ROPA and NCAHS Accounts	-do-	-do-	-do-
			18 - Schedule of Tax Assets and Liabilities	-do-	-do-	-do-
^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.						

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			19 - Other Assets	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			20 - Breakdown of Due from and Due to Head Office/Branches/Agencies Abroad - Philippine Branch of a Foreign Bank	-do-	-do-	-do-
			21 - Liability for Short Position	-do-	-do-	-do-
			22 - Deposit Liabilities Classified as to Type of Deposit	-do-	-do-	-do-
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/Branches	-do-	-do-	-do-
			23 - Due to Other Banks	-do-	-do-	-do-
			24 - Bills Payable	-do-	-do-	-do-
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	-do-	-do-	-do-
			26 - Fair Value of Financial Liabilities	Annually	30th banking day after end of the reference year	-do-
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	30th banking day after end of the reference quarter	-do-
			28 - Other Liabilities	-do-	-do-	-do-
			29 - Interest Income/Expense from Financial Instruments	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			29a - Interest Income from Due from Other Banks Classified as to Type of Deposits	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			29b - Interest Income from Held for Trading, Designated at FVPL, Available-for-Sale, Held to Maturity Financial Assets and Unquoted Debt Securities Classified as Loans	-do-	-do-	-do-
			29c - Interest Income from Interbank Loans Receivables	-do-	-do-	-do-
			29d - Interest Income from Loans and Receivables - Others - Classified as to Status	-do-	-do-	-do-
			29e - Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing transactions	-do-	-do-	-do-
			30a - Interest Expense on Deposit Liabilities Classified as to Type of Deposit	-do-	-do-	-do-
			30b - Interest Expense on Bills Payable	-do-	-do-	-do-
			30c - Interest Expense on Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	-do-	-do-	-do-
			31 - Dividend Income	-do-	-do-	-do-
			32 - Gains/(Loss) on Financial Assets and Liabilities Held for Trading	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			33 - Gains/(Losses) from Sale/Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdctb-frp@bsp.gov.ph
			34 - Compensation/Fringe Benefits	-do-	-do-	-do-
			35 - Other Administrative Expenses	-do-	-do-	-do-
			36 - Depreciation/Amortization Expense	-do-	-do-	-do-
			37 - Impairment Loss	-do-	-do-	-do-
			38 - Off-Balance Sheet	-do-	-do-	-do-
			38a - Compliance with Section X347	-do-	-do-	-do-
			39 - Residual Maturity Performing Financial Assets and Financial Liabilities	-do-	-do-	-do-
			40 - Repricing - Performing Financial Assets and Financial Liabilities	-do-	-do-	-do-
			41 - Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs	-do-	-do-	-do-
			42 - Disclosure of Due from FCDU/RBU and Due to FCDU/RBU	-do-	-do-	-do-
A-2	TB Form 1	X116.3 X105.5 X258	Consolidated Daily Report of Condition (CDRC)	Weekly	6th banking day after end of week	By electronic mail to SDC

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	TB Form 1 Schedule		Control Prooflist on the contents of the data sent via electronic mail, with certification and signature of the authorized officer of the bank	Weekly	Immediately after the bank has received the acknowledgment receipt from the BSP	SDC via facsimile at Fax No. (02) 523-3461 or hard copy via postal/messengerial services
			Control Prooflist, together with the cover page of the report	-do-	6th banking day after end of reference week	Appropriate department of the SES
			Weekly Inventory List of Govt. Securities Held - On a Daily Basis	-do-	6th banking day after end of week	By electronic mail to SDC
	Unnumbered		Weekly Inventory List of Government Securities Held Set Aside for the Intra-Day Liquidity Facility from Week Starting Monday to Friday	-do-	Every Thursday	-do-
A-2	TB Form 1 Schedule 1B		Schedule of Other Non-Risk Assets	Monthly	6th banking day after end of week wherein month-end falls	Appropriate department of the SES & SDC
A-1	Unnumbered	X116 (As amended by Cir. Nos. 475 dated 02.14.05, 503 dated 12.22.05 and 574 dated 07.10.07)	Computation of the Adjusted Risk-Based Capital Adequacy Ratio Covering Combined Credit Market and Operational Risks			
			- Solo basis (head office and branches)	-do-	15th banking day after end of reference month	SDC
			- Consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies)	Quarterly	30th banking day after end of reference quarter	SDC (Hard copy)
			- Control Prooflist			

^{1/} For TBs which are subsidiaries of UBs and KBs.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		X118 (As amended by Cir. No. 688 dated 05.26.10 and M-014 dated 06.15.10, M-054 dated 10.06.11, M- 049 dated 10.22.12)	CAR Summary Report - solo basis	Quarterly	15th banking day after end of reference month	via email: sdctb-car574@bsp.gov. ph
			- consolidated basis	-do-	30th banking day after end of reference quarter	via email: sdctb-car574@bsp.gov.ph
A-1	Unnumbered	X611.5 (Cir. No. 594 dated 01.08.08, as amended by M-009 dated 02.27.08)	Derivatives Report Schedules: - Report on Outstanding Derivatives Contracts (Stand - Alone - RBU, Stand - Alone - FCDU, Hybrid) - Report on Trading Gains/(Losses) on Financial Derivatives	Monthly	15th banking day after the end of the reference month	CMSG cc: SDC cmsg@bsp.gov.ph sdc-derivatives@bsp.gov.ph
			Certification (Hard Copy)	-do-	-do-	Receiving Section, SES

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-1	Unnumbered	X191.3 X388.5 (As amended by Cir. Nos. 761 dated 07.20.12, 708 dated 01.10.11, 733 dated 05.08.11 and M-048 dated 08.26.11)	Reports Relative to the Initial Adoption of PFRS 9	One-time	For FIs which initially apply PFRS 9 on or before 31 December 2010 not later than 31 January 2011; For FIs which initially apply PFRS in 2011 - not later than fifteen (15) banking/business days from the end of the month when such initial adoption is reflected in their books; For FIs which initially apply PFRS 9 on or after 01 January 2012 - not later than fifteen (15) banking/business days from the end of the calendar or fiscal year of initial application of PFRS 9	cc mail: SDC sdctb-pfrs@bsp.gov.ph -do-
			Supplementary Report on Early Adoption of PFRS 9	Monthly	15th banking day after end of reference month	
A-1	Unnumbered	X141.3c(9) (Circular Nos. 749 dated 02.27.12 and 757 dated 05.08.12)	Report on Group Structures ¹	Annually	30 calendar days after end of the calendar year	Appropriate department of the SES

¹The report for the year ended 31 December 2011 shall be submitted on or before 31 March 2012

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-1	Unnumbered	X141.3c(9) (Circular No. 749 dated 02.27.12	Replacement of the Chief Risk Officer	As changes occur	5 calendar days from the time of approval of the board of directors	Appropriate department of the SES
A-2	Unnumbered (no prescribed form)	X141.9	Acknowledgement receipt of copies of specific duties and responsibilities of the board of directors and of a director and certification that they fully understand the same TBs with resources of P1.0 billion and above	Annually or as directors are elected	30th banking day after the date of election	Appropriate department of the SES
A-2	Form 2B/2B.1	X192.9 (Cir. No. 576 dated 08.08.07 and M-030 dated 10.04.07)	Balance Sheet/Consolidated Balance Sheet Control Prooflist duly notarized and signed by the authorized official of the reporting bank Published Balance Sheet/Consolidated Balance Sheet (together with the publisher's certificate) TBs with resources of less than P1.0 billion	Quarterly -do- -do-	12th banking day from the date of the Call Letter -do- 20th banking day from the date of the Call Letter	Diskette/CD/e-mail to SDC sdctb-pbs@bsp.gov.ph Fax to 523-3461 or 523-0230 Fax to 523-3461 or 523-0230 or via postal/messengerial services to SDC
A-2	Form 2B/2B.1	Cir. No. 576 dated 08.08.07 and M-030 dated 10.04.07)	Balance Sheet/Consolidated Balance Sheet	-do-	20th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC sdctb-pbs@bsp.gov.ph hard copy to SDC

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	Unnumbered (no prescribed form)	X141.9 (Cir. No. 758 dated 05.11.12)	Control Prooflist duly notarized and signed by the authorized official of the reporting bank	Quarterly	-do-	Fax to 523-3461 or 523-0230 or via postal/messengerial services to SDC
			Published/Posted Balance Sheet/Consolidated Balance Sheet (together with publisher's certificate, if applicable)	-do-	-do-	-do-
			Certification under oath of directors that they have received copies of the general responsibility and specific duties and responsibilities of the board of directors and of a director and that they fully understand and accept the same	Uponelection as first time directors within a bank or banking group	10th banking day from date of election	Hard copy to appropriate department of the SES

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	Unnumbered	X425.2 (Cir. No. 609 dated 05.26.08, as amended by Cir. No. 641 dated 01.22.09 and M-022 dated 06.26.08)	Financial Reporting Package for Trust Institutions Schedules: Balance Sheet A1 to A2 - Main Report B to B2 - Details of Investments in Debt and Equity Securities C to C2 - Details of Loans and Receivables D to D2 - Wealth/Asset/Fund Management - UITF E - Other fiduciary Accounts E1 to E1b - Other Fiduciary Services - UITF Income Statement Control Prooflist	-do-	-do-	SDC sdctb-frpti@bsp.gov.ph
A-2	Unnumbered	Cir. No. 607 dated 04.30.08, as amended by M-021 dated 06.16.08	Report on Microfinance Loans Control Prooflist	Monthly	15th banking day after the end of reference month	SDC sdctb-micro@bsp.gov.ph
A-2	Unnumbered	Cir. No. 607 dated 04.30.08, as amended by M-021 dated 06.16.08	Income Statement on Microfinance Operations Control Prooflist	Quarterly	15th banking day after end of the reference quarter	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	Unnumbered	X181.5 (Cir. No. 620 dated 09.03.08)	Self-Assesment and Certification of Compliance with Rules and Regulations on Bank Protection/Updated Security Program	Annually	On or before 30 January	Appropriate department of the SES
A-2	TB Form 20A	X405.9	Report on Peso-Denominated Common Trust Funds and Other Similarly Managed Funds (for TBs engaged in Trust and Other Fiduciary Business, and submitting TB Form 1 in diskette form)	Weekly	3rd banking day after end of reference week	SDC Appropriate department of the SES
			Control Prooflist		Immediately after receipt of BSP acknowledgment receipt	Fax - SDC
			Control Prooflist, together with the cover page of the report	Weekly	3rd banking day after end of reference week	SDC
A-2	TB Form 20B		Report on Trust and Other Fiduciary Accounts (TOFA) - Others	-do-	-do-	SDC Appropriate department of the SES
			Control Prooflist		Immediately after receipt of BSP acknowlegment receipt	Fax - SDC
			Control Prooflist, together with the cover page of the report	-do-	3rd banking day after end of reference week	SDC
A-2	TB Form 7 (BSP 7-16-11)	X192.7 (Cir. No. 533 dated 06.19.06, as amended by Cir. No. 718 dated 04.26.11)	Consolidated List of Stockholders and their Stockholdings	Annually/ Quarterly when any change occurs	12th banking day after end of reference year and if there are changes, 12th banking day after end of reference quarter	SDC sdctb-bris@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	BSP-7-16-32 A (Rev. August 2003)	X192	Report on Credit and Equity Exposures to Individuals/Companies/Groups aggregating P1.0 million and above (Bank Proper and Trust Department)	Quarterly	15th banking day after end of reference quarter	Electronic submission/ diskette - SDC
A-3	Unnumbered	X393 (Cir. No. 613 dated 06.18.08, as amended by M-032 dated 10.31.08)	Report of Selected Branch Accounts Schedules: Selected Balance Sheet Accounts Selected Balance Sheet and Income Statement Accounts Aging of Loans and Receivables - Others Breakdown of Deposit Liabilities Bank Loans-to-Deposits Ratio Reconciling Items Outstanding for More than Six (6) Months on the Due From/Due to Head Office, Branches and Agencies Account	Semestral	20th banking day after end of reference semester	SDC sdctb-bris@bsp.gov.ph
A-3	TB Form 8	X335 X409.3	Consolidated Report on Compliance with Aggregate Ceiling on Credit Accommodations to Directors/ Officers/Stockholders/Related Interest	Quarterly	7th banking day after end of reference quarter	Appropriate department of the SES
A-3	TB Form 9 Page 1	X335 X409.3	Consolidated Report on Compliance with Individual Ceiling on Direct Credit Accommodations to Directors/Officers/Stockholders/Related Interest	Semestral	15th banking day after end of reference semester	-do-
A-3	TB Form 9 Page 2	X338.3 X339.4 (Revised June 2005 per Cir. No. 487 dated 06.03.05)	Availments of Financial Assistance to Officers and Employees under Bangko Sentral Approved Plan	Semestral	15th banking day after end of reference semester	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-3	TB Form 11	X342.6 (As amended by M-035 dated 11.19.08 Cir. No. 625 dated 10.14.08, and MAB dated 04.28.03)	Report on Compliance with Mandatory Credit Allocation Required under R.A. No. 6977 (As amended by R.A. Nos. 8289 and 9501)	Quarterly	15th banking day after end of reference quarter	By electronic mail to SDC sdctb-sme@bsp.gov.ph
			Schedules:			
			1A - Computation of Total Loan Portfolio for Purposes of Determining Amount of Mandatory Credit Allocation for MSMEs	-do-	-do-	-do-
			1A-1 - Wholesale Lending of a Bank to Conduit NBFIs w/o QB Authority Other Than Those for On-Lending to MSMEs	-do-	-do-	-do-
			1A-2 - Loans Granted Under Special Financing Program Other Than for MSMEs	Quarterly	15th banking day after end of reference quarter	By electronic mail to SDC sdctb-sme@bsp.gov.ph
			1A-3 - Loans Granted to MSMEs Other Than to BMBEs Which are Funded by Wholesale Lending of or Rediscounted with Another Bank	-do-	-do-	-do-
			1B - Details of Eligible Investments for Compliance with the Required Credit Allocation for MSMEs	-do-	-do-	-do-
			1B-1 - Loans Granted to MSMEs Other Than to BMBEs Which are Funded by Wholesale Lending of or Rediscounted with Another Bank	-do-	-do-	-do-
			1B-2 - Wholesale Lending or Rediscounting Facility Granted to Participating Financial Institutions for On-Lending to MSMEs other than to BMBEs	-do-	-do-	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-3	Unnumbered	X192 (CL-050 dated 10.04.07 CL-059 dated 11.28.07)	2 - Loans Granted to BMBEs	-do-	-do-	-do-
			3 - Reconciliation of Loans Granted to MSMEs as Reported Under Schedules 1B, 1B-1 and 2 and FRP Balance of Microfinance and SME Loans	-do-	-do-	-do-
			Control Prooflist	-do	-do-	SDC
			Report on Borrowings of BSP Personnel	Quarterly	15th banking day after end of reference quarter	Original to SDC
A-3	BSP 7-16-27	X192.2 (Cir. No. 736 dated 7.20.11 and M-2011-052 dated 9.16.11, as amended by M-2011-064 dated 12.15.11)	Report on Compliance with the Mandatory Agri-Agra Credit	Quarterly	15 banking days after end of reference quarter	cc mail: SDC sdctb-pfrs@bsp.gov.ph
			Control Prooflist	-do-	-do-	-do-
B	TB Form 15	X192 (Revised August 2003 per CL dated 08.06.03)	Report on Credit and Equity Exposures to Individuals/ Groups/Companies Aggregating P1M and above	-do-	-do-	-do-
			Control Prooflist, notarized and signed by the authorized officer of the bank	-do-	-do-	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	Q06-TB	X192.6	Report on Reconciling Items Outstanding for More than Six Months in the "Due from/Due to Head Office, Branches and Agencies" accounts (by Banking Unit)	-do-	30th banking day after end of reference quarter	SDC Appropriate department of the SES
B	Unnumbered	X190 X426.2	Financial Audit Report - Bank Proper	Annually	120th calendar day after the close of the calendar or fiscal year	Original and duplicate - Appropriate department of the SES
			a. Audited Financial Statements ^{1/}			
			b. Opinion of the Auditor together with attachments listed in Appendix 61			
			Financial Audit Report - Trust Department	-do-	-do-	-do-
			a. Audited Financial Statements ^{1/}			
			b. Opinion of the Auditor together with attachments listed in Appendix 61			
B	Unnumbered	X190	Annual Audit Report ^{2/} - Bank Proper	-do-	30th banking day after receipt of the report	-do-
B	Unnumbered		a. Audited Financial Statements ^{1/}	-do-	-do-	-do-
			b. Opinion of the Auditor together with attachments listed in Appendix 61	-do-	-do-	-do-
		X426.2	Annual Audit Report ^{2/} - Trust Department			
			a. Audited Financial Statements	-do-	-do-	-do-
			b. Opinion of the Auditor together with attachments listed in Appendix 61	-do-	-do-	-do-

^{1/} The deadline for filing the AFS of trust institutions for the financial reporting period beginning 01 January 2008 with the BSP is hereby extended up to 30 June 2009, in view of the longer time period needed to prepare the AFS due to adoption of the new accounting standards

^{1/} Solo and consolidated basis

^{2/} for banks under the current jurisdiction of the BSP and COA

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	Unnumbered	X807 <i>Revised May 2002, as amended by Cir. Nos. 612 dated 06.03.08 and 706 dated 01.05.11)</i>	Report on Suspicious Transaction	Astransaction occurs	10th banking day from the occurrence of the transaction	Original and duplicate- Anti-Money Laundering Council (AMLC)
			Covered Transaction Repot	-do-	-do-	-do-
B	Unnumbered	X262.3	Certification of Compliance with Section 55.4 of R.A.No. 8791	Semestral	7th banking day after end of June and December	Original and duplicate - Appropriate department of the SES
	Unnumbered	Cir. No. 342, as amended by Cir. No. 366, Section 72, Item 3 of Part V	Certification on Funds Borrowed from FCDU/EFCDU	Monthly	5th banking day from end of reference month	-do-
B	Unnumbered	X235.12 <i>(Cir. No. 467 dated 01.10.05)</i>	Report on Undocumented Repurchase Agreements	Astransaction occurs	Within 72 hours from knowledge of transaction	-do-
B	Unnumbered	X235.12 <i>(Cir. No. 467 dated 01.10.05)</i>	Notarized Cerification that the bank did not enter into Repurchase Agreement covering Government Securities, Commercial Papers and Other Negotiable securities or instruments that are not documented.	Semestral	5th banking day after end of the reference semester	-do-
B	SEC Form	<i>(MAB dated 09.02.05)</i>	General Information Sheet	Annually	30 days from date of annual stockholders' meeting	Drop box - SEC Central Receiving Section

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	SES II Form 10	X334	Transmittal of Board Resolution/Written Approval on Credit Accommodations to DOSRI in Compliance with Sec. 36, R.A. No. 8791, as amended	As any direct or indirect loan to any DOSRI is approved	20th banking day from date of approval of the directors	Appropriate department of the SES
B	Unnumbered	X328.5 (Cir. No. 560 dated 01.31.07)	Transmittal of Board Resolution/Written Approval on Credit Accommodations to Subsidiaries and/or Affiliates in Compliance with Subsec. X328.5	As loan to subsidiaries and/or affiliates is approved	20th banking day from date of approval of the directors	Original and duplicate - Appropriate department of the SES
B	SES II Form 14 (NP04-TB)	X156.2	New Schedule of Banking Days/Hours	As changes occur	7th banking day prior to effectivity of the change	Appropriate department of the SES
B	SES II Form 15 (NP08-TB)	X144 (CL dated 01.19.01 as amended by M-024 dated 07.31.08) MAB dated 09.02.04 Circular No. 758 dated 05.11.12)	Biographical Data of Directors/Officers with ID picture - If submitted in CD form - Notarized first page of each of the directors'/officers' Biographical Data saved in CD and control prooflist - If sent by electronic mail - Notarized first page of Biographical Data or Notarized list of Directors/Officers whose Biographical Data were submitted thru electronic mail to be faxed to SDC	Upon every election/re-election or appointment/promotion or if change in name occurs, or if requesting for approval of interlocks	10th banking day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted 10th banking day from the date change of name occurred	Hard copy to appropriate department of the SES
		MAAB dated 09.02.05	Certification under oath of the independent directors that he/she is an independent director as defined under Subsec. X141.2 and that all the information thereby supplied are true and correct	Upon election	10th banking day from date of election	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B		X144 (Cir. No. 758 dated 05.11.12)	Duly accomplished and notarized authorization form for querying the BSP watchlist files	U p o n election or appointment/ promotion as first time director/ officer within a bank or banking group	10th banking day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	Hard copy to appropriate department of the SES
B		X144 (Cir. No. 758 dated 05.11.12)	Certification under oath of director/officer that he/she has the qualifications and none of the disqualifications	Upon every election/re-election or appointment/ promotion	10th banking day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	Hard copy to appropriate department of the SES
		Cir. No. 513 dated 02.10.06	Verified statement of director/officer that he/she has all the aforesaid qualifications and none of the disqualifications			
B	SES Form6G	X192.4 (Revised Oct. 2007 per Cir. No. 587 dated 10.26.07; June 2005 per Cir. No. 486 dated 06.01.05)	Report on Crimes and Losses	As crime/ incident occurs	Not later than ten (10) calendar days from knowledge of crime/ incident and complete report not later than twenty (20) calendar days from termination of investigation.	Appropriate department of the SES
B	Unnumbered (no prescribed form)	X143.4	Report on Disqualification of Director/Officer	As disqualification occurs	Within 72 hours from receipt of report by the BOD	Appropriate department of the SES

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	SES Form 6H (CBP 7-16-21) Revised	X306.5 (As amended by Cir. No. 745 dated 01.10.12)	Notice/Application for Write-off of Loans, Other Credit Accommodations, Advances and Other Assets	As write-off occurs	Within 30 banking days after every write-off	Appropriate department of the SES
B	Unnumbered	X141.3c(9) Circular Nos. 757 dated 05.08.12 and 749 dated 02.27.12) Cir. No. 513 dated 02.10.06	Report on Intra-Group Transaction Verified statement of director/officer that he/she has all the aforesaid qualifications and none of the disqualifications	Quarterly	20 calendar days after end of reference quarter	-do-
B	SES Form6G	X192.4 (Revised Oct. 2007 per Cir. No. 587 dated 10.26.07; June 2005 per Cir. No. 486 dated 06.01.05)	Report on Crimes and Losses	As crime/ incident occurs	Not later than ten (10) calendar days from knowledge of crime/ incident and complete report not later than twenty (20) calendar days from termination of investigation.	SDC and SITD
B	Unnumbered (no prescribed form)	X143.4	Report on Disqualification of Director/Officer	As disqualification occurs	Within 72 hours from receipt of report by the BOD	Appropriate department of the SES

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
B	SES II Form 26	X192.3	Information/Documents Required under Appendices 7 & 8 (MOR)	Only once; as change occurs	15th banking day from date of change	Appropriate department of the SES
B	SES III Form 27	X192.1	Specimen Signature of Authorized Signatories and Board Resolution Designating Authorized Signatories	As change occurs	3rd banking day from date of resolution	Appropriate department of the SES & SDC
B	Unnumbered (NP09-TB)	X144 (As amended by Cir. No. 758 dated 05.11.12)	List of Members of the Board of Directors and Officers	Annually	10th banking day after annual election of the board of directors	Hard copy to appropriate department of the SES
B		X151.8 X151.9	Notice of transfer of branches/voluntary closure of branches	As transfer occurs	5th banking day from date of transfer	-do-
B		X153.4	Notice of Actual Date of Opening a Branch	As it occurs	10th banking day after opening	-do-
B	Unnumbered	X565	Conversion/Transfer of FCDU Loans to RBU ¹⁷	Monthly	10th banking day from end of reference month	-do-
		X409.16 (f)	Waiver of the Confidentiality of Information under Sections 2 and 3 of RA No. 1405	As transaction occur	Within 72 hours from knowledge of transactions	-do-
		(M-005 dated 02.04.08)	Disclosure Statement on SPV Transactions	Quarterly	15 banking day after end of reference quarter	SDC

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
B	Form No. 1	X780 Schedule 1 <i>M-031 dated 09.11.09 and Cir. No. 649 dated 03.09.09</i>	Report on Electronic Money Transactions Statement of E-Money Balances and Activity - Volume and Amount of E-Money Transactions Schedule 1 - E-Money Balances	Quarterly	15 banking days after end of reference quarter	e- mail at sdctb-emoney@ bsp.gov.ph or hardcopy - SDC

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
DES/IOD Reports:						
A-3	Unnumbered (Per CL dated 09.05.97)	X503 (As amended by Cir. No. 445 dated 08.20.04)	Consolidated FX Position Report of Bank's branches/ offices, subsidiaries/affiliates, here and abroad with certification of its CEO and treasurer at month-end	Daily	3rd banking day after end of reference date	cc: Mail to appropriate department of the SES/ DES/ID & hardcopy to ID
A-3	FX Form 1 Sch. 1 (Formerly FED Form I, Sch.16)		Consolidated Foreign Exchange Assets and Liabilities in Original Currency - RBU & FCDU	Monthly	15th banking day after end of reference month	cc: Mail to appropriate department of the SES/ DES/ID
B	RS Form 1A (CBP 5-17-30) (Revised July 2001)	1192.13	Volume and Interest Rates on Loans and Discounts Granted	Weekly	Not later than 4:00 p.m. Thursday after the reference week	Original - DES
B	RS Form 1B (CBP 5-17-30) (Revised July 2001)	1192.13	Report on the Weighted Average Interest Rates on Outstanding Loans and Discounts and Weighted Average Interest Rates on Savings Deposits	Monthly	Not later than 10 banking days after reference month	-do-
B	RS Form 1B (BSP-5-17-27)	1192.13	Daily Report on Volume of Money Market Transactions	Daily	Not later than 3:00 P.M. on reference day	Appropriate department of the SES
B	RS Form 2A (BSP-5-17-33) (Revised July 2001)	1192.13	Report on the Volume of Interest Rates on Deposits	Weekly	Not later than 4:00 P.M. of Thursday after the reference week	Original - DES
B	RS Form 2C (BSP 5-17-36) (Revised July 2001)		Report on Quoted Rates of Dollar Savings and Time Deposits	-do-	-do-	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
B	RS Form 2D (Revised July 2001)		Daily Report on the Volume and Weighted Average Interest Rates on Promissory Notes and Time Deposits	Daily	Not later than 4:00 P.M. of the following day	Original - DES
B	Daily Quoted Lending and SSA Rate Report		Daily Report on the Quoted Lending Rate and 30-DaySpecial Savings Deposit Rate	-do-	Not later than 3:00 P.M. on reference day	-do-
	Unnumbered	(M-019 dated 05.03.08, as amended by M-2011-028 dated05.26.11)	Report on Non-Deliverable Forward Transactions against Philippine Peso Control Prooflist	-do-	2nd banking day after end of reference date	cc: Treasury Dept. fx-omo@bsp.gov.ph
B	Unnumbered	1625.5 (As amended by Cir. No. 591 dated 12.27.07)	Report on Cancellations, Roll-overs and Non-Delivery of FX Forwards Purchase - Sales Contracts and Forward Leg of Swap Contracts ^{1/} (For banks with derivatives license)	Monthly	5th banking day after end of reference month	SDC via Fax at (632) 523-3461 or 523-0230
	Unnumbered	CL-003 dated 01.11.08	Report on Purchase of Foreign Currency (FC) from Refund of Advance Payment of Importations up to \$100,000.00	-do-	Within the first 5 days of the month succeeding the receipt of the refund	SDC at e-mail address: sdcfxtbdom@bsp.gov.ph sdcfxtbfor@bsp.gov.ph
B	IOS Form 4 (BSP 6-22-01)		Consolidated Report on Loans Granted by FCDUs/ EFCDUs	-do-	15th banking day after end of reference month	Original - Appropriate department of the SES Duplicate - ID
B	Unnumbered	X625.9 (As amended by Cir. No. 591 dated 12.27.07)	Report on FX Swaps with Customers ^{1/} where 1st Leg is a Purchase of FX Against Pesos (For TBs with derivatives License)	-do-	5th banking days after end of reference month	ID @ e-mail address: iod@bsp.gov.ph SDC @ e-mail address: sdcfxkblog@bsp.gov.ph sdcfxkbfor@bsp.gov.ph
For other DES/IOD Reports:		Please refer to Chapter I, Part V, Manual of Regulations on Foreign Exchange Transactions Part V of this Manual				

^{1/}Excluding cross country swaps

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
C. RBs/Coop Banks						
A1	Unnumbered	X191.2 (Cir. No. 512 dated 02.03.06, MAB dated 03.07.06, M-006 dated 07.07.06, Cir. No. 568 dated 05.08.07, M-015 dated 05.28.07, M-026 dated 09.20.07, M-011 dated 03.07.08, M-012 dated 03.14.08, Cir. No. 644 dated 02.10.09, M-035 dated 09.28.09, M-016 dated 06.16.10, M-021 dated 07.20.10, Cir. No. 701 dated 12.13.10, M-045 dated 12.14.10, Cir. No. 733 dated 11.20.12, M-052	Financial Reporting Package (FRP)			
			Balance Sheet (FRP):			
			- Solo basis (head office and branches)	Quarterly	15th banking day after end of reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
			- Consolidated basis (together with applicable schedules) ^{2/}	Quarterly	30th banking day after end of reference quarter	-do-
			Income Statement (FRP):			
			- Solo basis (head office and branches)	-do-	15th banking day after end of reference quarter	-do-
			- Consolidated basis (together with applicable schedules) ^{2/}	-do-	30th banking day after end of reference quarter	-do-
			Schedules (Solo Report):			
			1 - Checks and Other Cash Items (COCI)	-do-	15 banking day after end of the reference quarter	-do-
			2 - Due from Other Banks	-do-	-do-	-do-
			3 - Financial Assets Held for Trading	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

^{2/} Only banks with financial allied subsidiaries, excluding insurance subsidiaries, shall submit the reports on consolidated basis.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		<i>dated 11.29.12 and M-058 dated 12.17.12)</i>	3a - Breakdown of Held for Trading (HFT) Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Cerificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15th banking day after end of reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
			4 - Derivatives Held for Trading (HFT)	-do-	-do-	-do-
			4a - Derivatives Held for Trading Matrix of Counterparty and Type of Derivative Contracts	-do-	-do-	-do-
		,	5 - Financial Assets Designated at Fair Value through Profit or Loss	-do-	-do-	-do-
			6 - Available-for-Sale Financial Assets	-do-	-do-	-do-
			6a - Breakdown of Available for Sale Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-
			6b - Available-for-Sale Financial Assets-Classified as to Status	-do-	-do-	-do-
			6b3			
			6c - Available-for-Sale Financial Assets Movements in Allowances for Credit Losses	Annually	15th banking day after end of the reference year	-do-
			6c3			

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<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
		7 -	Held to Maturity (HTM) Financial Asset	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
		7a -	Breakdown of Held to Maturity Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Cerificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-
		7b -	Fair Value of Held to Maturity (HTM) Financial Asset	Annually	15th banking day after end of the reference year	-do-
		7c to 7c3 -	Held to Maturity Financial Assets Classified as to Status	Quarterly	15th banking day after end of the reference quarter	-do-
		7d to 7d3 -	Held to Maturity Financial Assets Movements in Allowances for Credit Losses	Annually	15th banking day after end of the reference year	-do-
		8 -	Unquoted Debt Securities Classified as Loans	Quarterly	15th banking day after end of the reference quarter	-do-
		8a -	Fair Value of Unquoted Debt Securities Classified as Loans	Annually	15th banking day after end of the reference year	-do-
		8b to 8b3 -	Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	15th banking day after end of the reference quarter	-do-
		8c to 8c3 -	Unquoted Debt Securities Classified as Loans Movements in Allowances for Credit Losses	Annually	15th banking day after end of the reference year	-do-

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Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		9	- Investment in Non-Marketable Equity Securities	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
		10	- Interbank Loans Receivables	-do-	-do-	-do-
		11	- Loans and Receivables - Others	-do-	-do-	-do-
		11a to 11a3	- Loans and Receivables - Others Classified as to Status	-do-	-do-	-do-
		11b to 11b3	- Restructured Loans and Receivables Classified as to Status	-do-	-do-	-do-
		11c to 11c3	- Loans and Receivables - Others Movements in Allowances for Credit Losses	-do-	-do-	-do-
		11d to 11d3	- Gross Loans and Receivables - Others Classified as to Type of Business/Industry of Counterparty	Monthly	15th banking day after end of the reference month	-do-
		11e to 11e3	- Loans and Receivables - Others Classified as to Status Per PAS 39	Annually	15th banking day after end of the reference year	-do-
		11f	- Schedule of Agri/Agra SME, DIL and Microfinance Loans and Receivables Under Sched 11 Classified as to Counterparty	Quarterly	15th banking day after end of the reference quarter	-do-
		12	- Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	-do-	-do-	-do-
^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.						

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
		12a to - 12a3	Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions Matrix of Counterparty and Issuer of Collateral Securities	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
		13	- Fair Value Adjustments in Hedge Accounting	-do-	-do-	-do-
		13a	- Derivatives Held for Fair Value Hedge	-do-	-do-	-do-
		13b	- Derivatives Held for Cash Flow Hedge	-do-	-do-	-do-
		13c	- Derivatives Held for Hedges of Net Investment in Foreign Operations	-do-	-do-	-do-
		13d	- Derivatives Held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount)	-do-	-do-	-do-
		14	- Accrued Interest Income/Expense from Financial Assets and Liabilities	-do-	-do-	-do-
		15	- Equity Investment in Subsidiaries, Associates and Joint Ventures	-do-	-do-	-do-
		15a	- Investment in Subsidiaries, Associates and Joint Arrangements - Classified as to Nature of Business	-do-	-do-	-do-
		15b	- Details of Equiity Investment in Subsidiaries, Associates and Joint Ventures	-do-	-do-	-do-

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Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			16 - Bank Premises, Furniture, Fixture and Equipment	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
			17 - Real and Other Properties Acquired/Non-Current Assets Held for Sale	-do-	-do-	-do-
			17a - Aging of ROPA and NCAHS Accounts	Annually	15th banking day after end of the reference year	-do-
			17b - Movement in ROPA and NCAHS	-do-	-do-	-do-
			18 - Schedule of Tax Assets and Liabilities	Annually	15th banking day after end of the reference year	-do-
			19 - Other Assets	Quarterly	15th banking day after end of the reference quarter	-do-
			20 - Breakdown of Due from and Due to Head Office/Branches/Agencies Abroad - Philippine Branch of a Foreign Bank	-do-	-do-	-do-
			21 - Liability for Short Position	-do-	-do-	-do-
			22 - Deposit Liabilities Classified as to Type of Deposit	-do-	-do-	-do-
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/Branches	-do-	-do-	-do-
			23 - Due to Other Banks	-do-	-do-	-do-
^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.						

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
		24	- Bills Payable	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
		25	- Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	-do-	-do-	-do-
		26	- Fair Value of Financial Liabilities	Annually	15th banking day after end of the reference year	-do-
		27	- Financial Liabilities Associated with Transferred Assets	Quarterly	15th banking day after end of the reference quarter	-do-
		28	- Other Liabilities	-do-	-do-	-do-
		29	- Interest Income/Expense from Financial Instruments	-do-	-do-	-do-
		29a	- Interest Income from Due from Other Banks Classified as to Type of Deposits	-do-	-do-	-do-
		29b	- Interest Income from Held for Trading, Designated at FVPL, Available for Sale, Held to Maturity Financial Assets and Unquoted Debt Securities Classified as Loans	-do-	-do-	-do-
		29c	- Interest Income from Interbank Loans Receivables	-do-	-do-	-do-
		29d to - 29d3	Interest Income from Loans and Receivables - Others - Classified as to Status	-do-	-do-	-do-

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Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			29e - Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
			30a - Interest Expense on Deposit Liabilities Classified as to Type of Deposit	-do-	-do-	-do-
			30b - Interest Expense on Bills Payable	-do-	-do-	-do-
			30c - Interest Expense on Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	-do-	-do-	-do-
			31 - Dividend Income	-do-	-do-	-do-
			32 - Gains/(Losses) on Financial Assets and Liabilities Held for Trading	-do-	-do-	-do-
			33 - Gains/(Losses) from Sale/Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities	-do-	-do-	-do-
			34 - Compensation/Fringe Benefits	-do-	-do-	-do-
			35 - Other Administrative Expenses	-do-	-do-	-do-
			36 - Depreciation/Amortization Expense	-do-	-do-	-do-
			37 - Impairment Loss	-do-	-do-	-do-
			38 - Off-Balance Sheet	-do-	-do-	-do-

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Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		39 & 39a	Residual Maturity Performing Financial Assets and Financial Liabilities	Quarterly	15th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
		40 & 40a	Repricing - Performing Financial Assets and Financial Liabilities	-do-	-do-	-do-
		41	- Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs	-do-	-do-	-do-
		42	- Disclosure of Due From FCDU/RBU and Due To FCDU/RBU	-do-	-do-	-do-
		Schedules (Consolidated Report):				
		1	- Checks and Other Cash Items	-do-	30th banking day after end of the reference quarter	-do-
		2	- Due from Other Banks	-do-	-do-	-do-
		3	- Financial Assets Held for Trading	-do-	-do-	-do-
		3a	- Breakdown of Held for Trading (HFT) Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-
		4	- Derivatives Held for Trading (HFT)	-do-	-do-	-do-

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Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			4a - Derivatives Held for Trading-Matrix of Counterparty and Type of Derivative Contracts	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
				-do-	-do-	-do-
			5 - Financial Assets Designated at Fair Value through Profit or Loss			
			6 - Available-for-Sale Financial Assets	-do-	-do-	-do-
			6a - Breakdown of Available for Sale Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-
				-do-	-do-	-do-
			6b - Available-for-Sale Financial Assets-Classified as to Status			
			6c - Available-for-Sale Financial Assets Movements in Allowances for Credit Losses	Annually	30th banking day after end of the reference year	-do-
			7 - Held to Maturity (HTM) Financial Asset	Quarterly	30th banking day after end of the reference quarter	-do-
			7a - Breakdown of Held to Maturity Financial Assets Purchase/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	-do-	-do-	-do-
^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.						

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			7b - Fair Value of Held to Maturity (HTM) Financial Assets	Annually	30th banking day after end of the reference year	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
			7c - Held to Maturity Financial Assets Classified as to Status	Quarterly	30th banking day after end of the reference quarter	-do-
			7d - Held to Maturity Financial Assets Movements in Allowances for Credit Losses	Annually	30th banking day after end of the reference year	-do-
			8 - Unquoted Debt Securities Classified as Loans	Quarterly	30th banking day after end of the reference quarter	-do-
			8a - Fair Value of Unquoted Debt Securities Classified as to Status	Annually	30th banking day after end of the reference year	-do-
			8b - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	30th banking day after end of the reference quarter	-do-
			8c - Unquoted Debt Securities Classified as Loans Movements in Allowances for Credit Loans	Annually	30th banking day after end of the reference year	-do-
			9 - Investment in Non-Marketable Equity Securities	Quarterly	30th banking day after end of the reference quarter	-do-
			10 - Interbank Loans Receivables	-do-	-do-	-do-
			11 - Loans and Receivables - Others	-do-	-do-	-do-
			11a - Loans and Receivables - Others Classified as to Status	-do-	-do-	-do-
			11b - Restructured Loans and Receivables Classified as to Status	-do-	-do-	-do-

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Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			11c - Loans and Receivables - Others Movements in Allowances for Credit Losses	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
			11d - Gross Loans and Receivables - Others Classified as to Type of Business/Industry of Counterparty	-do-	-do-	-do-
			11e - Loans and Receivables - Others Classified as to Status per PAS 39	Annually	30th banking day after end of the reference year	-do-
			11f - Schedule of Agri/Agra, Microfinance and SME Loans and Receivables Classified as to Counterparty	Quarterly	30th banking day after end of the reference quarter	-do-
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	-do-	-do-	-do-
			12a - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions Matrix of Counterparty and Issuer of Collateral Securities	-do-	-do-	-do-
			13 - Fair Value Adjustments in Hedge Accounting	-do-	-do-	-do-
			13a - Derivatives Held for Fair Value Hedge	-do-	-do-	-do-
			13b - Derivatives Held for Cash Flow Hedge	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	Quarterly	30th banking day after end of reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
			13d - Derivatives Held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount)	-do-	-do-	-do-
			14 - Accrued Interest Income/Expense from Financial Assets and Liabilities	-do-	-do-	-do-
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	-do-	-do-	-do-
			15a - Equity Investment in Susidiaries, Associates and Joint Arrangements- Classified as to Nature of Business	-do-	-do-	-do-
			15b - Details of Equity Investment in Subsidiaries, Associates and Joint Ventures	-do-	-do-	-do-
			16 - Bank Premises, Furniture, Fixture and Equipment	-do-	-do-	-do-
			17 - Real and Other Properties Acquired/Non-Current Assets Held for Sale	-do-	-do-	-do-
			17a - Aging of ROPA and NCAHS Accounts	Annually	30th banking day after end of reference year	-do-
			17b - Movements in ROPA and NCAHS Accounts	-do-	-do-	-do-
			18 - Schedule of Tax Assets and Liabilities	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		19	- Other Assets	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
		20	- Breakdown of Due from and Due to Head Office/Branches/Agencies Abroad - Philippine Branch of a Foreign Bank	-do-	-do-	-do-
		21	- Liability for Short Position	-do-	-do-	-do-
		22	- Deposit Liabilities Classified as to Type of Deposit	-do-	-do-	-do-
		22a	- Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/Branches	-do-	-do-	-do-
		23	- Due to Other Banks	-do-	-do-	-do-
		24	- Bills Payable	-do-	-do-	-do-
		25	- Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	-do-	-do-	-do-
		26	- Fair Value of Financial Liabilities	Annually	30th banking day after end of the reference year	-do-
		27	- Financial Liabilities Associated with Transferred Assets	Quarterly	30th banking day after end of the reference quarter	-do-
		28	- Other Liabilities	-do-	-do-	-do-

^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
		29	- Interest Income/Expense from Financial Instruments	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
		29a	- Interest Income from Due from Other Banks Classified as to Type of Deposits	-do-	-do-	-do-
		29b	- Interest Income from Held for Trading, Designated at FVPL, Available for Sale, Held to Maturity Financial Assets and Unquoted Debt Securities Classified as Loans	-do-	-do-	-do-
		29c	- Interest Income from Interbank Loans Receivables	-do-	-do-	-do-
		29d	- Interest Income from Loans and Receivables - Others - Classified as to Status	-do-	-do-	-do-
		29e	- Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing transactions	-do-	-do-	-do-
		30a	- Interest Expense on Deposit Liabilities	-do-	-do-	-do-
		30b	- Interest Expense on Bills Payable	-do-	-do-	-do-
		30c	- Interest Expense on Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	-do-	-do-	-do-
		31	- Dividend Income	-do-	-do-	-do-
^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.						

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			32 - Gains/(Losses) on Financial Assets and Liabilities Held for trading	Quarterly	30th banking day after end of the reference quarter	Diskette/CD/e-mail to SDC ^{1/} sdcrb-frp@bsp.gov.ph
			33 - Gains/(Losses) from Sale/Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities	-do-	-do-	-do-
			34 - Compensation/Fringe Benefits	-do-	-do-	-do-
			35 - Other Administrative Expenses	-do-	-do-	-do-
			36 - Depreciation/Amortization Expense	-do-	-do-	-do-
			37 - Impairment Loss	-do-	-do-	-do-
			38 - Off-Balance Sheet	-do-	-do-	-do-
			39 - Residual Maturity Performing Financial Assets and Financial Liabilities	-do-	-do-	-do-
			40 - Repricing - Performing Financial Assets and Financial Liabilities	-do-	-do-	-do-
			41 - Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs	-do-	-do-	-do-
			42 - Disclosure of Due From FCDU/RBU and Due to FCDU/RBU	-do-	-do-	-do-
^{1/} Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.						

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			Simplified Financial Reporting (FRP) - (For RBs with less complex operations [i.e., without (1) FCDU authority (2) derivatives transactions and (3) financial allied subsidiaries]			
			Balance Sheet (FRP):			
			- Solo basis (head office and branches)	Quarterly	15th banking day from end of reference quarter	cc: Mail - SDC
			Income Statement (FRP):			
			- Solo basis (head office and branches)	-do-	-do-	-do-
			Schedules (Solo Report):			
			1 - Checks and Other Cash Items (COCI)	-do-	-do-	-do-
			2 - Due from Other Banks Classified as to Type of Deposit	-do-	-do-	-do-
			6 - Available-for-Sale Financial Assets	-do-	-do-	-do-
			6b1 - Available-for-Sale Financial Assets Classified as to Status - Peso Accounts	-do-	-do-	-do-
			7 - Held to Maturity Financial Assets	-do-	-do-	-do-
			7c1 - Held to Maturity Financial Assets Classified as to Status - Peso Accounts	-do-	-do-	-do-
			8 - Unquoted Debt Securities Classified as Loans	-do-	-do-	-do-

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			8b1 - Unquoted Debt Securities Classified as Loans Classified as to Status - Peso Account	Quarterly	15th banking day from end of reference quarter	cc: Mail - SDC
			9 - Investment in Non-Marketable Equity Securities	-do-	-do-	-do-
			10 - Interbank Loans Receivables	-do-	-do-	-do-
			11 - Loans and Receivables - Others	-do-	-do-	-do-
			11a1 - Loans and Receivables - Others Classified as to Status - Peso Accounts	-do-	-do-	-do-
			11b1 - Restructured Loans and Receivables Classified as to Status - Peso Accounts	-do-	-do-	-do-
			11c1 - Loans and Receivables - Others Movements of Allowances for Credit Losses - Peso Accounts	-do-	-do-	-do-
			11d1 - Loans and Receivables - Others (At Amortized Cost) - Peso Accounts	-do-	-do-	-do-
			11e1 - Loans and Receivables - Others Classified as to Status per PAS 39 - Peso Accounts (For Annual Submission)	Annually	15th banking day from end of reference year	-do-
			11f - Schedule of Agri/Agra, SME, DIL and Microfinance Loans and Receivables under Schedule 11 - Classified as to Counterparty	Quarterly	15th banking day from end of reference quarter	-do-

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
		12	- Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions -By Counterparty	Quarterly	15th banking day from end of reference quarter	cc: Mail - SDC
		12a1	- Loans and Receivables Arising from Repurchase Agreements and Securities Lending and Borrowing Transactions Matrix of Counterparty and Issuer of Collateral Securities - Peso Accounts	-do-	-do-	-do-
		14	- Accrued Interest Income/Expense from Financial Assets and Liabilities	-do-	-do-	-do-
		15	- Equity Investment in Subsidiaries, Associates and Joint Ventures	-do-	-do-	-do-
		15a	- Equity Investment in Subsidiaries Associates and Joint Ventures - Classified as to Nature of Business	-do-	-do-	-do-
		15b	- Details of Equity Investment in Subsidiaries, Associates and Joint Ventures	-do-	-do-	-do-
		16	- Bank Premises, Furniture, Fixture and Equipment	-do-	-do-	-do-
		17	- Real and Other Properties Acquired/Non-Current Assels Held for Sale	-do-	-do-	-do-

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			17a - Aging of ROPA and NCAHS Accounts	Annually	15th banking day from end of reference year	cc: Mail - SDC
			17b - Movement in ROPA and NCAHS Accounts	-do-	-do-	-do-
			19 - Other Assets	Quarterly	15th banking day from end of reference quarter	-do-
			22 - Deposit Liabilities - Classified as to Type of Deposit	-do-	-do-	-do-
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/ Branches	-do-	-do-	-do-
			24 - Bills Payable	-do-	-do-	-do-
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	-do-	-do-	-do-
			27 - Financial Liabilities Associated with Transferred Assets	-do-	-do-	-do-
			28 - Other Liabilities	-do-	-do-	-do-
			29 - Interest Income/Expense from Financial Instruments	-do-	-do-	-do-
			29a - Interest Income from Due from Other Banks - Classified as to Type of Deposit	-do-	-do-	-do-
			29b - Interest Income from Held for Trading, Designated at FVPL, Available-for-Sale, Held to Maturity Financial Assets and Unquoted Debt Securities Classified as Loans	-do-	-do-	-do-

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
		29c	- Interest Income from Interbank Loans Receivables	Quarterly	15th banking day after end of reference quarter	cc: Mail - SDC
		29d1	- Interest Income from Loans and Receivables - Others Classified as to Status - Peso Accounts	-do-	-do-	-do-
		29e	- Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse and Securities Lending and Borrowing Transactions - By Counterparty	-do-	-do-	-do-
		30a	- Interest Expense on Deposit Liabilities - Classified as to Type of Deposit	-do-	-do-	-do-
		30b	- Interest Expense on Bills Payable	-do-	-do-	-do-
		30c	- Interest Expense on Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	-do-	-do-	-do-
		31	- Dividend Income	-do-	-do-	-do-
		33	- Gains/(Losses) from Sale/Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities (Excluding Financial Assets and Liabilities Designated at FV through Profit and Loss and FV adjustment in Hedge Accounting)	-do-	-do-	-do-
		34	- Compensation/Fringe Benefits	-do-	-do-	-do-
		35	- Other Administrative Expenses	-do-	-do-	-do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			36 - Depreciation/Amortization Expense	Quarterly	15th banking day after end of reference quarter	cc: Mail - SDC
			37 - Impairment Loss	-do-	-do-	-do-
			38 - Off-Balance Sheet	-do-	-do-	-do-
			38a - Compliance with Section X347	-do-	-do-	-do-
			39 - Residual Maturity Performing Financial Assets and Financial Liabilities - Peso Accounts	-do-	-do-	-do-
			40 - Repricing Performing Financial Assets and Financial Liabilities - Peso Accounts (Amount in PHP)	-do-	-do-	-do-
			41 - Schedule of Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs (Net Carrying Amount)	-do-	-do-	-do-
A-1	Unnumbered	X611.5 (Cir. No. 594 dated 01.08.08 and M-009 dated 02.27.08)	Derivatives Report Schedules: Report on Outstanding Derivatives Contracts (Stand - Alone - RBU, Stand - Alone - FCDU, Hybrid) Report on Trading (Gains/Losses) on Financial Derivatives Certification (Hard Copy) Control Prooflist	Monthly	15th banking day after the end of the reference month	CMSG cc: SDC c m s g @ b s p . g o v . p h . sdcderivatives@ bsp.gov.ph. Receiving Section, SES

^{1/} For RBs which are subsidiaries of UBs/KBs

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-1	Unnumbered	X191.3 X388.5 (As amended by Cir. No. 761 dated 07.20.12, 708 dated 01.10.11, 733 dated 05.08.11 and M-048 dated 08.26.11)	Reports Relative to the Early Adoption of PFRS 9	One-time	For FIs which initially apply PFRS 9 on or before 31 December 2010 not later than 31 January 2011;	cc mail: SDC sdctb-pfrs@bsp.gov.ph
					For FIs which initially apply PFRS in 2011 - not later than fifteen (15) banking/business days from the end of the month when such initial adoption is reflected in their books;	-do-
					For FIs which initially apply PFRS 9 on or after 01 January 2012 - not later than fifteen (15) banking/business days from the end of the calendar or fiscal year of initial application of PFRS 9	
			Supplementary Report on Early Adoption of PFRS 9	Monthly	15th banking day after end of reference month	
A-1	Unnumbered	X141.3c(9) (Circular nos. 749 dated 02.27.12 and 757 dated 05.08.12)	Report on Group Structures	Annually	30 calendar days after the end of the calendar year	Appropriate department of the SES

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-1	Unnumbered	X141.3c(9) (Circular No. 749 dated 02.27.12)	Replacement of the Chief Risk Officer	As changes occur	5 banking days from the time of approval of the board of directors	Appropriate department of the SES
A-2	Unnumbered	X118 (As amended by Cir. Nos. 503 dated 12. 22.05 and 475 dated 02.14.05, M-054 dated 10.6.11) Cir. 688 dated 05.26.10 and M-14 dated 05.15.10)	Computation of the Adjusted Risk-Based Capital Adequacy Ratio Covering Combined Credit Market and Operational Risks (for stand alone RBs) - Solo basis (head office and branches) - Consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies) - Control Prooflist	Monthly Quarterly	15th banking day after end of reference month 30th banking day after end of reference quarter	email: sdcrb-car@bsp.gov.ph
A-1		X116.5 (Cir. No. 574 dated 07.10.07, asamended by M-62 dated 12.13.11)	- Computation of the Adjusted Risk-Based Capital Adequacy Ratio Covering Combined Credit Risks, Market Risk and Operational Risk ^{1/} - Solo basis (head office and branches) - Consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies)	Quarterly -do-	15th banking day after end of reference quarter 30th banking day after end of reference quarter	SDC SDC

^{1/} For RBs which are subsidiaries of UBs/KBs

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	RB/COB Form1	X116.3	Consolidated Daily Report of Condition (CDRC)	Weekly	4th banking day after end of reference week	SDC
A-2	Unnumbered (no prescribed form)	X141.9	Acknowledgment receipt of copies of specific duties and responsibilities of the board of directors and of a director and certification that they fully understand the same	Annually or as directors are elected	30th banking day after date of election	Appropriate department of the SES
A-2	Form 2B/2B.1	X192.9 (Cir. No. 576 dated 08.08.07 and M-030 dated 10.04.07)	RBs with resources of P1.0 billion and above Balance Sheet/Consolidated Balance Sheet Control Prooflist duly notarized and signed by the authorized official of the reporting bank Published Balance Sheet/Consolidated Balance Sheet (together with the publisher's certificate)		12 banking days from the date of the Call Letter 20 banking days from the date of the Call Letter	CD/e-mail to SDC sdcrb-pbs@bsp.gov.ph hard copy to SDC Fax to 523-3461 or 523-0230 Fax to 523-3461 or 523-0230 or via postal/ messengerial services to SDC
A-2	Form 2B/2B.1	Cir.No.576 dated 08.08.07 and M-030 dated 10.04.07	RBs with resources of less than P1.0 billion Balance Sheet/Consolidated Balance Sheet Control Prooflist duly notarized and signed by the authorized official of the reporting bank Published/Posted Balance Sheet/Consolidated Balance Sheet (together with the publisher's cetificate if applicable)		20 banking days after the end of reference quarter -do- 20 banking days after the end of reference quarter	Diskette/CD/e-mail to SDC sdcrb-pbs@bsp.gov.ph hard copy to SDC -do-

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	Unnumbered	X425.2 (Cir. No. 609 dated 05.26.08 and M-022 dated 06.26.08)	Financial Reporting Package for Trust Institution ^{1/} Schedules: Balance Sheet A1 to A2 - Main Report B to B2 - Details of Investments in Debt and Equity Securities C to C2 - Details of Loans and Receivables D to D2 - Wealth/Asset/Fund Management-UITF E - Other Fiduciary Accounts E1 to E1b - Other fiduciary Services - UITF Income Statement Control Prooflist	Quarterly	20th banking day after the end of reference quarter	SDC sdcrb-frpti@bsp.gov.ph
A-2	Unnumbered	X192 (Cir. No. 607 dated 04.30.08 and M-021 dated 06.16.08)	Report on Microfinance Loans	Monthly	15th banking day after end of the reference month	SDC sdcrb-micro@bsp.gov.ph

^{1/} RBs/Coop Banks which are authorized to engage in limited trust business are only required to submit the main report and Annex E of the FRPTI

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	Unnumbered	X192 (Cir. No. 607 dated 04.30.08 and M-021 dated 06.16.08)	Income Statement on Microfinance Operations	Quarterly	15th banking day after end of the reference quarter	SDC sdcrb-micro@bsp.gov.ph
A-2		X181.5 (Cir. No. 620 dated 09.03.08)	Self-Assesment and Certification of Compliance with Rules and Regulations on Bank Protection/Updated Security Program	Annually	On or before 30 January	Appropriate department of the SES
A-2		X361 §3277.6	Report on Microfinance Transactions	Monthly	5th banking day after end of reference month	Original - DLC/BSPRLC
A-2	RB/COB Form 7 RB/COB Form 7A	X254	Weekly Report on Required and Available Reserves Against Deposit Liabilities (To be replaced with CDRC - Form 1)	Weekly	4th banking day after end of reference week	Electronic mail to SDC
A-2	RB/COB Form 8	X254	Control Prooflist of WRRAR Against Deposit Liabilities	-do-	-do-	-do-
A-2	RB/COB Form 8	X240.8	Government Funds Held/Compliance with Liquidity Floor Requirement	Quarterly	15th banking day after end of the reference quarter	Original - Appropriate department of the SES Duplicate - SDC

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-2	Unnumbered	X807 (Rev. May 2002 as amended by Cir. Nos. 612 dated 06.13.08 and 706 dated 01.05.11)	Covered Transaction Report (CTR)	As transaction occurs	10th banking day from the occurrence of the transaction	Original and duplicate - Anti - Money Laundering Council (AMLC)
			Suspicious Transaction Report (STR)	-do-	-do-	-do-
A-2	BSP 7-16-11	X192.7 As amended by Cir. No. 718 dated 04.26.11 533 dated 06.19.06)	Consolidated List of Stockholders and Their Stockholdings and Changes thereto	Annually/ Quarterly when changes occurs	30th banking day after end of calendar year and if there are changes, 12th banking day after end of the reference quarter	Original-Appropriate department of the SES
A-3	Unnumbered	X393 (Cir. No. 613 dated 06.18.08 and M-032 dated 10.31.08)	Report of Selected Branch Accounts Schedules: Selected Balance Sheet Accounts Selected Balance Sheet and Income Statement Accounts Aging of Loans and Receivables - Others	Semestral	20 banking days after end of reference semester	SDC sdcrb-bris@bsp.gov.ph

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
			Breakdown of Deposit Liabilities Bank Loans-to-Deposits Ratio			
			Reconciling Items Outstanding for More than Six (6) Months on the Due From/Due to Head Office, Branches and Agencies Account			
A-3	RB/COB Form 4A	X335 X409.3	Consolidated Report on Compliance with Individual Ceiling on Direct Credit Accommodations to Directors/Officers/Stockholders/Related Interests (DOSRI)	Quarterly	15th banking day after end of reference quarter	Original - Appropriate department of the SES
			Schedule: 1 - Compliance with Individual Ceiling on Credit Accommodations to DOSRI			
A-3	RB/COB Form 4B	X335 X409.3	Consolidated Report on the Compliance with Aggregate Ceiling on Credit Accommodations to DOSRI	-do-	-do-	-do-
			Schedules: 1 - Secured and Unsecured DOSRI Loans	-do-	-do-	-do-
A-3	RB/COB Form 5B	X342.6 (Cir. No. 625 dated 10.14.08 and M-035 dated 11.19.08)	Report on Compliance with Mandatory Credit Allocation Required under R.A. 6977, as amended by R.A. Nos. 8289 and 9501	-do-	-do-	Electronic mail/diskette: SDC - e-mail at sdcrb-sme@bsp.gov.ph
			Schedules: 1A - Computation of Total Loan Portfolio for Purposes of Determining Amount of Mandatory Credit Allocation for MSMEs			

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
			1A-1 - Wholesale Lending of a Bank to Conduit NBFIs w/o QB authority other than those for On-Lending to MSMEs			
			1A-2 - Loans Granted Under Special Financing Program Other Than for MSMEs			
			1A-3 - Loans Granted to MSMEs Other Than to BMBEs which are Funded by Wholesale Lending of or Rediscounted with Another Bank			
			1B - Details of Eligible Investments for Compliance with the Required Credit Allocation for MSMEs			
			1B-1 - Loans Granted to MSMEs Other than to BMBEs which are Funded by Wholesale Lending of or Rediscounted with Another Bank			
			1B-2 - Wholesale Lending or Rediscounting Facility Granted to Participating Financial Institutions for On-Lending to MSMEs other than to BMBEs			
			2 - Loans Granted to BMBEs			
			3 - Reconciliation of Loans Granted to MSMEs as Reported Under Schedules 1B, 1B-1 and 2 and FRP Balance of Microfinance and SME Loans			
A-3	Unnumbered	3277.6	Control Prooflist	-do-	-do-	SDC
			Summary of Loans Granted	Annually	15th banking day after end of reference year	Original - SDC

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
A-3	Unnumbered	X192 (CL-050 dated 10.04.07 CL-059 dated 11.28.07)	Report on Borrowings of BSP Personnel	Quarterly	15th banking day after end of reference quarter	Original - SDC
A-3	Unnumbered	X192.2 (Cir. No. 736 dated 7.29.11 and M-2011-052 dated 9.16.11, as amended by M-2011-064 dated 12.15.11)	Report on Compliance with the Mandatory Agri-Agra Credit Control Prooflist	Quarterly -do-	15 banking days after end of reference quarter -do-	cc mail: SDC sdctb-pfrs@bsp.gov.ph -do-
B	RB/COB Form 10	X192.6	Reconciling Items Outstanding for More than Six Months on the Due from/Due to Head Office/ Branches & Agencies Account (by Banking Unit)	Semestral	15th banking day after end of reference semester	Original-Appropriate department of the SES
B	RB/COB Form 13	X338.3 X339.4 (Cir. No. 487 dated 06.03.05)	Report on Availment of Financial Assistance to Officers and Employees under an Approved Plan	Semestral	15th banking day after end of reference semester	-do-
B	RB/COB Form 18	X144 (CL dated 01.09.01, as amended by M-024 dated 07.31.08)	Biographical Data of Directors/Officers - If submitted in diskette form - Notarized first page of each of the directors'/officers' bio-data saved in diskette and control prooflist - If sent by electronic mail - Notarized first page of Biographical Data or Notarized list of names of Directors/Officers whose Biographical data were submitted thru electronic mail to be faxed to SDC (CL dated 01.09.01)	After election or appointment and as change occurs	7th day from the date of the meeting of the board of directors in which the directors/officers are elected or appointed	cc: Mail/Diskette to SDC Original - SDC Duplicate-Appropriate department of the SES

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		X144 MAAB dated 09.02.05	Certification under oath of the independent directors that he/she is an independent director as defined under Section X141.2 and that all the information thereby supplied are true and correct.	Upon election	10th banking day from date of election	Hard copy to appropriate department of the SES
		X144 Cir. No. 758 dated 05.11.12)	Duly accomplished and notarized authorization form for querying the BSP watchlist files	Upon election or appointment/ promotion as first time director/ officer within a bank or banking group	10th banking day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	Hard copy to appropriate department of the SES
		X141.9 (Cir. No. 758 dated 05.11.12)	Certification under oath of director/officer that he/she has all the qualifications and none of the disqualifications	Upon every election/re-election or appointment /promotion	10th banking day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	-do-
		Cir. No. 513 dated 02.10.06	Verified statement of directors/officers that he/she has all the aforesaid qualifications and none of the disqualifications.			
B	RB/COB Form 19	X156.2	New Schedule of Banking Days/Hours	As necessary	7th banking day prior to effectivity of change	Original-Appropriate department of the SES
B	SES Form6G	X192.4 (As amended by Cir. Nos. 587 dated	Report on Crimes and Losses	As transaction occurs As incident occurs	Not later than ten (10) calendar days from knowledge of crime/incident and complete report not later than	SDC and SITD

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure
		10.26.07 and 486 dated 06.01.05)			twenty (20) calendar days from termination of investigation	
B	Unnumbered (no prescribed form)	X143.4	Report on Disqualification of Directors/Officers	As disqualification occurs	Within 72 hours from receipt of report by the BOD	Original-Appropriate department of the SES
B	RB/COB Form 23	X306.5 (As amended by Cir. No. 463 dated 12.29.04 and 745 dated 01.10.12)	Notice/Application for Write-off Loans, Other Credit Accommodations, advances and Other Assets	As write-off occurs	Within 30 days after every write-off	Original and duplicate-Appropriate department of the SES
B	RB/COB Form 25	X144 (Circular no. 758 dated 05.11.12)	List of Members of the Board of Directors and Officers	Annually	10th banking day from the annual election of the board of directors	Hard copy to appropriate department of the SES
B	RB/COB Form 26	X334	Transmittal of Board Resolution/Written Approval on Credit Accommodation to DOSRI in compliance with Sec. 36, R.A. 8791, as amended	As transaction occurs	20th banking day from date of approval	-do-
B	Unnumbered	X328.5 (Cir. No. 560 dated 01.31.07)	Transmittal of Board Resolution/Written Approval On Credit Accommodations to Subsidiaries and/or Affiliates in Compliance with Sec. X328.5	As loan to subsidiaries and/or affiliates is approved	20 banking days after approval	Original and duplicate-Appropriate department of the SES

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
B		X190.6	Annual Report of Management to Stockholders Covering Results of Operation for the Previous Year	Annually	180 days after close of calendar or fiscal year	Original-Appropriate department of the SES
B	Unnumbered	X192.1	Report on the Designation of Authorized Signatories of Bank's Reports Classified as Category A1, A2, A3 and B	As designation by bank's board of directors occurs	Within 3 banking days from the date the designation/change occurs	Original-Appropriate department of the SES-
B	Unnumbered	X262.3	Certification of Compliance with Section 55.4 of R.A. No. 8791	Semestral	Within 7 banking days after end of June and December	-do-
	Unnumbered	X398 (Cir. No. 769 dated 04.26.12)	Post Borrowing Report	As transaction occurs	Within 30 calendar days from the date of the full release of loan proceeds	DER
		X409.16	Waiver of the Confidentiality of Information under Sections 2 and 3 of R.A. No. 1405, as amended	As transaction occurs		Appropriate department of the SES
B	Unnumbered	X141.3c(9) (Cir.Nos. 757 dated 05.08.12 and 749 dated 02.27.12)	Report on Intra-Group Transactions	Quarterly	20 calendar days after the reference quarter	-do-

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure</u>
B	Unnumbered	X235.12 (Cir. No. 467 dated 01.10.05)	Notarized certification that the bank did not enter into repurchase agreement covering government securities, commercial papers and other non-negotiable securities or instruments that are not documented	Semestral	Within 72 hours from knowledge of transaction	-do-
B	Unnumbered	X235.12 (Cir. No. 467 dated 01.10.05)	Report on Undocumented Repurchase Agreements	As transaction occurs	5th banking day after end of the reference semester	-do-
B	SEC Form	(MAB dated 09.02.05)	General Information Sheet	Annual	30 days from date of annual stockholders' meeting, and if there are changes, 7 days from date of change	Drop box-SEC Central Receiving Section
		(M-005 dated 02.04.08)	Disclosure Statement on SPV Transactions	Quarterly	15th banking day after end of reference quarter	SDC
DES/IOD Reports: Please refer to Chapter I, Part V, Manual of Regulations on Foreign Exchange Transactions Part V of this Manual						

CERTAIN INFORMATION REQUIRED FROM BANKS
[Appendix to Subsec. X192.3 (2008 - X162.3)]

1. Name of bank

2. Address

3. P. O. Box Number

4. Cable address or cable code

5. Board of Directors including Corporate Secretary:

a. Names of Chairman, Vice-Chairman and Directors;

b. Number of directors per by-laws;

c. Number of vacancies in the Board;

d. Names of corporations where they serve as Chairman of the Board or as President and names of other business enterprises of which they are proprietors or partners;

e. For the Corporate Secretary, indicate if he is also a Director; and

f. Date of annual election of directors per by-laws.

6. President to Department Heads, including Auditor:

a. Names and titles;

b. Telephone number of each officer (office);

c. For Executive Vice Presidents, state the names of corporations where they serve as Chairman of the Board and names of other business enterprises of which they are proprietors or partners; and

d. For Vice-Presidents and other officers with non-descriptive titles, indicate area of responsibility, e.g., Vice-President for Operations or Vice-President, International Department.

7. Branches, agencies and extension offices:

a. Name of branch, agency or extension office, e.g., Quiapo Branch or Makati Agency;

b. Address;

c. Names and telephone numbers of:

(1) Manager

(2) Cashier

(3) Accountant; and

d. For agencies and extension offices, indicate name of mother branch.
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**DOCUMENTS/INFORMATION ON ORGANIZATIONAL
STRUCTURE AND OPERATIONAL POLICIES**
[Appendix to Subsec. X192.3 (2008 - X162.3)]

- | | |
|---|--|
| 1. Chart of the firm's organizational structure or any substitute therefore; | b) Procedure/flow of paper work; and |
| 2. Name of departments/units/offices with their respective functions and responsibilities; | c) Other matters; |
| 3. Designations of positions in each department/unit/office with the respective duties and responsibilities; | 5. Memoranda-Circulars or the like issued covering organizational and operational policies; |
| 4. Manual of Instructions or the like embodying the operational policies/procedures of each department/unit/office, covering such areas as: | 6. Sample copies of each of the forms/reports used by each office/unit/department other than those submitted to the BSP; and |
| a) Signing/delegated authority; | 7. Such other documents/information that may be required from time to time by the supervisory/regulatory department concerned. |

**GUIDELINES FOR CONSOLIDATION OF FINANCIAL STATEMENTS OF BANKS
AND THEIR SUBSIDIARIES ENGAGED IN FINANCIAL ALLIED
UNDERTAKINGS**
[Appendix to Subsec. X192.10 (2008 - X162.10)]

(deleted by Cir. No. 494 dated 20 September 2005)

**FORMAT OF SELF-ASSESSMENT AND CERTIFICATION ON COMPLIANCE WITH
RULES AND REGULATIONS ON BANK PROTECTION**
[Appendix to Subsec. X181.5 (2008 - X171.5)]

(Name of Bank)

I hereby certify that the Bank has developed and adopted an updated security program which has been reduced in writing and approved by the Bank’s Board of Directors in its Resolution No. _____ dated _____ and retained by this Bank in such form as will readily permit determination of its adequacy and effectiveness. I also certify that I have evaluated/assessed said security program and its implementation and that to the best of my knowledge and belief said security program equals or exceeds the standards prescribed by the Bangko Sentral rules and regulations.

Attached are the results of the self-assessment prepared under my supervision regarding the Bank's security program.

President

Date

**ASSESSMENT OF COMPLIANCE WITH RULES AND
REGULATIONS ON BANK PROTECTION**

(Name of Bank)

I, _____, Security Officer of (Name of Bank), hereby certify that -

1. The Bank has a written security program approved by its board of directors and retained by this Bank in such form as will readily permit determination of its adequacy and effectiveness;
2. The security program is compliant with the standards set by BSP rules and regulations and commensurate to the Bank’s operations, taking into consideration its size, locations and the number of its offices. The security program of the Bank is deemed adequate to promote maximum protection of life and property against crimes and other destructive causes; prevent and discourage crimes against the Bank; and assist law enforcement agencies in the identification and prosecution of perpetrators of crimes committed against the Bank;
3. The assessment we conducted last _____ disclosed that said security program of the Bank has faithfully been implemented by the Bank and the

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implementation thereof is substantially compliant with the requirements on bank protection prescribed under Section X181 as follows:

- a. Guard system
Description of the system
- b. Security devices
Description of the security devices, such as:
 - Surveillance system;
 - Burglar alarm system; and
 - Robbery/hold-up alarm system.
- c. Vaults and safes
State physical description and minimum security measures designed for the vault
- d. Security of the premises
Description of the security measures/devices for banking premises
- e. Automated Teller Machines (ATM)
Description of security measures/devices for ATMs
- f. Armored car operation
Description of armored vehicles and security measures adopted for them
- g. Employees training
Describe training given

There are no noted adverse deviations of the program from the requirements under BSP rules and regulations. (If there are deviations, please state, “We noted the following deviations and the measures taken to address the deviations.”)

- 4. The Bank has written procedures on the following emergency programs:
 - a. Anti-robbery/hold-up plan;
 - b. Bomb threat plan;
 - c. Fire protection plan; and
 - d. Other disaster plan like earthquake and terrorist attack.

5. The Bank periodically inspects, tests and reviews its security program and records thereof are adequately maintained and will be made readily available to the BSP for the determination of the program’s adequacy and effectiveness.

Security Officer

Date

Noted by:

President

Date

(As amended by Circular No. 620 dated 03 September 2008)

PRO-FORMA ORDER OF WITHDRAWAL FOR "NOW" ACCOUNTS
(Appendix to Sec. X225)

The order of withdrawal form shall have a size of three (3) inches by seven (7) inches, and shall be on security/check paper. It shall contain as a minimum the features contained in the following pro-forma order of withdrawal:

FRONT

Acct. No. _____	No. _____
ORDER OF WITHDRAWAL "NOW" ACCOUNTS	
_____, 20 ____	
Pay to _____ the amount of PESOS _____ (P _____)	
NAME OF DRAWEE BANK Address	
_____ Drawer/Depositor	

BACK

Important
1. This order of withdrawal shall be payable only to a specific person, natural or juridical, and not to bearer nor to the order of a specific person.
2. Only the payee can encash this order of withdrawal with the drawee bank, or deposit it in his account with the drawee bank or with any other bank.

SAMPLES OF STANDARDIZED INSTRUMENTS EVIDENCING
DEPOSIT SUBSTITUTE LIABILITIES
(Appendix to Subsec. X235.3)

Serial No. _____

Original

(Name of Bank)

PROMISSORY NOTE

Issue Date : _____, 20 _____.
Maturity Date : _____, 20 _____.

FOR PESOS _____ (P _____), RECEIVED.
(Present Value/Principal)

_____ promises to pay _____
(Name of Issuer/Maker) (Name/Account Number of Payee)

or order, the sum of PESOS _____ (P _____),
(Maturity Value/Principal & Interest)

subject to the terms and conditions on the reverse side hereof.

Duly Authorized Officer

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS AND CONDITIONS OF A PROMISSORY NOTE

1. Computation of Yield

Interest is hereby stipulated/computed at _____ % per annum, compounded
() monthly () quarterly () semi-annually () Others.

2. No Pretermination

This promissory note shall not be honored or paid by the issuer/maker before the maturity date indicated on the face hereof.

3. Liquidated Damages

In case of default, issuer/maker shall pay, in addition to stipulated interest, liquidated damages of (amount or %), plus attorney’s fees of (amount or %) and costs of collection in case of suit.

4. Renewal

- () No automatic renewal.
- () Automatic renewal under the following terms:

5. Collateral/Delivery

- () No automatic renewal
- () Collateralized/secured by (describe collateral)
 - () Physically delivered to payee
 - () Evidenced by Custodian Receipt No. _____ dated _____ issued by _____.
 - () Collateralized/secured by (fraction or %) share of (describe collateral) as evidenced by Custodian Receipt No. _____ dated _____ issued by _____.

6. Substitution of Securities

- () Not acceptable to Payee
- () Acceptable to payee, however, actual substitution shall be with prior written consent of payee.

7. Separate Stipulations

- () This Agreement is subject to the terms and conditions of (describe document) dated _____, executed by (name of party/ies) and made an integral part hereof.

Serial No. _____

Original

(Name of Bank)

REPURCHASE AGREEMENT

Issue Date : _____, 20 _____.
Repurchase Date : _____, 20 _____.

FOR AND IN CONSIDERATION OF PESOS _____
(P _____) Vendor, _____, hereby sells,
(Name of Issuer/Vendor)
transfers and conveys in favor of Vendee, _____,
(Name of Vendee)
the security(ies) described below, it being mutually agreed upon that the same shall be
resold by Vendee and repurchased by Vendor on the repurchase date indicated above at the
price of PESOS _____ (P _____),
subject to the terms and conditions stated on the reverse side hereof.

(Description of Securities)

Principal Debtor/s	Serial Number/s	Maturity Date/s	Face Value	Interest/Yield
			P	P
TOTAL				

CONFORME:

(Signature of Vendee)

Duly Authorized Officer

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS AND CONDITIONS OF A REPURCHASE AGREEMENT

1. *Computation of Yield*
Yield is hereby stipulated/computed at_____ % per annum, compounded
() monthly () quarterly () semi-annually () others
2. *No Pretermination*
Vendor shall not repurchase subject security/ies before the repurchase date stipulated on the face of this document.
3. *Liquidated Damages*
In case of default, the Vendor shall be liable, in addition to stipulated yield, for liquidated damages of (amount or %), plus attorney’s fees of (amount or %) and costs of collection in case of suit.
4. *Renewal*
() No automatic renewal
() Automatic renewal under the following terms:

5. *Delivery/Custody of Securities*
() Physically delivered to payee
() Evidenced by Custodian Receipt No. _____, dated
_____, Issued by _____.
6. *Substitution of Securities*
() Not acceptable to Payee
() Acceptable to payee, however, actual substitution shall be with prior written consent of payee.
7. *Separate Stipulations*
() This Agreement is subject to the terms and conditions of (describe document) dated _____, executed by (name of party/ies) and made an integral part hereof.

Serial No. _____

Original

(Name of Bank)

CERTIFICATE OF ASSIGNMENT WITH RECOURSE

Issue Date: _____, 20 ____.

FOR AND IN CONSIDERATION OF PESOS _____

(P _____), _____ hereby assigns, conveys, and transfers
(Name of Assignor)

with recourse to _____ the debt of _____
(Name of Assignee) (Name of Principal Debtor)

to the Assignor, specifically described as follows:

(Description of Debt Securities)

Principal Debtor/s	Serial Number/s	Maturity Date/s	Face Value	Interest/Yield
			P	P
		TOTAL	P	P

and Assignor hereby undertakes to pay, jointly and severally with the Principal Debtor, the face value of, and the interest/yield on, said debt securites. This assignment shall be subject to the terms and conditions on the reverse side hereof.

C O N F O R M E :

(Signature of Assignee)

Duly Authorized Officer

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS & CONDITIONS OF CERTIFICATE OF ASSIGNMENT WITH RECOURSE

1. *No Pretermination*

Assignor shall not pay nor repurchase subject security/ies before the maturity date thereof.

2. *Liquidated Damages*

In case of default, Assignor shall be liable, in addition to interest, for liquidated damages of (amount or %) plus attorney’s fees of (amount or %) and costs of collection in case of suit.

3. *Delivery/Custody of Securities*

- () Physically delivered to Assignee
- () Evidenced by Custodian Receipt No. _____ dated _____, issued by _____,

4. *Separate Stipulations*

- () This Agreement is subject to the terms and conditions of _____, dated _____ executed by name of party/ies and made an integral part hereof.

Serial No. _____

Original

(Name of Bank)

CERTIFICATE OF ASSIGNMENT WITH RECOURSE

Issue Date: _____, 20 ____.

FOR AND IN CONSIDERATION OF PESOS _____

(P_____), _____ hereby assigns, conveys,
(Name of Assignor)
and transfers with recourse to _____ the debt of
(Name of Assignee)

_____ to the Assignor, specifically described as follows:
(Name of Principal Debtor)

(Description of Debt Securities)

Principal Debtor/s	Serial Number/s	Maturity Date/s	Face Value	Interest/Yield
			P	P
		T O T A L	P	P

and hereby undertakes that in case of default of the Principal Debtor, Assignor shall pay the face value of interest/yield on, said debt securities, subject to the terms and conditions on the reverse side hereof.

C O N F O R M E :

(Signature of Assignee)

Duly Authorized Officer

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS & CONDITIONS OF CERTIFICATE OF ASSIGNMENT WITH RECOURSE

1. *No Pretermination*

Assignor shall not pay nor repurchase subject security/ies before the maturity date thereof.

2. *Liquidated Damages*

In case of default, Assignor shall be liable, in addition to interest, for liquidated damages of (amount or %) plus attorney’s fees of (amount or %) and costs of collection in case of suit.

3. *Delivery/Custody of Securities*

- () Physically delivered to Assignee
- () Evidenced by Custodian Receipt No. _____ dated _____, issued by _____,

4. *Separate Stipulations*

- () This Agreement is subject to the terms and conditions of _____, dated _____ executed by (name of party/ies) and made an integral part hereof.

Serial No. _____

Original

(Name of Bank)

CERTIFICATE OF PARTICIPATION WITH RECOURSE

Issue Date: _____, 20 _____

FOR AND IN CONSIDERATION OF PESOS _____,
this certificate of participation is hereby issued to evidence the _____
(fraction or %)
share of _____ in the
(Name of Participant)
loan/s of _____ granted by/assigned to the herein issuer,
specifically described as follows:

(Description of Debt Securities)

Principal Debtor/s	Serial Number/s	Maturity Date/s	Face Value	Interest/Yield
			P	P
		TOTAL	P	P

The issuer shall pay, jointly and severally with the principal debtor, _____
(fraction or %)
share of the face value of, and the interest/yield on, said debt security(ies), subject to the terms
and conditions on the reverse side hereof.

C O N F O R M E :

(Signature of Participant)

(Duly Authorized Officer)

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS & CONDITIONS OF CERTIFICATE OF PARTICIPATION WITH RECOURSE

1. *No Pretermination*

 Issuer shall not pay nor repurchase the participation before the maturity date of subject security(ies).
2. *Liquidated Damages*

 In case of default, the issuer of this instrument shall be liable, in addition to interest, for liquidated damages of (amount or %), plus attorney’s fees of (amount or %) and costs of collection in case of suit.
3. *Delivery/Custody of Securities*

 () Physically delivered to Participant
 () Evidenced by Custodian Receipt No. _____ dated _____,
 issued by _____.
4. *Separate Stipulations*

 () This Agreement is subject to the terms and conditions of (describe document) _____ dated _____ executed by (name of party/ies) and made an integral part hereof.

Serial No. _____

Original

(Name of Bank)

CERTIFICATE OF PARTICIPATION WITH RECOURSE

Issue Date: _____, 20 _____

FOR AND IN CONSIDERATION OF PESOS _____,
this certificate of participation is hereby issued to evidence the _____
(fraction or %)
share of _____ in the loan/s
(Name of Participant)
of _____ granted by/assigned to the herein issuer, specifically
described as follows:

(Description of Debt Securities)

Principal Debtor/s	Serial Number/s	Maturity Date/s	Face Value	Interest/Yield
			P	P
		TOTAL	P	P

In case of default of the Principal Debtor, the issuer shall pay the _____
(fraction or %)
share of the face value of, and the interest/yield on, said debt security(ies), subject to the terms
and conditions on the reverse side hereof.

C O N F O R M E :

(Signature of Participant)

Duly Authorized Officer)

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

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TERMS & CONDITIONS OF CERTIFICATE OF PARTICIPATION WITH RECOURSE

1. *No Pretermination*

Issuer shall not pay nor repurchase the participation before the maturity date of subject security(ies).

2. Liquidated Damages

In case of default, the issuer of this instrument shall be liable, in addition to interest, for liquidated damages of (amount or %), plus attorney's fees of (amount or %) and costs of collection in case of suit.

3. *Delivery/Custody of Securities*

- () Physically delivered to Participant
() Evidenced by Custodian Receipt No. _____ dated
_____, issued by _____.

4. *Separate Stipulations*

- () This Agreement is subject to the terms and conditions of (describe document) _____ dated _____ executed by (name of party/ies) and made an integral part hereof.

**NEW RULES ON THE REGISTRATION
OF LONG-TERM COMMERCIAL PAPERS**
(Appendix to Subsecs. X239.2 and X239.5)

Pursuant to Section 4(b) of the Revised Securities Act and other existing applicable laws, the Securities and Exchange Commission (SEC) hereby promulgates the following New Rules and Regulations governing long-term commercial papers, in the interest of full disclosure and protection of investors and lenders, in accordance with the monetary and credit policies of the BSP:

Sect. 1. Scope. These Rules shall apply to long-term commercial papers issued by corporations.

Sect. 2. Definitions. For purposes of these Rules, the following definitions shall apply:

- a. *Long-term commercial papers* shall refer to evidence of indebtedness of any corporation to any person or entity with maturity period of more than 365 days.
- b. *Interbank loan transactions* shall refer to borrowings between and among banks and QBs.
- c. *Issue* shall refer to the creation of commercial paper and its actual or constructive delivery to the payee.
- d. *Appraised value* shall refer to the value of chattle and real property as established by a duly licensed and independent appraiser.
- e. *Current market value* shall refer to the value of the securities at current prices as quoted at the stock exchanges.
- f. *Recomputed debt-to-equity ratio* shall refer to the proportion of total outstanding liabilities, including the amount of long-term commercial papers applied for, and any unissued authorized commercial papers to net worth.
- g. *Specific person* shall refer to a duly named juridical or natural person as an investor for its or his own account, a trustee

for one or more trustors, an agent or fund manager for a principal under a fund management agreement, and does not include numbered accounts.

h. *Net worth* shall refer to the excess of total assets over total liabilities, net of appraisal surplus.

i. *Subsidiary* shall refer to a company more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled, or held with power to vote by another company.

j. *Affiliates* shall refer to a concern linked, directly or indirectly, to another by means of:

- 1) Ownership, control and power to vote of 10% but not more than 50% of the outstanding voting stock.
- 2) Common major stockholders; i.e., owning 10% but not more than 50% of the outstanding voting stock.
- 3) Management contract or any arrangement granting power to direct or cause the direction of management and policies.
- 4) Voting trustee holding 10% but not more than 50% of the outstanding voting stock.
- 5) Permanent proxy constituting 10% but not more than 50% of the outstanding voting stock.

k. *Underwriting* shall refer to the act or process of distributing and selling of any kind of original issues of long-term commercial papers of a corporation other than those of the underwriter itself, either on guaranteed or best-effort basis.

l. *Trust accounts* shall refer to those accounts with a financial institution authorized by the BSP to engage in trust functions, wherein there is a trustor-trustee relationship under a trust agreement.

Sec. 3. Conditions for Registration. Long-term commercial papers shall be registered under any of the following conditions:

a. Collateral

The amount of long-term commercial papers applied for is covered by the following collaterals which are not encumbered, restricted or earmarked for any other purpose and which shall be maintained at their respective values at all times, indicated in relation to the face value of the long-term commercial paper issue:

- | | |
|--|--------------------------------|
| 1) Securities listed in the stock exchanges | - Current market value of 200% |
| 2) Registered real estate mortgage | - Appraised value of 150% |
| 3) Registered chattel mortgage on heavy equipment, machinery, and similar assets acceptable to the Commission and registrable with the appropriate government agency | - Appraised value of 200% |

b. Financial Ratios

A registrant who meets such standard, as may be prescribed by the SEC, based on the following complementary financial ratios for each of the immediate past three (3) fiscal years:

- 1) Ratio of (a) the total cash, marketable securities, current receivables to (b) the total of current liabilities;
- 2) Debt-to-equity ratio, with debt referring to all kinds of indebtedness, including guarantees;
- 3) Ratio of (a) net income after taxes to (b) net worth.
- 4) Net profits to sales ratio; and
- 5) Such other financial indicators, as may be required by the SEC.

c. Debt-to-equity

The recomputed debt-to-equity ratio of the applicant based on the financial statements required under Sec. 4.c. hereof shall not exceed 4:1: *Provided*, that the authorized short-term commercial papers do not exceed 300% of net worth and upon

compliance with the registration requirements specified in Sec. 4 hereof.

The conditions under which the commercial papers of a registrant were registered shall be strictly maintained during the validity of the Certificate of Registration.

Sec. 4. Registration Requirements. Any corporation desiring to issue long-term commercial papers shall apply for registration with, and submit to, the SEC the following:

a. Sworn Registration Statement in the form prescribed by the SEC;

b. Board resolution signed by a majority of its members -

- 1) authorizing the issue of long-term commercial papers;
- 2) indicating the aggregate amount to be applied for;
- 3) stating purpose or usage of proceeds thereof;
- 4) providing that the registration statement shall be signed by any of the following: the principal executive officer, the principal operating officer, the principal financial officer, or persons performing similar functions; and
- 5) designating at least two (2) senior officers with a rank of vice-president, or higher of their equivalent, to sign the commercial paper instruments to be issued.

c. The latest audited financial statements and should the same be as of a date more than three (3) months prior to the filing of the registration statements, an unaudited financial statement as of the end of the immediately preceding month: *Provided, however*, That such unaudited financial statement shall be certified under oath by the accountant and the senior financial officer of the applicant duly authorized for the purpose and substituted with an audited financial statement within 105 days after the end of the applicant's fiscal year;

d. Schedules A to L based on Subsection c above, in the form attached as Annex "A";

e. Income statements for the immediate past three (3) fiscal years audited by an independent certified public accountant: *Provided*, That if the applicant has been in operation for less than three (3) years, it shall submit income statements for such number of years that it has been in operation;

f. An underwriting agreement for the long-term commercial paper issues with an expanded commercial bank or an investment house (IH), or any other financial institution which may be qualified subsequently by the BSP with minimum condition, among others, that the underwriter and the issuer shall be jointly responsible for complying with all reportorial requirements of the SEC and the BSP in connection with the long-term commercial paper issue, it being understood that the primary responsibility for the submission of the report of these regulatory agencies is upon the underwriter during the effectivity of the underwriting agreement and thereafter, the responsibility shall devolve upon the issuer: *Provided, however*, That if the issuer is unable to provide the information necessary to meet such reportorial requirements, the underwriter shall, not later than two (2) working days prior to the date when the report is due, notify the SEC of such inability on the part of the issuer: *Provided, further*, That if the underwriting agreement is with a group composed of UBs and/or IHs or any FIs which may be qualified subsequently by the BSP, there shall be a syndicate manager acting and responsible for the group: *Provided, finally*, That the underwriter may be changed subject to prior approval by the SEC;

g. A typewritten copy of a preliminary prospectus approved by the applicant's board of directors which, among others, shall contain the following:

1) A statement printed in red on the left-hand margin of the front page, to wit:

"A registration statement relating to these long-term commercial papers has been filed with, but has not yet been approved by, the SEC. Information contained herein is subject to completion or amendment. These long-term commercial papers may not be sold nor may offers to buy be accepted prior to the approval of the registration statement. This preliminary prospectus shall not constitute an offer to buy nor shall there be any sale of these long-term commercial papers in the Philippines as such offer, solicitation or sale is prohibited prior to registration under the Revised Securities Act".

2) Aggregate maximum amount applied for, stated on the front page of the prospectus;

3) Description and nature of the applicant's business;

4) Intended use of proceeds;

5) Provisions in the underwriting agreement, naming the underwriter and its responsibilities in connection with, among others, the reportorial requirements under these Rules;

6) Other obligations of the applicant classified by maturities - maturing within six (6) months; from six (6) months to be one (1) year; and one (1) year and past-due amounts;

7) List of assets which are encumbered, restricted or earmarked for any other purposes;

8) List of directors, officers and stockholders owning two percent (2%) or more of the total outstanding voting stock of the corporation, indicating any advance to said directors, officers and stockholders; and

9) List of entities where its owns more than 33- 1/3% of the total outstanding voting stock, as well as borrowings from, and advances to, said entities.

h. Projected annual cash flow statement presented on a quarterly basis

as of the approximate date of issuance for a period coterminus with the life time of the issue, indicating the basic assumptions hereto and supported by schedules on actual maturity patterns of outstanding receivables and liabilities (under six (6) months, six (6) months to one (1) year, over one (1) year, and past-due accounts) and inventory turnover; and

i. Data on financial indicators as may be prescribed by the SEC for each of the immediate past three (3) fiscal years, such as on solvency, liquidity and profitability.

The SEC may, whenever it deems necessary, impose other requirements in addition to those enumerated above.

Sec. 5. Action on Application for Registration

a. Within sixty (60) days after receipt of the complete application for registration, the SEC shall act upon the application and shall, in the appropriate case, grant the applicant a Certificate of Registration and Authority to Issue Long-Term Commercial Papers valid for one (1) year, which may be renewed annually with respect to the unissued balance of the authorized amount upon showing that the registrant has strictly complied with the provisions of these Rules and the terms and conditions of the Certificate of Registration.

b. The SEC shall return any application for registration, in cases where the requirements of applicable laws and regulations governing the issuance of long-term commercial papers have not been complied with, or for other reasons which shall be so stated.

Sec. 6. Close-end Registration. Registration of long-term commercial papers under these Rules shall be a close-end process whereby the portion of the authorized amount already issued shall be deducted from the authorized amount and may no longer be reissued even if reacquired in any manner, pursuant to the terms and conditions of issue.

Sec. 7. Long-Term Commercial Papers Exempt *Per Se*. The following specific long-term debt instruments are exempt *per se* from the provisions of these Rules:

a. Evidence of indebtedness arising from interbank loan transactions;

b. Evidence of indebtedness issued by the national and local governments;

c. Evidence of indebtedness issued by government instrumentalities, the repayment and servicing of which are fully guaranteed by the National Government;

d. Evidence of indebtedness issued to the BSP under its open market and/or rediscounting operations;

e. Evidence of indebtedness issued by the BSP, Philippine National Bank (PNB), Development Bank of the Philippines (DBP) and Land Bank of the Philippines (LBP);

f. Evidence of indebtedness issued to the following primary institutional lenders: banks including their trust accounts, trust companies, QBs, IHs including their trust accounts, financing companies, investment companies, NSLAs, venture capital corporations, special purpose corporations referred to in Central Bank Monetary Board Resolution No. 1051 dated 19 June 1981, insurance companies, government financial institutions, pawnshops, pension and retirement funds approved by the Bureau of Internal Revenue (BIR), educational assistance funds established by the national government and other entities that may be classified as primary institutional lenders by the BSP, in consultant with the SEC: *Provided*, That all such evidences of indebtedness shall be held on to maturity and shall neither be negotiated nor assigned to any one other than the BSP and the DBP, with respect to private development banks in connection with their rediscounting privileges;

g. Evidence of indebtedness, the total outstanding amount of which does not exceed P15.0 million and issued to not more than fifteen (15) primary lenders

other than those mentioned in subsection (f) above, which evidence of indebtedness shall be payable to specific persons, and not to bearers, and shall neither be negotiated nor assigned but held on to maturity: *Provided*, That the aggregate amount of ₱15.0 million shall include outstanding short-term commercial papers: *Provided, further*, That in reckoning compliance with the number of primary lenders under this section, holders of such papers exempt under Sec. 4(f) of the Rules on Registration of Short-Term Commercial Papers, as amended, shall be counted: *Provided, furthermore*, That such issuer shall:

1) File a disclosure statement prior to the issuance of any evidence of indebtedness; and a quarterly report on such borrowings in the forms prescribed by the SEC; and

2) Indicate in bold letters on the face of the instrument the words "NON-NEGOTIABLE, NON-ASSIGNABLE":

Provided, finally, That any issuer, in accordance with the Rules on Registration of Long-Term Commercial Papers and Bonds dated 15 October 1976 and withoutstanding long-term commercial papers falling under this subsection as of the effectivity date hereof, shall likewise file the prescribed disclosure statement and the quarterly report on such borrowings;

h. Evidence of indebtedness denominated in foreign currencies; and

i. Evidence of indebtedness arising from *bona fide* sale of goods or property.

Sec. 8. Other Long-Term Commercial Papers Exempt from Registration. The following long-term commercial papers shall be exempt from registration under Secs. 3 and 4 hereof, but shall be subject to the payment of the exemption fee, as prescribed under Sec. 14, and to the reportorial requirements under Sec. 15 of these Rules:

a. Long-term commercial papers issued by a financial intermediary authorized by the BSP to engage in quasi-banking functions; and

b. Long-term commercial papers fully secured by debt instruments of the National Government and the BSP and physically delivered to the trustee in the Trust Indenture.

Sec. 9. Prohibition

a. No long-term commercial papers shall be issued or negotiated or assigned unless the requirements of these Rules shall have been complied with: *Provided*, That no registered long-term commercial paper issuer may issue long-term commercial paper exempt *per se* under Sec. 7(g) hereof.

b. There shall be no pretermination of long-term commercial papers either by the issuer or the lender within 730 days from issue date. Pretermination shall include optional redemption, partial installments, and amortization payments; however, installment and amortization payments may be allowed, if so stipulated in the loan agreement.

Sec. 10. Compliance with Bangko Sentral Quasi-Banking Requirements. Nothing in these Rules shall be construed as an exemption from, or a waiver of, the applicable BSP rules and regulations governing the performance of quasi-banking functions. Any violation of said BSP rules and regulations shall be considered a violation of these Rules.

Sec. 11. Conditions of the Authority to Issue Long-Term Commercial Papers

a. During the effectivity of the underwriting agreement, should the issuer fail to pay in full any interest due on, or principal of long-term commercial paper upon demand at stated maturity date, the Authority to Issue Long-Term Commercial Papers shall be automatically suspended.

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The underwriter shall, within the next working day, notify the SEC thereof, and the SEC shall forthwith issue a formal Cease and Desist Order enjoining both the issuer and the underwriter from further issuing or underwriting long-term commercial papers.

b. Upon the expiration of the underwriting agreement, it shall be the responsibility of the issuer to notify the SEC that it failed to pay in full any interest due on, or principal of, long-term commercial paper upon demand at stated maturity date and has accordingly automatically suspended the issuance of its long-term commercial papers. Within the next working day, the SEC shall forthwith issue a formal Cease and Desist Order enjoining the issuer from further issuing long-term commercial papers.

c. Whenever necessary to implement the monetary and credit policies promulgated from time to time by the Monetary Board of the BSP, the SEC may suspend the Authority to Issue Long-Term Commercial Papers, or reduce the authorized amount thereunder, or schedule the maturities of the registered long-term commercial paper to be issued.

Sec. 12. Basic Features of Registered Commercial Papers

a. All registered commercial paper instruments shall have a standard format, serially pre-numbered, and denominated. The instrument shall state, among others, the debt ceiling of the registrant and a notice that information about the registrant submitted in connection with the registration and other reportorial requirements from the issuer is available at the SEC and open to public inspection and that the issuer is not authorized by the BSP to perform quasi-banking functions.

b. A specimen of the proposed commercial paper instrument shall be submitted to the SEC for approval of the text thereof.

c. The instrument approved by the SEC shall be printed by an entity authorized by the SEC and shall be released by the SEC to the issuer.

Sec. 13. Minimum Principal Amount.

The minimum principal amount of each registered long-term commercial paper instrument shall not be lower than the amounts indicated in the following schedule:

- a. Up to two years ₱100,000
- b. Over two years but less than four years 50,000
- c. Four years or more 20,000

Sec. 14. Fees. Every registrant shall pay the following fees.

a. Upon application for registration, a filing fee of 1/20 of 1% based on total commercial paper proposed to be issued, but not to exceed ₱75,000.

b. For issuers of commercial papers exempt under Section 8 hereof, an annual exemption fee of ₱10,000.

Sec. 15. Periodic Reports

a. Issuers of registered long-term commercial papers, through their underwriters and those exempt under Sec. 8 hereof, shall submit the following reports in the form prescribed by the SEC:

1) Monthly reports on long-term commercial papers outstanding as at the end of each month to be submitted within ten (10) working days following the end of the reference month;

2) Quarterly reports on long-term commercial paper transactions, accompanied by an interim quarterly financial statement to be submitted within thirty (30) calendar days following the end of the reference quarter; and

3) Actual quarterly cash flow statement to be submitted within ten (10) working days following the end of the reference quarter.

b. These periodic reports shall be signed under oath by the corporate officers

authorized, pursuant to a board resolution previously filed with the SEC.

c. Issuers whose offices are located in the provinces may, through their underwriters, submit their reports to the nearest extension office of the SEC.

Sec. 16. Administrative Sanctions. If the SEC finds that there is a violation of any of these Rules and Regulations and implementing circulars or that any issuer, in a registration statement and its supporting papers, as well as in the periodic reports required to be filed with the SEC and the BSP, has made any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or refuses to permit any lawful examination into its corporate affairs, the SEC shall, in its discretion, impose any or all of the following sanctions:

a. Suspension or revocation, after proper notice and hearing, of the certificate of Registration and Authority to Issue Commercial Papers;

b. A fine in accordance with the guidelines that the SEC shall issue from time to time: *Provided, however,* That such fine shall in no case be less than P200 nor more than P50,000 for each violation, plus not more than P500 for each day of continuing violation. Annex "B" hereof shall initially be the guidelines on the scale of fines;

c. Other penalties within the power of the SEC under existing laws; and

d. The filing of criminal charges against the individuals responsible for the violation.

Sec. 17. Cease and Desist Order

a. The SEC may, on its own motion or upon verified complaint by an aggrieved party, issue a Cease and Desist Order *ex parte*, if the violation(s) mentioned in Sec. 16 hereof may cause great or irreparable injury to the investing public or will amount to palpable fraud or

violation of the disclosure requirements of the Revised Securities Act and of these Rules and Regulations.

b. The issuance of such Cease and Desist Order automatically suspends the Authority to Issue Long-Term Commercial Papers.

c. Such Cease and Desist Order shall be confidential in nature until after the imposition of the sanctions mentioned in Sec. 16 hereof shall have become final and executory.

d. Immediately upon the issuance of an *ex parte* Cease and Desist Order, the SEC shall notify the parties involved, and schedule a hearing on whether to lift such order, or to impose the administrative sanctions provided for in Sec. 16 not later than fifteen (15) days after receipt of notice.

Sec. 18. Repealing Clause. The Rules and Regulations supersede the Rules on Registration of Long-Term Commercial Papers and Bonds dated 15 October 1976 and all the amendments to said Rules except as provided in Sec. 19 hereof. All other rules, regulations, orders, memoranda circular of the SEC, which are inconsistent herewith are likewise hereby repealed or modified accordingly.

Sec. 19. Transitory Provision

a. Any Authority to Issue or Certificate of Exemption to Register Long-term Commercial Papers, granted under the Rules on Registration of Long-Term Commercial Papers dated 15 October 1976, valid and subsisting as of the date of the effectivity of these Rules, shall remain valid with respect only to all outstanding issues until such issues are retired or redeemed.

b. The SEC may, at its discretion and subject to such conditions it may impose, authorize issuance of any unissued portion of the issuer's approved long-term debt ceiling solely for refinancing of maturing

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long-term commercial paper issue for a period not beyond fifteen (15) months from the effectivity date of these Rules.

Sec. 20. Effectivity. These Rules and Regulations shall take effect fifteen (15) days after publication in two newspapers of general circulation in the Philippines.

Mandaluyong, Metro-Manila,
Philippines, 17 May 1984.

(Sgd.) MANUEL G. ABELLO
Chairman
Securities and Exchange Commission

APPROVED:

(Sgd.) JOSE B. FERNANDEZ
Chairman
Monetary Board of the Central Bank
of the Philippines

(Sgd.) CESAR E. A. VIRATA
Minister
Ministry of Finance

(Ed. Note: Annexes "A" and "B" are not reproduced in this Appendix.)

**NEW RULES ON REGISTRATION OF
SHORT-TERM COMMERCIAL PAPERS**
(Appendix to Sec. X348)

Pursuant to Presidential Decree No. 678, as amended by Presidential Decree No. 1798, and other existing applicable laws, the SEC hereby promulgates the following new Rules and Regulations governing short-term commercial papers, in the interest of full disclosure and protection of investors and lenders, in accordance with the monetary and credit policies of the BSP.

Section 1. Scope. These Rules and Regulations shall apply to short-term commercial papers issued by corporations.

Sec. 2. Definition. For the purpose of these Rules, the following definitions shall apply:

(a) *Commercial paper* is an evidence of indebtedness of any corporation to any person or entity with a maturity of three hundred sixty-five (365) days or less.

(b) *Interbank loan transactions* shall refer to borrowings between and among banks and non-bank financial intermediaries duly authorized to perform quasi-banking functions.

(c) *Issue* means creation of a commercial paper and its actual or constructive delivery to the payee.

Sec. 3. Registration of Commercial Papers
Any corporation desiring to issue commercial papers shall apply for registration with, and submit to, the SEC the following:

(a) Ordinary Registration;

(1) Sworn Registration Statement in the prescribed form;

(2) Board resolution signed by majority of its members (a) authorizing the issue of commercial paper, (b) indicating the aggregate amount to be applied for,

(c) providing that the registration statement shall be signed by the principal executive officer, the principal operating officer, the principal financial officer, the comptroller, or principal accounting officer, or persons performing similar functions, and (d) designating at least two senior officers with a rank of vice-president or higher, or their equivalent, to sign the commercial paper instrument to be issued;

(3) The latest audited financial statements; and should the same be as of a date more than three (3) months prior to the filing of the registration statement, an audited financial statement as of the end of the immediately preceding month: *Provided, however,* That such unaudited financial statements shall be certified under oath by the accountant and the senior financial officer of the applicant, duly authorized for the purpose, and substituted with an audited financial statement within 120 days after the end of the applicant's fiscal year.

(4) Schedules, based on sub-section (3) above, in the form attached as Annex "A";

(5) A committed credit line agreement with a bank, or any FI which may be qualified subsequently by the BSP, earmarked specifically for repayment of aggregate outstanding commercial paper issues on a pro-rata basis, with the following features:

(i) A firm, irrevocable commitment to make available funds to cover at least 20% of the aggregate commercial papers outstanding at any time: *Provided,* That if the commitment is extended by a group, there shall be a lead bank or any FI which may be qualified subsequently by the BSP acting for the group;

(ii) The commitment shall be effective for as long as the issues are outstanding

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and may be renewed by the bank or any FI which may be qualified subsequently by the BSP;

(iii) The request for drawdown shall be addressed to the bank or any FI which may be qualified subsequently by the BSP, which request shall be duly signed by a member of the board of directors and a senior financial officer of the commercial paper issuer, duly authorized for the purpose by an appropriate board resolution, which shall also provide for the designation of the alternate signatories (likewise a member of the board of directors and a senior financial officer);

(iv) A provision that availments shall be allowed only for repayment of commercial papers which are due and payable in accordance with the terms of the commercial paper;

(v) Notwithstanding the foregoing requirements for a committed credit line with a bank, or any FI which may be qualified subsequently by the BSP, any corporation desiring to issue commercial papers may be exempted from compliance therewith by the SEC, should it meet all of the following financial ratios based on consolidated AFs for the immediate past three (3) years:

1) Average current ratio shall be at least 1.2:1 computed as follows:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Average acid-test ratios shall be at least 0.5:1 computed as follows:

$$\text{Acid-test ratio} = \frac{\text{Cash, receivables, and marketable securities}}{\text{Current Liabilities}}$$

2) Average solvency position shall be one whereby total assets must not be less than total liabilities;

3) Average net profit margin shall be at least 3% computed as follows:

$$\text{Acid-test ratio} = \frac{\text{Net income after income tax, corporate development taxes, and other non-cash charges}}{\text{Net sales or revenues}}$$

OR

Average annual return on equity shall be at least 8% computed as follows:

$$\text{Return on equity} = \frac{\text{Net income after income tax, corporate development taxes, and other non-cash charges}}{\text{Total stockholder's equity}}$$

4) Average interest service coverage ratio shall be at least 1.2:1 computed as follows:

$$\text{Interest service coverage ratio} = \frac{\text{Net income-before-interest expense, income tax, corporate development taxes, and other non-cash charges}}{\text{Interest expense}}$$

5) Debt-to-equity ratio shall not exceed 2.5:1.

The SEC may, in its discretion, consult with industry organization(s) such as Investment Houses Association of the Philippines (IHAP) and Bankers Association of the Philippines (BAP) and/or the Credit Information Bureau, Inc.

(6) A selling agreement for the commercial paper issues with a universal bank or an investment house, or any FI which may be qualified subsequently by the BSP, with minimum conditions that the selling agent, among others, shall be responsible for ensuring that the issuer observes the provisions of these rules pertaining to the use of proceeds of the

committed credit line and, with the issuer, shall be jointly responsible for complying with all reportorial requirements of the SEC and the BSP in connection with the commercial paper issue, it being understood that the primary responsibility for the submission of the report to said regulatory agencies is upon the selling agent: *Provided, however,* That if the commercial paper issuer is unable to provide the information necessary to meet such reportorial requirements, the selling agent shall, not later than two (2) working days prior to the date when the report is due, notify the SEC of such inability on the part of the issuer: *Provided, finally,* That if the selling agreement is with a group, composed of universal banks and/or investment houses or any FIs which may be qualified subsequently by the BSP, there shall be a syndicate manager acting and responsible for the group.

(7) Income statements for the immediate past three (3) fiscal years audited by an independent certified public accountant: *Provided,* That if the applicant has been in operation for less than three years, it shall submit income statements for such number of years that it has been in operation.

(8) A printed copy of a preliminary prospectus approved by the applicant's Board of Directors which, among others, shall contain the following:

(i) A statement printed in red on the left-hand margin of the front page of the following tenor:

"A registration statement relating to these short-term commercial papers has been filed with, but has not yet been approved by, the SEC. Information contained herein is subject to completion or amendment. These short-term commercial papers may not be sold nor may offer to buy be accepted prior to the time the registration statement is approved. This preliminary prospectus shall not constitute an offer to buy nor shall there be any sale of

these commercial papers in the Philippines as such offer, solicitation, or sale is prohibited prior to registration under the Securities Act, as amended by P.D. No. 678 and P.D. No. 1798."

(ii) Aggregate maximum amount applied for, stated on the front page of the prospectus;

(iii) Description and nature of the applicant's business;

(iv) Intended use of proceeds;

(v) The nature of the firm, irrevocable, and committed credit line, the amount of the line which shall be at least 20% of the aggregate outstanding commercial paper issues, proceeds of which shall be allocated on a *pro-rata* basis to the aggregate outstanding commercial paper issue (regardless of the order of their maturities), and the manner of availments, as stipulated in the credit line agreement between the bank and the issuer;

(vi) The provision in the selling agreement naming the selling agent and the responsibilities of the selling agent in, the issuer of the proceeds of the bank committed credit line and the reportorial requirements under these rules;

(vii) Other obligations of the commercial paper issuer classified by maturities (maturing within six (6) months; from six (6) months to one (1) year; over one (1) year; and past-due amounts);

(viii) Encumbered assets;

(ix) Directors, officers, and stockholders owning 2% or more of the total subscribed stock of the corporation, indicating any advance to said directors, officers and stockholders;

(x) List of entities where it owns more than 33-1/3% of the total equity, as well as borrowings and advances to said entities;

(xi) Financial statements for the immediate past three (3) fiscal years audited by an independent certified public accountant: *Provided,* That if the applicant has been in operation for less than three (3)

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years, it shall submit financial statements for such number of years that it has been in operation.

(b) *Special Registration*

In the case of special registration provided for under Section 10 hereof, the following shall, in addition to the immediately preceding requirements, be prepared and submitted by the selling agent on behalf of the applicant:

(1) Projected annual cash flow statement as of the date of filing, presented on a quarterly basis, supported by schedules on actual maturity patterns of existing receivables and liabilities (under six (6) months, six (6) months to one (1) year, over one (1) year, and past-due amounts) and inventory turnover as of the end of the month prior to the filing of the registration statement; and

(2) Complemetary financial ratios for each of the immediate past three (3) fiscal years:

(i) Ratio of (a) the total of cash on hand, marketable securities, current receivables to (b) the total of current liabilities;

(ii) Debt-to-equity ratio, with debt referring to all kinds of indebtedness, including guarantees;

(iii) Ratio of (a) net income after taxes to (b) net worth;

(iv) Net profits-to-sales ratio; and

(v) Such other financial indicators as may be prescribed by the SEC. These additional data shall likewise be incorporated in the prospectus.

(c) The SEC may, whenever it deems necessary, impose other requirements in addition to those enumerated in subsections (a) and/or (b) above.

Sec. 4. Commercial Papers Exempt *Per Se*

The following specific debt instruments are exempt *per se* from the provisions of these Rules:

(a) Evidence of indebtedness arising from interbank loan transactions;

(b) Evidence of indebtedness issued by the national and local governments;

(c) Evidence of indebtedness issued to the BSP under its open market and/or rediscounting operations;

(d) Evidence of indebtedness issued by the BSP, PNB, DBP, LBP, GSIS, and the Social Security System (SSS);

(e) Evidence of indebtedness issued to the following primary institutional lenders: banks, non-bank financial intermediaries authorized to engaged in quasi-banking functions, IHs, financing companies, investment companies, NSLAs, building and loan associations, venture capital corporations, special purpose corporations referred to in Central Bank Monetary Board Res. No. 1051 dated 19 June 1981, insurance companies, government financial institutions, and pawnshops; and other entities that may be classified as primary institutional lenders by the BSP, in consultation with the SEC: *Provided*, That all such evidences of indebtedness shall be held on to maturity and shall neither be negotiated nor assigned to any one other than the BSP and the DBP with respect to private development banks in connection with their rediscounting privilege;

(f) Evidence of indebtedness the total outstanding amount of which does not exceed P5.0 million and issued to not more than ten (10) primary lenders other than those mentioned in subsection (e) above, which evidence of indebtedness shall be payable to a specific person and not to bearer and shall neither be negotiated nor assigned but held on to maturity;

(g) Evidence of indebtedness denominated in foreign currencies; and

(h) Evidence of indebtedness arising from *bona fide* sale of goods or property.

Sec. 5. Other Commercial Papers Exempt from Registration. Commercial papers issued by any financial intermediary authorized by the BSP to engage in quasi-

banking functions shall be exempt from registration under Sec. 3, but shall be subject to payment of the exemption fee, as provided under Sec. 15, and to the reportorial requirements under Sec. 17, all under these Rules.

Sec. 6. Prohibition. No commercial paper, except of a class exempt under Secs. 4 and 5 hereof, shall be issued unless such commercial paper shall have been registered under these Rules: *Provided*, That no registered commercial paper issuer may issue commercial paper exempt *per se* under Section 4 (f) hereof.

Sec. 7. Compliance with Bangko Sentral Quasi-Banking Requirements. Nothing in these Rules shall be construed as an exemption from or a waiver of the applicable BSP rules/regulations or circulars governing the performance of quasi-banking functions or financial intermediaries duly authorized to engage in quasi-banking activities. Any violation of said BSP rules/regulations or circulars shall be considered a violation of these rules and regulations.

Sec. 8. Action on Application for Registration

(a) Within sixty (60) days after receipt of the complete application for registration, the SEC shall act upon the application and shall, in the appropriate case, grant the applicant a Certificate of Registration and Authority to Issue Commercial Papers.

(b) The SEC shall return any application for registration, in cases where the requirement of applicable laws and regulations governing the issuance of commercial papers have not been complied with, or for reasons which shall be so stated.

Sec. 9. Ordinary Registration

If the value of commercial papers applied for, when added to the total outstanding liabilities of the applicant, does not exceed three hundred percent (300%) of networth based on the financial statements referred to under Section 3(a) (3), the

commercial papers shall be registered upon compliance with the requirements specified in Section 3(a) hereof. The same principle shall apply in the case of renewal of the Authority to Issue Commercial Paper.

Sec. 10. Special Registration

If the value of commercial paper applied for exceeds 300% of networth, as contemplated in the preceding section, it shall be subject to compliance with the requirement under Sec. 3(b) hereof.

Sec. 11. Validity Period of the Authority to Issue Commercial Paper.

The authority to issue commercial papers shall be valid for a period of 365 days which shall be indicated in the Authority to Issue Commercial Paper, provided that renewal thereof, upon application filed at least forty five (45) days prior to its expiry date, may be for a period shorter than 365 days.

Sec. 12. Conditions of the Authority to Issue Commercial Paper

(a) In the event that the commercial paper issuer fails to pay in full any commercial paper upon demand at stated maturity date, the Authority to Issue Commercial Paper is automatically suspended. The selling agent shall, within the next working day, notify the SEC thereof, and the SEC shall forthwith issue a formal Cease and Desist Order, enjoining both the issuer and the selling agent from further issuing or selling Commercial papers.

(b) Whenever necessary to implement the monetary and credit policies promulgated from time to time by the Monetary Board of the BSP, the SEC may suspend the Authority to Issue Commercial Paper, or reduce the authorized amount thereunder, or schedule the maturities of the registered commercial paper to be issued.

Sec. 13. Basic Features of Registered Commercial Papers

(a) All registered commercial paper instruments shall have a standard format,

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serially pre-numbered, and denominated. The instrument shall state, among others, the debt ceiling of the registrant and a notice that information about the registrant submitted in connection with the registration and other reportorial requirements from the issuer is available at the SEC and open to public inspection and that the issuer is not authorized by the BSP to perform quasi-banking functions.

(b) A specimen of the proposed commercial paper instrument shall be submitted to the SEC for approval of the text thereof.

(c) The approved instrument shall be printed by the Bangko Sentral Security Printing Plant pursuant to a prior authorization from the SEC, and shall be released by the SEC to the issuer.

Sec. 14. Minimum Maturity Value. The maturity value of each registered commercial paper instrument shall not be lower than P300,000.

Sec. 15. Fees. Every registrant shall pay the following fees:

(a) Upon application for registration, and for renewals thereof, a filing fee of not more than 1/50th of 1% based on the total commercial paper proposed to be issued.

(b) For issuers of commercial paper exempt under Sec. 5 hereof, an annual exemption fee of P10,000.

Sec. 16. Notice of availment. Whenever the credit line is drawn upon, the selling agent and/or issuer shall, within two (2) working days immediately following the date of drawdown, notify the SEC of such event, indicating the amount availed of and the total availment as of that given time.

Sec. 17. Periodic Reports

(a) Issuers of registered commercial papers and those exempt under Sec. 5 hereof

shall submit to the SEC and the BSP the following reports in the prescribed form:

(1) Monthly reports on commercial papers outstanding as at the end of each month, to be submitted within ten (10) working days following the end of the reference month;

(2) Quarterly reports on commercial paper transactions accompanied by an interim quarterly financial statement to be submitted within thirty (30) calendar days following the end of the reference quarter; and

(3) For issuers whose application for registration was under Sec. 10 hereof, the projected quarterly cash flow statements with the corresponding quarter's actual figure to be submitted within ten (10) working days following the end of the reference quarter;

(b) These periodic reports shall be signed under oath by the corporate officers authorized pursuant to a board resolution previously filed with the SEC;

(c) Issuers whose offices are located in the provinces may submit their reports to the nearest extension offices of the SEC.

Sec. 18. Administrative Sanctions. If the SEC finds that there is a violation of any of these Rules and Regulations and implementing circulars or that any issuer, in a registration statement and its supporting papers, as well as in the periodic reports required to be filed with the SEC and the BSP, has made any untrue statement of a material fact, or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or refuses to permit any lawful examination into its corporate affairs, the SEC shall, in its discretion, impose any or all of the following sanctions:

(a) Suspension or revocation, after proper notice and hearing, of the Certificate of Registration and Authority to Issue Commercial Paper;

(b) A fine in accordance with the guidelines that the Commission shall issue from time to time: *Provided, however, That*

such fine shall in no case be less than P200 or more than P50,000 for each violation, plus not more than P500 for each day of continuing violation. Annex "B" hereof shall initially be the guideline on the scale of fines;

- (c) Other penalties within the power of the Commission under existing laws; and
- (d) The filing of criminal charges against the individuals responsible for the violation.

Sec. 19. Cease and Desist Order. The Commission may, on its own motion or upon verified complaint by an aggrieved party, issue a Cease and Desist Order *ex parte* if the violation(s) mentioned in Sec. 18 may cause great or irreparable injury to the investing public or may amount to palpable fraud, or violation of the disclosure requirements of the Securities Act and of these Rules and Regulations.

The issuance of such Cease and Desist Order automatically suspends the Authority to Issue Commercial Papers.

Such Cease and Desist Order shall be confidential in nature until after the imposition of the sanctions mentioned in Sec. 18 shall have become final and executory.

Immediately upon the issuance of an *ex parte* Cease and Desist Order, the Commission shall notify the parties involved, and schedule a hearing on whether to lift such order, or to impose the administrative sanctions provided for in Sec. 18 not later than fifteen (15) days after receipt of notice.

Sec. 20. Repealing Clause. These Rules and Regulations supersede the Rules on Registration of Commercial Papers dated 10 December 1975, and all the amendments to said Rules. All other rules, regulations, orders, and memoranda circular of the Commission which are inconsistent herewith are likewise hereby repealed or modified accordingly.

Sec. 21. Transitory Provision. Any Authority to Issue Commercial Papers, valid and subsisting as of the date of the effectivity of these Rules and Regulations, shall remain valid and upon its expiration may, at the discretion of the Commission and subject to such conditions as it may impose, be renewed on the basis of the Rules of Registration of Commercial Papers dated 10 December 1975 for an aggregate period not exceeding fifteen (15) months from its expiry date.

Sec. 22. Effectivity. These Rules and Regulations shall take effect on 11 December 1981.

Mandaluyong, Metro Manila, Philippines, 8 December 1981

(Sgd.) MANUEL G. ABELLO
Chairman
Securities and Exchange Commission

APPROVED:

(Sgd.) JAIME C. LAYA
Chairman
Monetary Board of the Central Bank
of the Philippines

(Sgd.) ALFREDO PIO de RODA, JR.
Acting Minister
Minister of Finance

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LIST OF RESERVE - ELIGIBLE AND NON-ELIGIBLE SECURITIES
(Appendix to Sec. X254)

(Deleted by Circular No. 753 dated 29 March 2012)

**IMPLEMENTING GUIDELINES OF THE COUNTRYSIDE
FINANCIAL INSTITUTIONS ENHANCEMENT PROGRAM**
(Appendix to Sections 2274 and 3274)

Sec. 1. Statement of Policy Objectives

The CFIEP aims to:

- a. raise the capital base of the countryside FIs by encouraging existing and new investors to infuse fresh equity into said institutions and thereby accelerate the government's economic development efforts;
- b. reduce the debt burden of eligible countryside FIs and the corresponding financial strain on the government in continually assisting them; and
- c. improve the long-term viability of the countryside FIs and establish such institutions as an effective means to mobilize savings and credit.

Sec. 2. Qualified Participants

The Program shall be open to the following:

- a. All Countryside Financial Institutions (CFIs) that meet the eligibility requirement set by the BSP except those with unrectified/unaddressed serious irregularities based on the examination findings of the BSP.

The term CFIs shall refer to all RBs, Coop banks and TBs, which have their main operations in the countryside.

- b. TBs as may be determined by the Task Force which have their main operations in the countryside.
- c. Individuals, cooperatives and/or corporations as may be qualified to make an investment in the RB or qualified TB.

Sec. 3. Coverage of the Program

All past due borrowings (principal and interests) with the BSP of the countryside FIs as of 31 December 2001 in the form of rediscounted loans, CB:IBRD loans other supervised credit program and special liquidity loans.

Sec. 4. CFIEP Task Force

To effectively attain the objectives hereinabove cited, the Task Force constituted under CBP Circular 1315 composed of the Governor of the BSP, the President of the LBP, the President of the PDIC, shall continue coordinating all activities relating to, and oversee the implementation of the CFIEP.

Sec. 5. Incentives under the Program

As the Task Force may allow, participants to the Program are entitled to the following incentives:

- a. Exemption from the forty percent (40%) limitation on voting stockholdings of any person or persons related to each other within the third degree of consanguinity or affinity, cooperatives, or corporations participating in the program, from the application of prescribed equity ceiling, as may be warranted, and for a period not to exceed twenty (20) years; and
- b. Waiver of penalties and other charges due on arrearages that may be redeemed under the Program.

Sec. 6. Definition of Terms

As used in these Guidelines:

- a. *Investor* – shall refer to individuals, group of individuals, cooperative and all CFIs that meet the eligibility requirements set by the BSP except those CFIs with unrectified/uncorrected serious irregularities based on the examination findings of the BSP.
- b. *Arrearages* – shall refer to the CFI's arrearages with BSP as of 31 December 2001 which are eligible for buy-back such as past due rediscounted loans, special liquidity loans, CBP-IBRD loans and other supervised credit programs, including those other arrearages as the Task Force may determine.

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c. *Converted Shares* - shall refer to the arrearages converted into LBP equity in the form of common and preferred shares pursuant to BSP Circular Nos. 1143 and 1172.

Sec. 7. Components of the Program

The components of the Program are as follows:

a. *Purchase of CFI Arrearages* (Module I)

The investor/CFI stockholders' equity infusion with the CFI shall be used to purchase negotiable promissory notes (NPNs) with the LBP valued at twice the amount actually infused by the investor. The NPNs, in turn, will be used to redeem arrearages with the BSP through the PDIC. The investor/CFI stockholders will then be issued shares of stock in the CFI equivalent to the actual amount invested and the difference between the amount actually infused and the value of the NPN issued by the LBP shall be credited to the investors which actually infused the capital.

b. *Land Bank Counterpart Capital* (Module II)

An eligible CFI is provided access to LBP's capital infusion program which essentially involves the matching on a one-to-one basis of CFI's fresh capital infusion. The LBP's matching equity shall be in preferred shares redeemable within a period of five (5) years for Business and Risk Recovery Modules, and ten (10) years for the Developmental Module. The cumulative dividend shall be equal to the average 364-day T-Bill rate for the Developmental and Risk Recovery Modules, and 364-day T-bill plus three percent (3%) for the Business Module. Other terms of LBP's investment will be determined by its board and operational details will be announced to the CFIs accordingly.

c. *Merger, Consolidation or Acquisition Incentives* (Module III)

Eligible CFIs can avail of incentives aimed at promoting mergers, consolidations or acquisitions among CFIs as a means to develop larger and stronger CFIs which may include the following:

(1) Counterpart capital infusion by the LBP by a ratio of more than one-to-one of the merged, consolidated or acquired CFI's total fresh equity;

(2) PDIC financial assistance to qualified merger, consolidation or acquisition applicants to augment the capital infusion required in absorbing the adverse impact of asset write-downs and other costs as part of restructuring. The merger, consolidation or acquisition must involve a lead bank (with strong capital position and good track record) acquiring a majority stock of one (1) or more undercapitalized CFI. The amount of financial assistance shall be an amount that would generate income spread to the surviving or consolidated CFI equivalent to fifty percent (50%) of the undercapitalized CFI's eligible non-performing loans and ROPA or unbooked valuation reserves as of 31 December 2001, whichever is higher, over a period of six (6) years as determined by the BSP;

(3) CFIs availing of the financial assistance shall submit, among others, a business plan supported by a six (6) -year financial projections; and

(4) The term of the loan shall be for a period of at least six (6) years.

Sec. 8. Qualification to the Program

CFIs, except those with unrectified/uncorrected serious irregularities based on the examination findings of the BSP, may participate in the Program.

a. Under Module I, CFIs with arrearages as defined in Sec. 6(b) hereof may qualify.

b. To avail of equity matching program of the LBP under Module II, the CFI must meet the following minimum requirements:

(1) A past due loans ratio of not more than twenty-five percent (25%); and

(2) A loan portfolio at least sixty percent (60%) of which is in agriculture or rural-based production activities.

c. Under Module III, PDIC financial assistance shall be available to merging, consolidating or acquiring CFIs involving at least one (1) or more undercapitalized banks.

A separate memorandum shall be issued on the guidelines for the LBP equity matching program and PDIC financial assistance.

d. Investors/CFI stockholders will be evaluated based on the “fit and proper” rule under Sec. X143 and other criteria that the Task Force may set.

CFIs investing in undercapitalized CFIs should have a minimum unimpaired capital as defined under Secs. X111 and X116 and a history of sustained profitability for a period of at least five (5) years.

e. Fresh investments should at least cover the additional capital to achieve the required minimum risk-based capital adequacy ratio of ten percent (10%) after adequate provision for losses based on the latest examination findings of the appropriate department of the SES.

Sec. 9. Application Procedures*

a. *Purchase of Arrearages under Module I*

(1) Investor/CFI stockholder files application (CFIEP Form No. 1-A) with the LBP together with the following requirements:

(a) a proposal for financial strengthening accompanied by a three (3)-year financial projection and a subsequent two (2)-year business plan;

(b) the designation of PDIC by the CFI as the attorney-in-fact to receive the NPN from LBP and to exchange the NPN for arrearages of the CFI;

(c) other requirements as the Task Force may deem necessary.

(2) Simultaneously, the investor/CFI stockholder deposits cash with the LBP in an amount equivalent to fifty percent (50%) of the arrearages to be redeemed, which shall be placed in a special account pending approval of application by the Task Force.

(3) Upon approval of the application, the CFI shall be duly notified by the Task Force directly or through the LBP Regional Office.

(4) The LBP shall issue a Negotiable Promissory Note in favor of the CFI, with a ten (10)-year term or such period where a maturity value will be equivalent to twice the amount invested.

(5) The CFI, through the PDIC as attorney-in-fact, shall exchange the NPN for the CFI arrearages equivalent to the amount of the NPN.

(6) The CFI shall issue stock certificates in favor of the investor/s equivalent to the total fresh capital infusion. The difference between the amount actually infused and the value of the NPN issued by the LBP shall be credited as equity of the investor who actually infused the capital.

(7) Applicants who do not qualify shall be reimbursed for their deposits including accrued interest earned.

b. *LBP Counterpart Capital under Module II*

Interested CFIs shall submit the requirements listed in CFIEP Form No. 2-B to the LBP.

c. *Merger and Consolidation under Module III*

The merging/consolidating/acquiring CFIs shall formulate a merger/consolidation/acquisition plan which shall be an integral component of the CFIEP application documents to be submitted to the LBP Regional Office.

Sec. 10. Applicability of Relevant Laws

Nothing herein shall be construed as a waiver by the BSP from proceeding under Section 30 of R.A. No. 7653 or other pertinent provisions in said Act, R.A. No. 7353 (Rural Banks Act of 2000), and R.A. No. 7906 (Thrift Banks Act) in the event that circumstance shall exist as would warrant action under such provisions of law.

* Application deadline 31 March 1992

**RULES GOVERNING ISSUANCE OF MORTGAGE/
CHATTEL MORTGAGE CERTIFICATE BY THRIFT BANKS**
(Appendix to Subsec. 2283)

A. With prior approval of the Monetary Board, TBs, whether or not authorized to engage in quasi-banking functions, may issue and deal in mortgage and chattel mortgage certificates exclusively for the purpose of financing the following loans:

1. Equipment loans;
2. Mortgage loans for acquisition of machinery and other fixed installations;
3. Loans for the conservation, enlargement or improvement of productive properties; and
4. Real estate mortgage loans (a) for the construction, aquisition, expansion or improvement of rural and urban properties; (b) for the refinancing of similar loans and mortgages; and (c) for such other purposes as may be authorized by the Monetary Board.

B. The certificates shall be issued at a minimum denomination of P20,000 for a term of at least four (4) years.

C. The amount of certificates which a TB may issue shall not exceed an amount equivalent to fifty percent (50%) of the total amortizations falling due during the projected term of the certificates on the mortgages/chattel mortgages pooled for the purpose of the issue.

D. The maturity of the certificates shall in no case be later than any of the maturities of the mortgages/chattel mortgages constituting the pool. Mortgages and chattel mortgages on "past due loans" as defined under existing regulations shall not be eligible for the pool.

E. All outstanding certificates shall constitute a prior preferred lien on payments or

amortizations on the mortgages and chattel mortgages constituting the pool.

F. If at any time, during the term of the certificates, the aggregate outstanding amount thereof should exceed the ceiling as provided in Item C above on account of any deficiency or inadequacy of the mortgages or chattel mortgages resulting from prepayments by the mortgage or chattel mortgages becoming past due as determined by existing regulations, the issuing bank shall provide additional mortgages or chattel mortgages as are current necessary to cover the deficiency.

G. The issuing TB shall enter into an agreement with another bank which shall constitute the latter as custodian of the mortgages/chattel mortgages pooled for the purpose of the issue, as transfer agent of the certificates, and as its paying and securing agent, and in general shall specifically state (a) the rights, obligations and liabilities of the issuing bank and custodian banks; and (b) the rights of the holders of the certificates; (c) the mortgages making up the pool; and (d) the aggregate value of the certificates that may be issued.

H. The agreement shall be available for inspection at reasonable hours during business days to the holders of the certificates, or their duly authorized representatives.

I. The certificates shall have the following minimum features:

1. The certificate shall be 13 inches in length and 8.5 inches in width, and shall be serially pre-numbered and printed on security paper with safeguards against alterations and/or falsifications;

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2. The description of the certificate, i.e., “Mortgage Certificate” or “Chattel Mortgage Certificate”, shall be printed on the upper center margin of the certificate;

3. The certificate shall indicate its date of issuance, the amount or denomination thereof, the rate of interest expressed as a percentage on an annual basis, and the term or maturity thereof;

4. The certificate shall contain a conspicuous notice at the lower margin thereof that the same is not insured by the Philippine Deposit Insurance Corporation (PDIC); and

5. The copy of the certificate to be issued to the investor shall be stamped or printed with the word “Original” and the copies retained by the issuer as “Duplicate copy”, “File copy”, or words of similar import.

J. A five percent (5%) reserve shall be maintained against all issues of mortgage/

chattel mortgage certificates. The Monetary Board may change the required reserves as may be necessary.

K. Any thrift bank desiring to apply for authority to issue mortgage/chattel mortgage certificates may submit its application to the appropriate department of the SES duly accompanied by the following documents:

1. Pro-forma copies of the mortgage/chattel mortgage certificates proposed to be issued and the agreement referred to in Item G thereof;

2. Statement setting forth the details or particulars of the mortgages/chattel mortgages to be pooled for purposes of the issue and the purpose for which the proceeds will be used; and

3. Other records or data as the appropriate department of the SES may deem necessary for the proper evaluation of the bank’s application.

**GUIDELINES IN IDENTIFYING AND MONITORING
PROBLEM LOANS AND OTHER RISK ASSETS AND
SETTING UP OF ALLOWANCE FOR PROBABLE LOSSES
(Appendix to Sec. X302)**

I. Classification of loans. In addition to classifying loans as either current or past due, the same should be qualitatively appraised and grouped as Unclassified or Classified.

A. Unclassified loans. These are loans that do not have a greater-than-normal risk and do not possess the characteristics of classified loans as defined below. The borrower has the apparent ability to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated. The following loans, among others, shall not be subject to classification:

1. Loans or portions thereof secured by hold-outs on deposits/deposit substitutes maintained in the lending institution and margin deposits, or government-supported securities;
2. Loans granted by Philippine branches of foreign banks to subsidiaries and affiliates in the Philippines of multinational companies which are covered by standby letters of credit (Standby LC) issued by the bank head offices in favor of their local branches, and are current in status: *Provided*, That the foreign bank is rated at least “AA-” or its equivalent by a BSP-recognized international credit assessment agency based on the guidelines for the use of third party credit assessment as provided in App. 63b: *Provided, further*, That the Standby LC is direct, explicit, irrevocable and unconditional; and
3. Loans with technical defects and deficiencies in documentation and/or collateral requirements¹. These deficiencies are isolated cases where the exceptions involved are not material nor is the bank’s chance to be repaid or the borrower’s

ability to liquidate the loan in an orderly manner undermined. These exceptions should be brought to management’s attention for corrective action during the examination and those not corrected shall be included in the Report of Examination under “*Miscellaneous Exceptions – Loans*”. Moreover, deficiencies which remained uncorrected in the following examination shall be classified as “*Loans Especially Mentioned*”.

The following are examples of loans to be cited under “*Miscellaneous Exceptions – Loans*”:

- a. Loans with unregistered mortgage instrument which is not in compliance with the loan approval;
- b. Loans with improperly executed supporting deed of assignment/pledge agreement/chattel mortgage/real estate mortgage;
- c. Loans with unnotarized mortgage instruments/agreements;
- d. Loans with collaterals not covered by appraisal reports or appraisal reports not updated;
- e. Loan availments against expired credit line; availments in excess of credit line; availments against credit line without prior approval by appropriate authority;
- f. Loans with collaterals not insured or with inadequate/expired insurance policies or the insurance policy is not endorsed in favor of the bank;
- g. Loans granted beyond the limits of approving authority;
- h. Loans granted without compliance with conditions stated in the approval; and
- i. Loans secured by property the title

¹ For purposes of classification and setting up of allowance for probable losses on mortgage loans, Official Receipt (OR) and supporting Assessment Form and Payment Order (AFPO) issued by the Land Registration Authority (LRA), bearing the same Electronic Primary Entry Book (EPEB) Entry/Reference Number, shall be considered as acceptable documentation and evidence of registration/cancellation of the mortgage instrument/encumbrance or lien.

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to which bears an uncanceled annotation or lien or encumbrance.

B. Classified loans. These are loans which possess the characteristics outlined hereunder. Classified loans are subdivided into (1) loans especially mentioned; (2) substandard; (3) doubtful; and (4) loss.

1. **Loans especially mentioned.** These are loans and advances that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the bank. Their basic characteristics are as follows:

a. Loans with unlocated collateral folders and documents including, but not limited to, title papers, mortgage instruments and promissory notes;

b. Loans to firms not supported by board resolutions authorizing the borrowings;

c. Loans without credit investigation report/s;

d. Loans not supported by the documents required under Subsec. X304.1 except: consumer loans, with original amounts not exceeding P2.0 million: *Provided*, That these loans are current, and are supported by latest ITR or by BIR Form 2316 or payslips for at least three (3) months immediately preceding the date of loan application, and financial statements submitted for taxation purposes to the BIR, as may be applicable, at the time they were granted, renewed, restructured or extended. For this purpose, consumer loans include housing loans, loans for purchase of car, household appliance(s), furniture and fixtures, loans for payment of educational and hospital bills, salary loans and loans for personal consumption, including credit card loans;

e. Loans the repayment of which may be endangered by economic or market conditions that in the future may affect the

borrower's ability to meet scheduled repayments as evidenced by a declining trend in operations, illiquidity, or increasing leverage trend in the borrower's financial statements;

f. Loans to borrowers whose properties securing the loan (previously well secured by collaterals) have declined in value or with other adverse information;

g. Loans past due for more than thirty (30) days up to ninety (90) days; and

h. Loans previously cited as "*Miscellaneous Exceptions*" still uncorrected in the current BSP examination.

2. **Substandard.** These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics.

There exists in such loans the possibility of future loss to the institution unless given closer supervision. Those classified as "*Substandard*" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral. Their basic characteristics are as follows:

a. Secured loans

(1) Past due and circumstances are such that there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts;

(2) Past due loans to borrowers whose properties securing the loan have declined in value materially or have been found with defects as to ownership or other adverse information; and

(3) Current loans to borrowers whose AFS show impaired/negative net worth except for start-up firms which should be evaluated on a case-to-case basis.

Loans and advances possessing any of the above characteristics shall be classified

“Substandard” at the full amount except portions thereof secured by hold-outs on deposits, deposit substitutes, margin deposits, or government-supported securities. The portions so secured are not subject to classification.

b. Unsecured loans

(1) Renewed/extended loans of borrowers with declining trend in operations, illiquidity, or increasing leverage trend in the borrower’s financial statements without at least twenty percent (20%) repayment of the principal before renewal or extension; and

(2) Current loans to borrowers with unfavorable results of operations for two (2) consecutive years or with impaired/negative net worth except for start-up firms which should be evaluated on a case-to-case basis.

c. Loans under litigation;

d. Loans past due for more than ninety (90) days;

e. Loans granted without requiring submission of the latest AFS/ITR and/or statements of assets and liabilities to determine paying capacity of the borrower;

f. Loans with unsigned promissory notes or signed by unauthorized officers of the borrowing firm; and

g. Loans classified as “*Loans Especially Mentioned*” in the last BSP examination which remained uncorrected in the current examination.

3. **Doubtful.** These are loans or portions thereof which have the weaknesses inherent in those classified as “*Substandard*”, with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable. Their basic characteristics are as follows:

a. Past due clean loans classified as “*Substandard*” in the last BSP examination without at least twenty percent (20%) repayment of principal during the

succeeding twelve (12) months or with current unfavorable credit information;

b. Past due loans secured by collaterals which have declined in value materially such as, inventories, receivables, equipment, and other chattels without the borrower offering additional collateral for the loans and previously classified “*Substandard*” in the last BSP examination;

c. Past due loans secured by real estate mortgage, the title to which is subject to an adverse claim rendering settlement of the loan through foreclosure doubtful; and

d. Loans wherein the possibility of loss is extremely high but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until a more exact status is determined.

4. **Loss.** These are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future. Their basic characteristics are as follows:

a. Past due clean loans the interest of which is unpaid for a period of six (6) months;

b. Loans payable in installments where amortization applicable to interest is past due for a period of six (6) months, unless well secured;

c. When the borrower’s whereabouts is unknown, or he is insolvent, or his earning power is permanently impaired and his co-makers or guarantors are insolvent or that their guaranty is not financially supported;

d. Where the collaterals securing the loans are considered worthless and the borrower and/or his co-makers are insolvent;

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- e. Loans considered as absolutely uncollectible; and
 - f. Loans classified as “Doubtful” in the last BSP examination and without any payment of interest or substantial reduction of principal during the succeeding twelve (12) months or have current unfavorable credit information which renders collection of the loan highly improbable.
- C. Credit card receivables.** Credit card receivables shall be classified in accordance with age as follows:

<u>No. of days past due</u>	<u>Classification</u>
91 - 120	Substandard
121 - 180	Doubtful
181 or more	Loss

The foregoing is the minimum classification requirement. Management may therefore formulate additional specific guidelines.

II. Investments and Other Risk Assets

- A. Investment in debt securities and marketable equity securities.** The classification, accounting procedures, valuation and sales and transfers of investment in all debt securities and marketable equity securities is in *Appendix 33*.
- B. Equity investment in affiliates** shall be booked at cost or book value whichever is lower on the date of acquisition. If cost is greater than book value, the excess shall be charged in full to operations or booked as deferred charges and amortized as expense over a period not exceeding five (5) years. Subsequent to acquisition, if there is an impairment in the recorded value, the impairment should adequately be provided with allowance for probable losses.

- C. Other property owned or acquired**
- 1. The basic characteristics of real estate property acquired subject to “*Substandard*” classification are as follows:
 - a. Acquired for less than five (5) years unless worthless.
 - b. Converted into a Sales Contract Receivable.
 - c. Sold subject to a firm purchase commitment from a third party before the close of the examination.
 - 2. The basic characteristics of real estate property acquired subject to “*Loss*” classification are as follows:
 - a. Foreclosure expenses and other charges included in the book value of the property, excluding the amount of non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase which meet the criteria for inclusion in the book value of the acquired property.
 - b. The excess of the book value over the appraised value.
 - c. Property whose title is definitely lost to a third party or is being contested in court.
 - d. Property wherein the exercise of the right of usufruct is not practicable or possible as when it is eroded by a river or is under any like circumstances.
- Real estate property acquired are not sound bank assets. Because of their nature, that is, non-liquid and non-productive, their immediate disposal through sale is highly recommended.
- D. Acquired or repossessed personal property**
- 1. All personal property owned or acquired held for three (3) years or less from date of acquisition shall be classified as “*Substandard*” assets.
 - 2. The basic characteristics of acquired or repossessed personal property classified as “*Loss*” are as follows:
 - a. Property not sold for more than three (3) years from date of acquisition;

- b. Property which is worthless or not salable;
- c. Property whose title is lost or is being contested in court;
- d. Foreclosure expenses and other charges included in the book value of the property; and
- e. The excess of the book value of the property over its appraised or realizable value.

E. Accounts Receivable

- 1. Accounts receivable arising from loan and investment accounts still uncollected after six (6) months from the date such loans or loan installments have matured or have become past due shall be provided with a 100% allowance for uncollected accounts receivable.
- 2. All other accounts receivable should be classified in accordance with age as follows, unless there is good reason for non-classification:

No. of Days Outstanding	Classification
61 - 180	Substandard
181 - 360	Doubtful
361 or more	L o s s

The classification according to age of accounts receivable should be used in classifying other risk assets not covered above. However, their classification should be tempered by favorable information gathered in the review.

F. Accrued Interest Receivable

- 1. Accrued interest receivable on loans or loan installments still uncollected after three (3) months from the date such loans or loan installments have matured or have become non-performing shall be provided with a 100% allowance for uncollected interest on loans.
- 2. All other accrued interest receivable on loans or loan installments

shall be classified similar to the classification of their respective loan accounts.

III. Allowance for probable losses

An allowance for probable losses on the loan accounts shall be set up as follows:

A. Specific allowance

Classification	Allowance (Percent)
1. Unclassified	0.0
2. Loans Especially Mentioned	5.0
3. Substandard	
(a) Secured	10.0
(b) Unsecured	25.0
4. Doubtful	50.0
5. L o s s	100.0

B. General allowance. In addition to the specific allowance for probable losses required under Item "A", a general provision for loan losses shall also be set up as follows:

(1) Five percent (5%) of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws, rules and regulations: *Provided*, That loans restructured/rescheduled under the debt relief and rehabilitation program for borrowers adversely affected by the super typhoons shall be treated as regular loans and shall be subject to the general loan loss provision of one percent (1%) instead of five percent (5%) applicable to restructured loans: *Provided, further*, That the restructuring/rescheduling of said loans are effected not later than 31 December 2011¹.

(2) One percent (1%) of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws, rules and regulations.

¹ See Appendix 89

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The general loan loss provision shall be computed as follows:

For Loans Not Restructured

Gross Loan Portfolio		
(Excluding Restructured Loans)	P	xxx
Less: Classified Loans		
(based on latest BSP examination)		
Loans especially mentioned	P	xxx
Substandard		
Secured	xxx	
Unsecured	xxx	
Doubtful	xxx	
Loss	xxx	xxx
Unclassified Loans		xxx
Less: Loans considered non-risk under existing regulations		xxx
Loan Portfolio, net of exclusions		xxx
General Loan Loss Provision		
(1% of net loan portfolio)	P	xxx

For Restructured Loans

Restructured Loans (Gross)	P	xxx
Less: Classified Restructured Loans		
(based on latest BSP examination)		
Loans especially mentioned	P	xxx
Substandard		
Secured	xxx	
Unsecured	xxx	
Doubtful	xxx	
Loss	xxx	xxx
Unclassified Restructured Loans		xxx
Less: Rest. Loans considered non-risk under existing regulations		xxx
Restructured Loans, net of exclusions		xxx
General Loan Loss Provision		
(5% of net restructured loans)	P	xxx

The excess of the booked general loan loss provisions over the amount required as a result of the reduction of the amount required to be set up to one percent (1%) shall first be applied to unbooked specific valuation reserves, whether authorized to be booked on a staggered basis or not and only the remainder can be considered as income.

C. Allowance for probable losses - microfinance loans

Specific allowance for probable losses on microfinance loans shall be set up immediately in accordance with the PAR number of days of missed payment, as follows:

No. of days of missed payment	Allowance for probable losses (%)
PAR 1 - 30	2
31 - 60 and/or loans restructured once	20
61 - 90	50
91 - or more and/or loans restructured twice	100

Provided, That a general provision for losses for microfinance loans equivalent to one percent (1%) of the outstanding balance of microfinance loans not subject to the foregoing provisioning less microfinance loans which are considered non-risk under existing laws/rules/regulations, if any, shall also be set up.

The specific and general allowances for probable losses shall be adjusted accordingly for additional allowance required by the Bangko Sentral: *Provided*, That in cases of partially secured loans, only ten percent (10%) allowance shall be required for the portion thereof which are covered by the appraised value of the collateral: *Provided, further*, That said collateral is re-appraised at least annually.

Management is, however, encouraged to provide additional allowance as it deems prudent and to formulate additional specific guidelines within the context of the herein-described system.

(As amended by M-2012-060 dated 27 December 2012, M-2012-051 dated 09 November 2012, M-2012-044 dated 24 August 2012, M-2012-042 dated 17 August 2012, M-2012-001 dated 03 January 2012, M-2011-059 dated 22 November 2011, M-2011- 056 dated 21 October 2011, M-2011-055 dated 17 October 2011, M-2011-043 dated 12 August 2011, M-2011-007 dated 04 February 2011, M-2010-039 dated 03 October 2010, M-2010-007 dated 23 April 2010, M-2009-040 dated 30 October 2009, M-2009-038 dated 08 October 2009, M-2009-037 dated 15 October 2009, M-2009-036 dated 06 October 2009, Circular Nos. 622 dated 16 September 2008, 603 dated 03 March 2008, 520 dated 20 March 2006)

FORMAT OF DISCLOSURE STATEMENT ON
SMALL BUSINESS/RETAIL/CONSUMER CREDIT
(Appendix to Subsec. X307.2)

(Business Name of Creditor)

DISCLOSURE STATEMENT ON LOAN/CREDIT TRANSACTION
(As Required under R.A. No. 3765, Truth in Lending Act)

NAME OF BORROWER
ADDRESS

1. LOAN AMOUNT P XXX

2. OTHER BANK CHARGES/DEDUCTIONS COLLECTED¹ P XXX
a. Documentary/Science Stamps P
b. Mandatory Credit Insurance
c. Others (Specify)

3. NET PROCEEDS OF LOAN (Item 1 less Items 2 and 3) P XXX

4. SCHEDULE OF PAYMENTS
a. Single payment due on date P XXX
b. Installment Payments (Please see attached amortization schedule)

5. EFFECTIVE INTEREST RATE (Interest and Other Charges) XXX%
Explanation: The effective interest rate is higher than the contractual interest rate of % because of Item 2 deductions above.

6. CONDITIONAL CHARGES THAT MAY BE IMPOSED (if applicable). Please specify manner of imposition:
a. Late Charge P
b. Prepayment (penalty/refund)
c. Others (Specify)

CERTIFIED CORRECT:
(Signature of Creditor/Authorized Representative Over Printed Name) Position

I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PRIOR TO THE CONSUMMATION OF THE CREDIT TRANSACTION

(Signature of Borrower over Printed Name) Date

Notes:
¹ Itemize all charges including advance deductions
- Small business/Retail/Consumer Loans includes microfinance, auto (motor), salary, personal, medical, educational and other loans of similar nature
- This document contains the minimum information required to be disclosed to the borrower and may be enhanced to improve client information

AMORTIZATION SCHEDULE
(Sample Only)

Installment (A)	Loan (B)	Principal (C)	Interest (D)	Total (E)	O/SBalance (F)
	xxx				xxx
1		xxx	xxx	xxx	xxx
2		xxx	xxx	xxx	xxx
3		xxx	xxx	xxx	xxx
4		xxx	xxx	xxx	xxx
5		xxx	xxx	xxx	xxx
6		xxx	xxx	xxx	xxx
7		xxx	xxx	xxx	xxx
8		xxx	xxx	xxx	xxx
9		xxx	xxx	xxx	xxx
10		xxx	xxx	xxx	xxx
11		xxx	xxx	xxx	xxx
12		xxx	xxx	xxx	xxx
	Total	xxx	xxx	xxx	

- Legends:
- A - Number of installment periods based on loan term
 - B - Gross amount of loan
 - C - Installment payment on the principal
 - D - Installment payment on the interest
 - E - Total amortization payment for the installment period
 - F - Outstanding principal balance of the loan

(Circular No. 730 dated 20 July 2011)

ABSTRACT OF "TRUTH IN LENDING ACT"
(Republic Act No. 3765)
(Appendix to Sec. X307.4)

Sec. 1. This Act shall be known as the "Truth in Lending Act."

Sec. 2. Declaration of Policy. It is hereby declared to be the policy of the State to protect its citizens from a lack of awareness of the true cost of credit to the user by assuring a full disclosure of such cost with a view of preventing the uninformed use of credit to the detriment of the national economy.

xxx xxx xxx

Sec. 3. As used in this Act, the term

xxx xxx xxx

(3) "Finance charge" includes interest, fees, service charges, discounts, and such other charges incident to the extension of credit as the Board may by regulation prescribe.

xxx xxx xxx

Sec. 4. Any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear statement in writing stating forth, to the extent applicable and in accordance with rules and regulations prescribed by the Board, the following information:

(1) the cash price or delivered price of the property or service to be acquired;

(2) the amounts, if any, to be credited as down payment and/or trade-in;

(3) the difference between the amounts set forth under clauses (1) and (2);

(4) the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;

(5) the total amount to be financed;

(6) the finance charge expressed in terms of pesos and centavos; and

(7) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

xxx xxx xxx

Sec. 5. (a) Any creditor who in connection with any credit transaction fails to disclose to any person any information in violation of this Act or any regulation issued thereunder shall be liable to such person in the amount of P100 or in an amount equal to twice the finance charge required by such creditor in connection with such transaction, whichever is greater, except that such liability shall not exceed P2,000 on any credit transaction.

xxx xxx xxx

(b) Any person who willfully violates any provision of this Act or any regulation issued thereunder shall be fined by not less than P1,000 nor more than P5,000 or imprisonment for not less than 6 months, nor more than one year or both.

xxx xxx xxx

(c) Any final judgment hereafter rendered in any criminal proceeding

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under this Act to the effect that a defendant has wilfully violated this Act shall be *prima facie* evidence against such defendant in an action or proceeding brought by any other party against such defendant under this Act as to all matters respecting which said judgment would be

an estoppel as between the parties thereto.

Sec. 6. This Act shall become effective upon approval.

Approved, 22 June 1963.

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**AGREEMENT FOR THE ENHANCED
INTERBANK CALL LOAN FUNDS TRANSFER SYSTEM
(Appendix to Subsecs. X343.1 and X601.3)**

*(As superseded by the agreement for PhilPaSS between the Bangko Sentral and
BAP/CTB/RBAP/IHAP and MMAP)*

**SETTLEMENT PROCEDURES FOR INTERBANK LOAN TRANSACTIONS AND
PURCHASE AND SALE OF GOVERNMENT SECURITIES
UNDER REPURCHASE AGREEMENTS WITH THE BANGKO SENTRAL
*(Appendix to Subsecs. X343.3 and X601.3)***

*(As superseded by the agreement for PhilPaSS between the Bangko Sentral and BAP/
CTB/RBAP/IHAP and MMAP)*

ENHANCED INTRADAY LIQUIDITY FACILITY
(Appendix to Sec. X278)

Given the increasing volume of PhilPaSS transactions as well as concerns of having temporary gridlocks in the PhilPaSS, the current features of the ILF had been enhanced, specifically on the following areas:

- a. Flexibility in changing the securities that will be used for the ILF;
- b. Availment of the facility on a “as the need arises” basis; and
- c. Removal of commitment fees

The revised features of the ILF are described below.

A. Access to ILF

Government securities (GS) held by an Eligible Participant bank in its Regular Principal Securities Account that will be used for ILF purposes shall be delivered to a sub-account under the BSP-ILF Securities Account with the Bureau of the Treasury’s (BTr) Registry of Scripless Securities (RoSS). The delivered GS to be used for ILF purposes shall be recorded by RoSS in a sub-account (the “Client Securities Account (CSA)”-ILF) under the BSP-ILF Securities Account in the name of the Eligible Participant/banks.

Banks without RoSS securities accounts who intend/desire to avail of the ILF shall be required to open/maintain a Securities Account with the RoSS. The documentation requirements for RoSS membership shall be prescribed by the BTr.

Banks desiring to avail of the ILF shall be further required to open a sub-account under the BSP-ILF Securities Account with the BTr’s RoSS by accomplishing an application letter addressed to the Treasurer of the Philippines, Attn: The Director, Liability Management Service and the

Chief, Scripless Securities Registration Division. The application letter shall be in the form of ANNEX 1 hereto.

B. Timeline

From 9:00AM to 9:30AM of each banking day, an Eligible Participant bank shall electronically instruct the BTr to move/transfer from its Principal Securities Account with the BTr’s ROSS to the CSA-ILF under the name of the Eligible Participant bank, the pool of peso-denominated GS to be set aside for the ILF purpose. The Eligible Participant bank hereby confirms to the BTr that pursuant to an ILF availment, it has authorized the transfer without consideration unto the CSA-ILF the pool of GS to be used for ILF purposes.

From 9:30 AM to 10:00 AM, the BTr RoSS shall electronically submit a consolidated report to BSP showing the details of the GS that were transferred to the BSP-ILF Securities Account.

From 10:00 AM to 4:00PM, Eligible Participant banks with insufficient balances in its Demand Deposit Account No.2 (PhilPaSS Account) may avail of the ILF.

Eligible Participant banks may avail of the ILF as necessary to fund pending payment instructions. Thus, when the ILF system detects queued transactions in the PhilPaSS-Central Accounting System, the Eligible Participant bank with insufficient balance in its PhilPaSS Account will automatically sell to the BSP-Treasury the GS in the CSA-ILF pool corresponding to the amount which may be needed to cover any pending payment instruction, and the proceeds of the sale of securities shall be immediately credited to the bank’s PhilPaSS Account. There may be more than one availment during the day. Until a sale to the BSP or an Overnight Repurchase

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(O/N-RP) transaction with the BSP is executed, the beneficial ownership of the GS that have been transferred to the CSA-ILF still belongs to the banks.

At 5:00PM, the BSP shall sell back to the Eligible Participant bank the GS at the same price as the original BSP purchase. Partial repayment of a particular availment will not be allowed.

In case the PhilPaSS Account balance of the participating bank is not sufficient to cover the afternoon repayment transaction, the BSP and the participating bank may agree on the following:

a. BSP shall extend to the Eligible participant bank an O/N-RP at 600 basis points over the BSP’s regular overnight lending rate for the day. The O/N-RP shall be paid not later than 11:00AM on maturity date. Unpaid O/N-RP shall be automatically converted into an absolute sale to the BSP of the subject GS earlier delivered/transferred to the CSA-ILF, pursuant to an ILF availment by the Eligible Participant bank, in which case, BSP shall issue an instruction to BTr to deliver/transfer the subject GS from the BSP-ILF Securities Account to the BSP regular Principal Securities Account. The sale shall be evidenced by the issue of Confirmation of Sale by the Eligible Participant bank (Annex 2) and the Confirmation of Purchase by the BSP Treasury Department (Annex 3), or,

b. Only in extreme cases, the BSP shall sell back to the participating bank GS up to the extent of the PhilPaSS Account balance. The BSP shall issue an instruction to the BTr to transfer the remaining GS amounting to the unpaid ILF availment from the BSP-ILF Securities Account to the BSP’s Regular Principal Securities Account.

At the end of the day and after BSP’s sell-back of the GS to ILF participants,

normally by 5:45PM, the BSP Treasury Department shall electronically instruct RoSS, using the ILF RoSS system developed for herein purpose, to return/deliver from the CSA-ILF of the participating banks to their respective Regular Principal Securities Accounts with the RoSS all unused/unencumbered GS. GS used for O/N-RP shall remain in the CSA-ILF until repayment of subject O/N-RP or conversion to outright sale the following day.

Upon receipt of BSP’s electronic instruction for the return of GS back to the participating banks’ regular Principal Securities Accounts, the BTr shall update their database after which participating banks may request/download statements of securities accounts for their verification.

C. Eligible Securities

Peso-denominated scripless securities of the National Government that are free and unencumbered and with remaining maturity of eleven (11) days to ten (10) years shall be eligible for the ILF. GS that will be used for ILF purposes would be reclassified with due consideration to the original booking of the security, as follows:

<u>Original Booking of GS</u>	<u>To be reclassified to</u>
a. Held for Trading	Held for Trading – ILF
b. Designated Fair Value Through Profit or Loss	Designated Fair Value Through Profit or Loss - ILF
c. Available for Sale	Available for Sale - ILF
d. Held to Maturity	Held to Maturity - ILF

D. Valuation of Securities

The GS subject of an ILF transaction shall be valued based on the 11:16AM fixing rates of the previous business day, from the applicable Reuters PDEX pages

or any other valuation benchmark as may be prescribed by the BSP.

banks of any change in fee at least fifteen (15) days prior to implementation.

E. Margins

Margins shall be applied based on prevailing policies of the BSP Treasury Department.

G. DDA Statements/Transaction Details

Eligible Participating banks will be able to verify the status of their accounts by initiating the SWIFT/PPS-Front-end System inquiry request.

F. Transaction Fee

The BTr shall collect a monthly maintenance fee of One Thousand Pesos (P1,000.00) from each Eligible Participant bank for the use of the CSA-ILF Securities Account. The maintenance fees herein required to be paid by each Eligible Participant bank shall be separate from and exclusive of any other fees being assessed and collected by BTr for membership in the RoSS. For this purpose, the Eligible Participant bank shall issue to the BTr an autodebit instruction to authorize the BTr to debit its DDA with BSP for the above-mentioned monthly maintenance fee. The BTr will inform the Eligible Participant

AVAILABILITY OF SERVICE

The ILF is covered by a Memorandum of Agreement (MOA) dated 25 March 2008 by and among the BSP, the BTr, the Bankers Association of the Philippines (for BAP members) and the Money Market Association of the Philippines (for non-BAP members). Participating banks shall sign individual participation agreements. The services outlined in the MOA shall be available at the BSP and the BTr at a fixed hour on all banking days. Banking days refer to the days banking institutions are open for business Mondays thru Fridays as authorized by the BSP.

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PARTICIPATION AGREEMENT

_____ **Date**

Bangko Sentral ng Pilipinas
A. Mabini corner P. Ocampo Sr. Streets,
Manila

Bureau of the Treasury
Palacio del Gobernador
Intramuros, Manila

Bankers Association of the Philippines
11th Floor, Sagittarius Building
H. V. dela Costa Street, Salcedo Village
Makati City

Money Market Association of the Philippines
Penthouse, PDCP Bank Center
Herrera corner L. P. Leviste Streets, Salcedo Village
Makati City

Gentlemen:

Please be advised that we agree to participate in the Agreement for the Establishment of Intraday Liquidity Facility to support the Philippine Payment and Settlement System (the “System”) which is covered by the Memorandum of Agreement dated ____ (the “Agreement”) among yourselves and its subsequent amendments of revisions as may be agreed upon by the parties thereto from time to time.

We agree to be bound by all the terms and conditions of the Agreement and adopt it as an integral part of this Participation Agreement, including the authority of the BSP to execute payment instructions and the authority of the Bureau of the Treasury (BTr) to execute our instructions on transfer to/from, credit and debit to/against our Securities Account. Further, we agree to comply with all our obligations as participating bank/financial institution as provided in the Agreement. Lastly, we agree to keep yourselves free and harmless from any claim or liability arising from, or in connection with, our transactions transmitted through the System in accordance with the provisions of the Agreement.

This participation will become effective upon your conformity hereto and your notification of the same to us, the BSP and the BTr.

Very truly yours,

Participating Bank/Financial Institutions

APPROVED:

Bangko Sentral ng Pilipinas By: _____

Bureau of the Treasury By: _____

Bankers Association of the Philippines By: _____

Money Market Association of the Philippines By: _____

(LETTERHEAD OF THE APPLICANT)

The Treasurer of the Philippines
Palacio del Gobernador
Intramuros, Manila

Sir:

The undersigned hereby makes an application to open a Client Securities Account under the BSP-ILF RoSS Account in the Registry of Scripless Securities (RoSS) operated and maintained by the Bureau of the Treasury (BTr).

The undersigned will pay to BTr an additional monthly fee of P1,000.00 for the Client Securities Account opened payable on the first business day of each month. The BTr will inform the undersigned of any change in fee at least fifteen (15) days prior to implementation.

Please debit/credit our Regular Demand Deposit Account No._____ with the BSP for the payment of said monthly fee.

_____ Manila, Philippines
(Date)

(Name of Applicant)

(Signature of Authorized Signatory)

(Designation)

LETTERHEAD OF THE SELLER

Transaction No. _____
Value Date _____

CONFIRMATION OF SALE OF GOVERNMENT SECURITIES

The _____, does hereby CONFIRM that it has SOLD, TRANSFERRED AND CONVEYED unto _____, pursuant to the Memorandum of Agreement for Intraday Liquidity Facility and the Participation Agreement executed on _____ and _____, respectively, all of its rights, titles and interests over the following described Government Securities, held by the Bureau of the Treasury under the Registry of Scripless Securities System.

ISIN	TERM	ISSUE DATE	MATURITY DATE	FACE AMOUNT
_____ (Code)				_____ (Account Number)
			_____ (Name of GSED)	
			_____ (Signature of Authorized Signatory)	
			_____ (Designation)	

Transaction No. _____
Value Date _____

CONFIRMATION OF PURCHASE OF GOVERNMENT SECURITIES

The _____, does hereby CONFIRM that it has PURCHASED from _____, pursuant to the Memorandum of Agreement for Intraday Liquidity Facility and the Participation Agreement executed on _____ and _____, respectively, all of its rights, titles and interests over the following described Government Securities, held by the Bureau of the Treasury under its Registry of Scripless Securities System.

ISIN	TERM	ISSUE DATE	MATURITY DATE	FACE AMOUNT
_____ (Code)				_____ (Account Number)
			_____ (Name of GSED)	
			_____ (Signature of Authorized Signatory)	
			_____ (Designation)	

LIST OF NON-ALLIED UNDERTAKING
WHERE UBs MAY INVEST IN EQUITIES¹
(Appendix to Subsec. 1381.1)

PSIC CODE	DESCRIPTION
MAJOR GROUP	GROUP
I. Agriculture (Major Division 1)	
A. Agricultural crops production (Division 11)	
111	Palay production
112	Corn production
113	Vegetable production, including root and tuber crops
114	Fruits and nuts (excluding coconut) production
115	Coconut production, including copra making in the farm
116	Sugarcane production, including muscovado sugar in the farm
118	Fiber crops production
119	Other agricultural crops production
B. Production of livestock, poultry and other animals (Division 12)	
121	Livestock and livestock products
122	Poultry and poultry products
123	Raising of other animals, including their products
C. Agricultural services (Division 13)	
130	Agricultural services
II. Fishery and Forestry (Major Division 2)	
A. Fishery (Division 14)	
141	Ocean (offshore) and coastal fishing
142	Inland fishing
143	Operation of fish farms
149	Other fishery activities

¹ For purposes of identifying the classification of a certain enterprise or undertaking, the industrial groupings in the 1977 Philippine Standard Industrial Classification (PSIC) list shall be followed.

PSIC CODE	DESCRIPTION
MAJOR GROUP	GROUP
	B. <i>Forestry (Division 15)</i>
159	Other forestry activities (operation of forest tree nurseries; planting, replanting and conservation of forests; gathering of uncultivated forest materials; establishments primarily engaged in providing forestry services on a fee or contract basis)
III. Mining and Quarrying (Major Division 3)	
	A. <i>Metallic ore mining (Division 21)</i>
211	Gold ore mining
212	Other precious metal ore mining
213	Copper ore mining
214	Nickel ore mining
215	Chromite ore mining
216	Iron ore mining
217	Other base metal ore mining
	B. <i>Non-metallic mining and quarrying (Division 22)</i>
221	Coal mining
222	Exploration and production of crude petroleum and natural gas
223	Stone quarrying, clay and sand pits
229	Other non-metallic mining and quarrying
IV. Manufacturing (Major Division 4)	
	A. <i>Manufacture of food (Division 31)</i>
311-312	Food manufacturing
	B. <i>Textile, wearing apparel and leather industries (Division 32)</i>
321	Manufacture of textiles
322	Manufacture of wearing apparel, except footwear
	Manufacture of leather and leather products, leather substitutes, and fur, except footwear & wearing apparel
324	Manufacture of footwear, except rubber, plastic or wood footwear

PSIC CODE	DESCRIPTION
MAJOR GROUP	GROUP
	C. <i>Manufacture of paper and paper products; printing and publishing (Division 34)</i>
341	Manufacture of paper and paper products
342	Printing, publishing and allied industries
	D. <i>Manufacture of chemicals and chemical, petroleum, coal rubber and plastic products (Division 35)</i>
351	Manufacture of industrial chemicals
352	Manufacture of other chemical products
353	Petroleum refineries
354	Manufacture of miscellaneous products of petroleum and coal
355	Manufacture of rubber products
356	Manufacture of plastic products not elsewhere classified
	E. <i>Manufacture of non-metallic mineral products, except products of petroleum and coal (Division 36)</i>
361	Manufacture of pottery, china and earthenware
362	Manufacture of glass and glass products
363	Manufacture of cement
369	Manufacture of other non-metallic mineral products
	F. <i>Basic metal industries (Division 37)</i>
371	Iron and steel basic industries
372	Non-ferrous metal basic industries
	G. <i>Manufacture of fabricated metal products, machinery and equipment (Division 38)</i>
381	Manufacture of fabricated metal products, except machinery and equipment and furniture and fixtures primarily of metal
382	Manufacture of machinery except electrical
383	Manufacture of electrical machinery apparatus, appliances and supplies
384	Manufacture of transport equipment
385	Manufacture of professional and scientific and measuring and controlling equipment not elsewhere classified, and of photographic and optical instruments
386	Manufacture and repair of furniture and fixtures primarily of metal

PSIC CODE	DESCRIPTION
MAJOR GROUP	GROUP
	H. <i>Other manufacturing industries (Division 39)</i>
390	Other manufacturing industries
	V. Electricity, Gas and Water (Major Division 5)
	A. <i>Electricity (Division 41)</i>
411	Generating and distributing electricity
412	Distributing electricity to consumers
	B. <i>Gas and steam (Division 42)</i>
421	Gas manufacture and distribution through systems
422	Steam heat and power plants
	C. <i>Waterworks and supply (Division 43)</i>
430	Waterworks and supply
	VI. Construction (Major Division 6)
501	General building construction
502	General engineering construction
503	Special trade construction
	VII. Wholesale Trade and Retail Trade Repair of MV Motorcycles and Personal and Household Goods (Major Division 7)
	A. <i>Wholesale trade (Division 61)</i>
619	Wholesale trade not elsewhere classified Merchandise brokers, general merchants, importers and exporters
	VIII. Transport, Storage and Communication (Major Division 8)
	A. <i>Transportation services (Division 71)</i>
711	Railway transport
712	Road passenger and freight transport
713	Water transport

PSIC CODE	DESCRIPTION
MAJOR GROUP	GROUP
714	Air transport
719	Services allied to transport
	B. <i>Communication (Division 73)</i>
731	Mail and express services
732	Telephone services
733	Telegraph services
739	Communication services, non-essential commodities
	IX. Financial Intermediation (Major Division 9)
	X. Real Estate, Renting and Business Activities (Major Division 10)
	XI. Public Ad and Defense; Compulsory Social Security (Major Division 11)
	XII. Education (Major Division 12)
	XIII. Health and Social Work (Major Division 13)
	XIV. Other Community, Social, and Personal Service Activities (Major Division 14)
	A. <i>Other social and related community services (Division 95)</i>
951	Research and scientific institutions
	XV. Private Households with Employed Persons (Major Division 15)
	XVI. Extra- Territorial Organizations and Bodies (Major Division 16)
	XVII. Restaurant and Hotels (Major Division 17)
981	Restaurants, cafes and other eating and drinking places
982	Hotel, motels and other lodging places, non-essential commodities

CREDIT PRIORITY CLASSIFICATION
(Appendix to Sec. X395)

Priority I -

- a. Production of agricultural, including forestry and fishery, and industrial goods which (1) possess growth potential in competitive domestic and world markets, (2) contribute most to the development of the economy, (3) provide for the satisfaction of basic wants of the population as a whole, and (4) require resources in addition to their self-financing capabilities.
- b. Marketing export products, primarily those goods that contain the maximum possible domestic processing and labor content.
- c. Marketing in the international market of domestic products which fall under Priority I and imported basic consumer goods by Filipino merchandisers.
- d. Importation and marketing of capital equipment, raw materials and supplies for the production and distribution of Priority I products.
- e. Public utilities which are not overcrowded and are necessary to support the production and distribution of Priority I goods or to satisfy basic wants.
- f. Other services which are not overcrowded and which are necessary for (1) the development of desirable knowledge and skills, (2) the support of the production and distribution of Priority I products, and (3) the promotion of tourism and cultural pursuits.
- g. Construction of (1) infrastructure projects, (2) physical plants necessary for the production and distribution of Priority I products and services, and (3) individual low cost housing for the lower income groups of the population.

Priority II -

- a. Production and distribution of goods and services which do not qualify under the Priority I category.
- b. Real estate loans (construction, acquisition, development and refinancing of real estate) other than those specified under Priority I.
- c. Consumption.
- d. Other non-productive and speculative activities.

ECONOMIC ACTIVITIES FALLING
UNDER PRIORITY I

A. Economic activities eligible for credits
up to eighty percent (80%) of loan value of
credit instrument

- 1. Agriculture, Fisheries and Forestry
 - a. Agricultural
 - (1) Abaca
 - (2) Cassava
 - (3) Cattle and dairy farms
 - (4) Coconut
 - (5) Coffee and cocoa
 - (6) Corn
 - (7) Palay or rice
 - (8) Piggery
 - (9) Poultry
 - (10) Ramie
 - (11) Rubber plantation
 - (12) Other fruits and vegetables
 - b. Fisheries
 - (1) Fishponds and inland fishing
 - (2) Marine fishing
 - c. Forestry
 - (1) Forest nurseries and reforestation project

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2. Mining and quarrying

a. Metal mining

(1) Chromite

(2) Copper

(3) Iron

(4) Lead

(5) Manganese

(6) Mercury and quicksilver

(7) Nickel

(8) Zinc

b. Non-mettalic mining

(1) Asbestos

(2) Sulphur

(3) Coal

(4) Gypsum

3. Manufacturing

a. Basic metal industries

(1) Blast furnaces, steel works and rolling mills

(2) Iron and steel basic industries

(3) Iron and steel foundries

(4) Non-ferrous metal basic industries

b. Chemical and chemical products

(1) Basic chemicals

(2) Drugs

(3) Fertilizer

c. Coconut products and their preparation

(1) Coconut oil, edible

(2) Coconut oil, inedible

(3) Copra meal and cake

d. Electrical machinery, apparatus and appliances

(1) Transmissions and distribution equipment

e. Food manufacturing

(1) Canning and preserving of fish and other sea foods

(a) Fish canning

(2) Canning and preserving of fruits and vegetables

(a) Canning, drying, brining, pickling or otherwise preserving or preparing vegetables

(b) Canning, drying or otherwise preparing and preserving fruits

(3) Slaughtering, preparation and preserving of meat

(4) Miscellaneous food preparation

(a) Prepared feeds for animals and fowls

f. Furniture and fixtures manufacture

(1) Rattan and bamboo furniture

g. Leather and leather products

(1) Tanning and finishing

h. Lumber and wood products

(1) Veneer, plywood and prefabricated products

i. Machinery, equipment, accessories and parts

(1) Agricultural machinery

(2) Engines and turbines

(3) Industrial, construction and mining machinery

j. Non-metallic products

(1) Cement

k. Paper and paper products

(1) Pulp, paper and paperboard

l. Petroleum and coal products

(1) Coke

m. Textile, cordage and twines manufactures

(1) Cordage, rope, twines and nets

- (2) Hemp milling, abaca stripping and baling establishments
- (3) Knitting mills
- (4) Spinning, weaving and finishing of textiles
- n. Transportation equipment and parts
 - (1) Aircrafts and parts
 - (2) Motor vehicles, equipment and parts
 - (3) Motorcycles, bicycles and parts
 - (4) Railroad equipment
 - (5) Ships and boats
- o. Miscellaneous manufacturing industries
 - (1) Laboratory, engineering and medical
- 4. *Construction*
 - a. Contract
 - (1) Building construction
 - (a) Commercial and industrial projects*
- 5. *Public Utilities*
 - a. Ice and ice refrigeration plants
 - b. Operation of wharves, dry docks etc.
 - c. Warehousing
 - d. Water supply and sanitary services
 - (1) Irrigation systems
 - (2) Water supply systems
- 6. *Commerce*
 - a. Export products*
 - b. Importation of capital goods and raw materials*
 - c. Domestic trade (Filipino only) wholesales and retail

B. Economic activities eligible for credits up to sixty percent (60%) of the loan value of the credit instrument **

- 1. *Agriculture, fisheries and forestry*
 - a. Agricultural
 - (1) Citrus
 - (2) Cotton
 - (3) Salt farming
 - (4) Soybean
 - (5) Other root crops
- 2. *Mining and quarrying*
 - a. Metal mining
 - (1) Gold
 - (2) Silver
 - b. Non-metallic mining
 - (1) Asphalt
 - (2) Marble
- 3. *Manufacturing*
 - a. Chemical and chemical products
 - (1) Dyeing and tanning materials
 - (2) Explosives (excluding firecrackers)
 - b. Coconut products and their preparations
 - (1) Dessicated coconut
 - c. Electrical machinery, apparatus and appliances
 - (1) Communication equipment
 - (2) Dry cells and storage batteries
 - d. Food manufacturing
 - (1) Canning and preserving of fruits and vegetables
 - (a) Fruits and vegetables, sauces and seasoning
 - (2) Dairy products
 - (a) Milk processing
 - (3) Miscellaneous food preparations

* To follow rating of economic activities included in the list.
** For updated loans values, see Subsec X269.5

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- (a) Coffee roasting, grinding and/or processing

e. Furniture and fixture manufacture

(1) Wood furniture

f. Lumber and wood products

(1) Cork

(2) Sashes and doors

(3) Sawn and planed lumber

(4) Wooden box

(5) Wood chips

g. Machinery, equipment, accessories and parts

(1) Office and store machines and devices

h. Metal industries

(1) Cutlery, handtools and general products

(2) Fabricated structural and metal products

(3) Tin and aluminum ware

i. Non-metallic products

(1) Glass and glass products

(2) Structural clay products

j. Textile, cordage and twines manufactures

(1) Jute bags and sacks

k. Miscellaneous manufacturing industries

(1) Cottage native handicraft industries

(2) Footwear (other than rubber)

(3) Photographic and optical goods

4. Construction

a. Contract

(1) Building construction

(a) Commercial and industrial projects*

(2) Highway and street construction (including road building)
5. Public utilities

a. Common carriers

(1) Airlines and other air transportation

(2) Motor vehicles

(3) Railroad and railway companies

(4) Steamboats and steamship lines

b. Communication

(1) Telecommunication (cable, mail and express, telegraph, telephone)

c. Electricity, gas and steam

(1) Electric, light, heat and power

d. Water supply and sanitary services

(1) Garbage, sewerage and disposal system

6. Services

a. Business and professional services

(1) Engineering and technical services

b. Educational services

(1) Private vocational and trade schools

(2) Public universities and higher educational institutions

(3) Public vocational and trade schools

c. Medical and other health services

(1) Public health services

d. Recreation services

* To follow rating of economic activities included in the list.

- (1) Theatrical production (i.e., all performing arts)

e. Research and scientific institutions

7. *Financial*

a. Banks

(1) Private development banks

(2) Rural banks/Cooperative banks

8. *Commerce*

a. Export products*

b. Importation of capital goods and raw materials*

c. Domestic trade (Filipino only) wholesale and retail*

9. Other activities

a. Loans for other dollar-earning purposes not elsewhere classified (included in this category are the construction, development and operations of first-class hotels which cater to the needs of the tourist industry).
- C. Economic activities eligible for credits up to sixty percent (60%) of the loan value of the credit instrument**

1. *Agriculture, Fisheries and Forestry*

a. Agricultural

(1) Pineapple

(2) Tobacco, native

b. Fisheries

(1) Fishery services

(2) Pearl fishing and culture, shell gathering and other marine products

c. Forestry

(1) Forest services

(2) Timber tracts

2. *Mining and quarrying*

a. Non-metallic mining

(1) Mineral salt

(2) Silica

3. *Manufacturing*

a. Apparel and other finished products made from fabrics and similar materials

(1) Embroidery shops

(2) Wearing apparel

b. Chemicals and chemical products

(1) Paints, varnishes and lacquers

(2) Soaps and other cleansing preparations

c. Coconut products and their preparations

(1) Copra

d. Electrical machinery, apparatus and appliances

(1) Electric lamp

(2) Household appliances

(3) Radio, television, telephone receiving sets, electronic tubes and components

e. Food manufacturing

(1) Canning and preserving of fish and other sea foods

a. Fish sauce (patis) manufacture

b. Shellfish curing, smoking, salting or pickling

(2) Cocoa and chocolate and sugar confectionery

a. Cocoa and chocolate processing factories

(3) Grain mill products

a. Corn mills

b. Rice mills

c. Tuber flour mills

d. Wheat flour
- * To follow rating of economic activities included in the list.
** For updated loan values, please see Subsec. X269.
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- (4) Miscellaneous food preparations
- (a) Salt manufacture
- (b) Starch and its products
- (c) Vegetable lard and margarine manufacture
- (d) Vermicelli and noodles manufacture
- f. Lumber and wood products
 - (1) Creosoting and other wood treating
- g. Metal industries
 - (1) Fabricated wire products
 - (2) Metal stamping, coating and engraving
- h. Non-metallic products
 - (1) Private vocational and trade schools
 - (2) Public universities and higher educational institutions
 - (3) Public vocational and trade schools
- c. Medical and other health services
 - (1) Public health services
- d. Recreation services
 - (1) Theatrical production (i.e., all performing arts)
- e. Research and scientific institutions
- 7. *Financial*
 - a. Banks
 - (1) Private development banks
 - (2) Rural banks/Cooperative banks
- 8. *Commerce*
 - a. Export products*
 - b. Importation of capital goods and raw materials*

- c. Domestic trade (Filipino only) whosale and retail*
- 9. Other activities
 - a. Loans for other dollar-earning purposes not elsewhere classified (included in this category are the construction, development and operations of first-class hotels which cater to the needs of the tourist industry).

C. Economic activities eligible for credits up to sixty percent (60%) of the loan value of the credit instrument**

- 1. *Agriculture, Fisheries and Forestry*
 - a. Agricultural
 - (1) Pineapple
 - (2) Tobacco, native
 - b. Fisheries
 - (1) Fishery services
 - (2) Pearl fishing and culture, shell gathering and other marine products
 - c. Forestry
 - (1) Forest services
 - (2) Timber tracts
- 2. *Mining and quarrying*
 - a. Non-metallic mining
 - (1) Mineral salt
 - (2) Silica
- 3. *Manufacturing*
 - a. Apparel and other finished products made from fabrics and similar materials
 - (1) Embroidery shops
 - (2) Wearing apparel
 - b. Chemicals and chemical products

* To follow rating of economic activities included in the list.
** For updated loans values, please see Subsec X269

- (1) Paints, varnishes and lacquers
 - (2) Soaps and other cleansing preparations
 - c. Coconut products and their preparation
 - (1) Copra
 - d. Electrical machinery, apparatus and appliances
 - (1) Electric lamp
 - (2) Household appliances
 - (3) Radio, television, telephone receiving sets, electronic tubes and components
 - e. Food manufacturing
 - (1) Canning and preserving of fish and other sea foods
 - (a) Fish sauce (patis) manufacture
 - (b) Shellfish curing, smoking, salting or picking
 - (2) Cocoa and chocolate and sugar confectionary
 - (a) Cocoa and chocolate processing factories
 - (3) Grain mill products
 - (a) Corn mills
 - (b) Rice mills
 - (c) Tuber flour mills
 - (d) Wheat flour
 - (4) Miscellaneous food preparations
 - (a) Salt manufacture
 - (b) Starch and its products
 - (c) Vegetable lard and margarine manufacture
 - (d) Vermicelli and noodles manufacture
 - f. Lumber and wood products
 - (1) Creosoting and other wood treating
 - g. Metal industries
 - (1) Fabricated wire products
 - (2) Metal stamping, coating and engraving
 - h. Non-metallic products
 - (1) Plastic products
 - (2) Pottery, china, earthenware
 - (3) Concrete aggregates
 - (4) Concrete products
 - (a) Cement products light weight aggregate
 - (b) Pre-mold concrete light aggregate
 - i. Paper and paper products
 - (1) Coated and glazed paper products
 - j. Printing, publishing and allied industries
 - (1) Book publishing and printing
 - (2) Newspaper and periodical publishing
 - k. Tobacco
 - (1) Cigar and cigarette factories (native)
 - l. Miscellaneous manufacturing industries
 - (1) Oxygen, acetylene and similar products
 - (2) Silver and gold work without precious stones
 - (3) Musical instruments and parts
 - (a) Blank recording discs
 - (b) Metal stampers
4. Construction
- a. Contract
 - (1) Building construction
 - (a) Government projects
 - (b) Commercial and industrial projects*
 - (2) Heavy construction (including bridges and irrigation projects)

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- b. Personal

(1) Construction

(2) Reconstruction

5. *Public utilities*

a. Electricity, gas and steam

(1) Gas manufacture and distribution

(2) Steam heat and power

b. Water supply and sanitary services

(1) Drainage system
6. *Services*

a. Medical and other health services

(1) Private health services

b. Recreation services

(1) Motion picture production
7. *Financial*

a. Banks

(1) Commercial banks

(2) Savings and mortgage banks
8. *Commerce*

a. Export products*

b. Importation of capital goods and raw materials*

c. Domestic trade (Filipino only) wholesale and retail*

* To follow rating of economic activities included in the list.

SAMPLE INVESTMENT MANAGEMENT AGREEMENT
(Appendix to Subsec. X411.1)

IMA No. (prenumbered)

INVESTMENT MANAGEMENT AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

This AGREEMENT, made and executed this ____ day of _____ at _____,
Philippines, by and between:

(Hereinafter referred to as the “**PRINCIPAL**”)

and

_____, a banking corporation authorized to
perform trust functions, organized and existing under and by virtue
of the laws of the Philippines, with principal office and place of
business at _____,
Philippines.
(Hereinafter referred to as the “**INVESTMENT MANAGER**”)

WITNESSETH: THAT -

WHEREAS, the **Principal** desires to avail of the services of the **Investment Manager**
relative to the management and investment of **Principal’s** investible funds;

WHEREAS, the **Investment Manager** is willing to render the services required by the
Principal relative to the management and investment of **Principal’s** investible funds, subject
to the terms and conditions hereinafter stipulated;

NOW, THEREFORE, for and in consideration of the foregoing and of the mutual
conditions stipulated hereunder, the parties hereto hereby agree and bind themselves to the
following terms and conditions:

INVESTMENT PORTFOLIO

1. Delivery of the Fund - Upon execution of this Agreement, the **Principal** shall
deliver to the **Investment Manager** the amount of PHILIPPINE PESOS:
_____ (P_____).

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2. Composition - The cash which the **Principal** has delivered to the **Investment Manager** as well as such securities in which said sums are invested, the proceeds, interest, dividends and income or profits realized from the management, investment and reinvestment thereof, shall constitute the managed funds and shall hereafter be designated and referred to as the **Portfolio**. For purposes of this Agreement, the term *securities* shall be deemed to include commercial papers, shares of stock and other financial instruments.

3. Delivery of Additional Funds - At any time hereafter and from time to time at the discretion of the **Principal**, the latter may deliver additional funds to the **Investment Manager** who shall form part of the Portfolio and shall be subject to the same terms and conditions of this Agreement. No formalities other than a letter from the principal and physical delivery to the **Investment Manager** of cash will be required for any addition to the Portfolio.

4. Nature of Agreement - **THIS AGREEMENT IS AN AGENCY AND NOT A TRUST AGREEMENT. AS SUCH, THE CLIENT SHALL AT ALL TIMES RETAIN LEGAL TITLE TO FUNDS AND PROPERTIES SUBJECT OF THIS ARRANGEMENT.**

THIS AGREEMENT IS FOR FINANCIAL RETURN AND FOR THE APPRECIATION OF ASSETS OF THE ACCOUNT. THIS AGREEMENT DOES NOT GUARANTEE A YIELD, RETURN OR INCOME BY THE INVESTMENT MANAGER. AS SUCH, PAST PERFORMANCE OF THE ACCOUNT IS NOT A GUARANTY OF FUTURE PERFORMANCE AND THE INCOME OF INVESTMENTS CAN FALL AS WELL AS RISE DEPENDING ON PREVAILING MARKET CONDITIONS.

IT IS UNDERSTOOD THAT THIS INVESTMENT MANAGEMENT AGREEMENT IS NOT COVERED BY THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC) AND THAT LOSSES, IF ANY, SHALL BE FOR THE ACCOUNT OF THE PRINCIPAL.

POWERS

5. Powers of the Investment Manager - The **Investment Manager** is hereby conferred the following powers:

- a. To invest or reinvest the Portfolio in (1) Evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral ng Pilipinas, and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or loans against such government securities; (2) Loans fully guaranteed by the government as to the payment of principal and interest; (3) Loans fully secured by hold-out on, assignment or pledge of deposits or of deposit substitutes, or mortgage and chattel mortgage bonds; (4) Loans fully secured by real estate and chattels in accordance with Section 78 of R.A. No. 337, as amended, and subject to the requirements of Sections 75, 76 and 77 of R.A. No. 337, as amended; and (5) Such other investments or loans as may be directed or authorized by the **Principal** in a separate written instrument which shall form

part of this Agreement: *Provided*, That said written instrument shall contain the following minimum information: (a) The transaction to be entered into; (b) The amount involved; and (c) The name of the issuer, in case of securities and/or the name of the borrower and nature of security, in the case of loans;

- b. To endorse, sign or execute any and all securities, documents or contracts necessary for or connected with the exercise of the powers hereby conferred or the performance of the acts hereby authorized;
- c. To cause any property of the Portfolio to be issued, held, or registered in the name of the **Principal** or of the **Investment Manager**: *Provided*, That in case of the latter, the instrument shall indicate that the Investment Manager is acting in a representative capacity and that the **Principal**'s name is disclosed thereat;
- d. To open and maintain savings and/or checking accounts as may be considered necessary from time to time in the performance of the agency and the authority herein conferred upon the **Investment Manager**;
- e. To collect and receive matured securities, dividends, profits, interest and all other sums accruing to or due to the Portfolio;
- f. To pay such taxes as may be due in respect of or on account of the Portfolio or in respect of any profit, income or gains derived from the sale or disposition of securities or other properties constituting part of the Portfolio;
- g. To pay out of the Portfolio all costs, charges and expenses incurred in connection with the investments or the administration and management of the Portfolio including the compensation of the **Investment Manager** for its services relative to the Portfolio; and
- h. To perform such other acts or make, execute and deliver all instruments necessary or proper for the exercise of any of the powers conferred herein, or to accomplish any of the purposes hereof.

LIABILITY OF INVESTMENT MANAGER

6. Exemption from Liability - In the absence of fraud, bad faith, or gross or willful negligence on the part of the **Investment Manager** or any person acting in its behalf, the **Investment Manager** shall not be liable for any loss or damage to the Portfolio arising out of or in connection with any act done or performed or caused to be done or performed by the **Investment Manager** pursuant to the terms and conditions herein agreed, to carry out the powers, duties and purposes for which this Agreement is executed.

7. Advice of Counsel - The **Investment Manager** may seek the advice of lawyers. Any action taken or suffered in good faith by the **Investment Manager** as a consequence of

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the opinion of the said lawyers shall be conclusive and binding upon the **Principal**, and the **Investment Manager** shall be fully protected from any liability suffered or caused to be suffered by the **Principal** by virtue hereof.

ACCOUNTING AND REPORTING

8. The **Investment Manager** shall keep and maintain books of accounts and other accounting records as required by law. The **Principal** or the authorized representative of the **Principal** shall have access to and may inspect such books of accounts and all other records related to the Portfolio, including the securities held in custody by the **Investment Manager** for the Portfolio.

9. Reporting Requirements - The **Investment Manager** shall prepare and submit to the **Principal** the following reports within _____: (a) Balance Sheet; (b) Income Statement; (c) Schedule of Earning Assets; (d) Investment Activity Report; and (e) (such other reports as may be required by the **Principal**).

INVESTMENT MANAGER'S FEE

10. Investment Fee - The **Investment Manager**, in addition to the reimbursement of its expenses and disbursements in the administration and management of the Portfolio including counsel fees, shall be entitled to receive as compensation for its services a management fee of _____ (Specify amount or rate).

WITHDRAWALS FROM THE PORTFOLIO

11. Withdrawal of Income/Principal - Subject to availability of funds and the non-diminution of the Portfolio below P1 million, the **Principal** may withdraw the income/principal of the Portfolio or portion thereof upon written instruction or order given to the **Investment Manager**. The **Investment Manager** shall not be required to see as to the application of the income/principal so withdrawn from the Portfolio. Any income of the Portfolio not withdrawn shall be accumulated and added to the principal of the Portfolio for further investment and reinvestment.

12. Non-alienation of Encumbrance of the Portfolio or Income - During the effectivity of this Agreement, the **Principal** shall not assign or encumber the Portfolio or its income or any portion thereof in any manner whatsoever to any person without the prior written consent of the **Investment Manager**.

EFFECTIVITY AND TERMINATION

13. Term - This Agreement shall take effect from the date of signing hereof and shall be in full force and effect until terminated by either party by giving written notice thereof to the other at least _____() days prior to the termination date.
14. Powers upon Liquidation - The powers, duties and discretion conferred upon the **Investment Manager** by virtue of this Agreement shall continue for the purpose of liquidation and return of the Portfolio, after the notice of termination of this Agreement has been served in writing, until final delivery of the Portfolio to the **Principal**.
15. Accounting of Transaction - Within _____() days after the termination of this Agreement, the **Investment Manager** shall submit to the **Principal** an accounting of all transactions effected by it since the last report up to the date of termination. Upon the expiration of the _____() days from the date of submission, the **Investment Manager** shall forever be released and discharged from all liability and accountability to anyone with respect to the Portfolio or to the propriety of its acts and transactions shown in such accounting, except with respect to those objected to in writing by the **Principal** within the _____() day period.
16. Remittance of Net Assets of the Portfolio - Upon termination of the Agreement, the **Investment Manager** shall turn over all assets of the Portfolio which may or may not be in cash to the **Principal** less the payment of the fees provided in this Agreement in carrying out its functions or in the exercise of its powers and authorities.

This Agreement or any specific amendments hereto constitute the entire agreement between the parties, and the **Investment Manager** shall not be bound by any representation, agreement, stipulation or promise, written or otherwise, not contained in this Agreement or incorporated herein by reference, except pertinent laws, circulars or regulations approved by the Government or its agencies. No amendment, novation, modification or supplement of this Agreement shall be valid or binding unless in writing and signed by the parties hereto.

IN WITNESS WHEREOF, the parties have hereunto set their hands on the date and at the place first above set forth.

(PRINCIPAL) (INVESTMENT MANAGER)

By:

SIGNED IN THE PRESENCE OF:

RISK MANAGEMENT GUIDELINES FOR DERIVATIVES
[Appendix to Subsec. X611.1 (2008 - X602.1)]

I. Introduction

This appendix, together with the Guidelines on Supervision by Risk (*Appendix 72*) and other BSP issuances on management of the different risks attendant to banking activities, provides a framework on which a bank can establish its risk management activities. Accordingly, this set of risk management guidelines for derivatives should be read and used in conjunction with all related BSP issuances on risk management.

A bank, in using these guidelines to evaluate the propriety and adequacy of its risk management, must consider the following principles:

a. No single risk management system for derivatives is expected to work for all banks considering that the structure and level of derivatives activities will vary from one bank to another. Each bank should apply the principles set in these guidelines in a manner appropriate to its needs and circumstances. The BSP shall evaluate the quality of a bank’s risk management system based on the principles and minimum requirements of these guidelines, scaled to the derivatives activities being undertaken.

b. The requirements prescribed in these guidelines are merely minimum standards and therefore, should not be taken as the “be-all” for a bank’s risk management. The board of directors¹ has the responsibility of ensuring that a bank’s risk management system appropriately captures its risk exposures and affords proper management of these.

c. A trust entity within a bank must have a separate risk management system. However, the trust department may in-source back office functions of its risk management system with the bank proper

only upon prior BSP approval on the basis that such in-sourcing will not give rise to potential conflict of interest.

II. Risk associated with derivatives

While derivatives primarily help manage existing and anticipated risks, derivatives themselves are exposed to the risks they are designed to manage. Moreover, simple derivatives, when combined with other financial instruments, may result in a structure that exposes a bank to complicated risks. Thus, derivatives can aggravate the risks of banks and of counterparties if derivatives are not clearly understood and properly managed.

A single derivatives product may expose a bank to multiple risks as enumerated under *Appendix 72*. These categories are not mutually exclusive of each other. Hence, derivatives activities must be managed with consideration of all these risks.

III. Risk management process for derivatives

The management of derivatives activities should be integrated into a bank’s overall risk management system using a conceptual framework common to the bank’s other businesses. For example, price risk exposure arising from derivatives transactions should be assessed in a manner comparable to and aggregated with all other price risk exposures. Risk consolidation is particularly important because the various risks contained in derivatives and other market activities can be interconnected and may transcend specific markets.

At a minimum, the risk management process for derivatives should be able to:

a. **Identify** the risks arising from its derivatives activities in whatever capacity

¹ In case of a local branch of a foreign bank, the equivalent management review arrangement (e.g., management committee, regional review committee). In case of a trust entity, the trust committee.

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it deals with the same. A bank must likewise identify the impact of its derivatives activities on its overall risk profile. To properly identify risks, a bank must understand the derivatives products with which it is transacting and the factors that affect them. Considering that changes in the value of derivatives are highly influenced by changes in market factors, risk identification should be a continuing process and should occur at both a transaction and portfolio level.

b. **Measure** the risks arising from its derivatives activities. A bank must have measurement models or tools to quantify the risks identified. These measurement tools should be suitable to the nature and volume of a bank’s derivatives activities. As the complexity and volume of the derivatives activity increases, the measurement tools should correspondingly be more sophisticated. The primary criteria for the propriety of the measurement tools are accuracy, timeliness, efficiency and comprehensiveness with which these tools can capture the risks involved and their contribution to the decision-making process of bank management.

c. **Monitor** the risks arising from its derivatives activities. Derivatives products are very sensitive to market factors, which continually change. Thus, a bank should have a mechanism to monitor the responsiveness of derivatives to market factors to enable it to review and assess its risk positions. In order to effectively monitor the risks, reports must be timely generated in order to aid management in determining whether there is a need to adjust the bank’s derivatives positions.

d. **Control** the risks arising from its derivatives activities. A bank must establish limits to its derivatives exposure. These limits should be comprehensive and aligned with a bank’s overall risk tolerance. A bank’s

policies and procedures on control should provide for contingencies when limits are breached. A bank must allot lead time and have a mechanism that enables management to act in time to control unacceptable or undesired exposures. A bank must also establish a system that separates functions susceptible to conflicts of interest.

IV. Sound risk management practices for derivatives

Consistent with the criteria for sound risk management practices in Item V of *Appendices 73 and 74*, the BSP shall assess the propriety and adequacy of a bank’s risk management system for its derivatives activities in accordance with the following basic principles:

a. Active and appropriate board¹ and senior management oversight

A bank’s board of directors must set the general policy or the policy direction relating to the management of a bank’s risks, including those arising from its derivatives activities. This policy should be consistent with the bank’s business strategies, capital strength, management expertise and risk profile. Accordingly, the board of directors must understand the nature and purpose of the bank’s derivatives activities and the role derivatives play in the bank’s overall business strategy. Passive board of directors approval is not acceptable. There must be verifiable evidence of the board of directors approval processes and that senior management exerted effort to explain the nature and purpose of the derivatives activities to the board of directors (e.g., minutes of board of directors meetings documenting presentations and reports to the board of directors and the approval processes).

The board of directors must review and pre-approve new derivatives products as

¹ In case of a local branch of a foreign bank, the equivalent management review arrangement (e.g., management committee, regional review committee). In case of a trust entity, the trust committee.

well as significant related policies and procedures. Central to the approval of new products is defining when a product or activity is new in order to ensure that variations on existing products receive the proper review and authorization. Policies should also detail authorized activities (e.g., at what stages approvals should be obtained, from whom approvals should be obtained), those that require one-time approval and those that are considered inappropriate.

The board of directors must be apprised of the bank's derivatives exposures on a timely basis in order to enable the board of directors to act on such exposures accordingly. Consequently, there should be an established reporting methodology to ensure that the board of directors receives, on a continuing basis, detailed information regarding the bank's risk exposures from derivatives, including the impact to the bank's overall risk profile, earnings and capital. These reports should include both normal and stress scenarios.

Pursuant to the general policy or policy direction on risk management set by the board of directors, senior management must adopt adequate policies and procedures for conducting the bank's derivatives activities on both a long-range and day-to-day basis. Policies should clearly delineate responsibility for managing risk, and provide effective internal controls and a comprehensive risk-reporting process. Policies must also keep pace with the changing nature of derivatives products and markets and therefore must be reviewed on an on-going basis. Senior management should ensure that the various components of a bank's risk management process are regularly reviewed and evaluated. Internal evaluations may be supplemented by external auditors or other qualified outside parties.

The quality of oversight provided by the board of directors and senior management

to a bank's derivatives activities will be reflected in the overall risk management process, the adequacy of resources (financial, technical expertise, and systems technology) devoted to handle derivatives activities and its use of the monitoring reports. The board of directors and senior management shall be responsible for ensuring that bank personnel comply with prescribed risk management standards and sales and marketing guidelines.

b. Adequate risk management policies and procedures

A bank must establish policies and procedures to guide its personnel in conducting derivatives activities. These risk management policies must be reflective of a bank's current strategy and practice.

A bank should not issue policies and procedures for derivatives in isolation. All aspects of the risk management process for derivatives activities should be integrated into the bank's over-all risk management system to the fullest extent possible using a conceptual framework common to the bank's other activities. Risk management policies should be comprehensive, covering all activities of the bank. The BSP will evaluate the degree to which controls covering derivatives activities have been integrated in other issuances of the bank covering aggregate risk-taking activities

For banks that conduct derivatives transactions with subsidiaries and affiliates, there should be policies and procedures that describe the nature, pricing, monitoring, and reporting of acceptable related-party transactions.

All risk management policies and procedures must be written, well communicated to all personnel involved in the derivatives activities and readily available in user-friendly form, whether the same is a hard or soft copy thereof. A bank must also put up systems and procedures to ensure an audit trail evidencing the

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dissemination process for new and amended policies and procedures.

At a minimum, a bank is expected to have:

1. Comprehensive, updated and relevant risk policy manual(s);
2. Operations manual(s) or similar documents that describe the flow of transactions among and between the relevant units and personnel in a bank's treasury (front office, back office and accounting) and risk management unit;
3. Approved product manual(s) that includes product definition, benefits and risks, pricing mechanisms, risk management processes, capital allocation guidelines, tax implications and other operating procedures and controls for the bank's derivatives activities.

c. Appropriate risk measurement methodologies, limits structure, monitoring and management information system

The process of measuring, monitoring and controlling risk should be carried out independently from individuals conducting derivatives activities. An independent system of reporting exposures to both senior level management and to the board of directors is critical to the effectiveness of the process.

(1) Measurement methodologies

A bank must be able not only to accurately quantify the multiple risk exposures arising from its derivatives activities but also aggregate similar risks across the different activities of the bank to the fullest extent possible. A bank must develop a risk measurement model appropriate to its portfolio. Accordingly, a bank must evaluate the assumptions used, computational requirements, procedures for computing the risk metric, sourcing of inputs used in the measurement process, including the theoretical reasons for a particular input choice, and how these concepts apply to the bank's portfolio.

The risk measurement system should be structured to enable management to initiate prompt remedial action, facilitate stress-testing, and assess the potential impact of various changes in market factors on earnings and capital. A risk measurement system is considered sound if it is capable of comprehensively capturing risks from: (a) the bank's on and off-balance sheet exposure; (b) all relevant market factors; and (c) normal circumstances and stress events. Sound risk measurement practice includes identifying possible events or changes in market behavior that could have unfavorable effects on the bank and assessing the ability of the bank to withstand these events or changes. The stress testing should include not only quantitative exercises that compute potential gains or losses but also qualitative analyses of actions that management might take under particular scenarios.

A bank's risk measurement system should provide appropriate pricing and valuation procedures to ensure best execution for both proprietary trading and those undertaken for clients and mark-to-market/model (MTM) methodology for derivatives instruments that follows established MTM regulations and Philippine Accounting Standards (PAS 39).

New measurement models whether developed internally or purchased from vendors, should be subject to an initial validation before it is used. Internally developed models require more intensive evaluation where they have not been market-tested by external parties. The validation process should consist of a review of the logic, mathematical or statistical theories, assumptions, internal processes and overall reliability of a bank's measurement models, including the compatibility of the measurement model with the bank's technology and systems.

The validation must be undertaken by a technical expert independent from the unit that developed the model. For example, pricing systems developed by a trader is required to be independently validated by a corresponding technical expert from the bank's risk management unit. If no such personnel from the risk management unit exists, an independent validation may be performed by internal audit provided that internal audit has the necessary expertise. A bank may also avail of the services of an independent outside expert. Thereafter, the frequency and extent to which models are validated depends on changes that affect pricing, risk presentation or the existing control environment. Changes in market conditions that affect pricing and risk conventions, which model performance, should trigger additional validation review.

Risk management policies should clearly address the scope of the validation process, the frequency of validations, documentation requirements, and management responses. At a minimum, policies should require the evaluation of significant underlying algorithms and assumptions before the model is put in regular use, and as market conditions warrant thereafter. Such internal evaluations should be conducted by parties who, where practicable, are independent of the business sector using or developing the model. The evaluation may, if necessary, be conducted or supplemented with reviews by qualified outside parties, such as experts in highly technical models and risk management techniques.

(2) Limits structure

A bank must specify individual limits for all types of risks involved in a bank's derivatives activities. A bank should use a variety of limits to adequately capture the range of risks or to address risks that the measurement system does not capture. These limits should be integrated into the

bank-wide limit structure to ensure consistency with the board of director-approved risk appetite and business strategy.

The limit structure should be realistic taking into consideration the target budget, level of earnings and capital. Limits must be documented and promptly communicated to all relevant personnel. Limits must be reviewed at least annually or more frequently, if circumstances warrant, in order to ensure that limits reflect the bank's past performance and current position.

Limits should be continually analyzed as regards its impact on target income, earnings and capital. These analyses should be submitted/reported to the board of directors. Any excess over the limit must be approved only by authorized personnel and immediately reported to senior management and depending on the seriousness, also to the board of directors. The seriousness of limit exceptions depends upon management's approach towards setting limits and on the actual size of individual and organizational limits relative to the bank's capacity to take risks. A bank with relatively conservative limits may encounter more exceptions to those limits than that with less restrictive limits. There must also be mechanisms for the correction of breach of these limits.

A bank's limit structure should address the following:

- (a) Definition of a credit exposure;
- (b) Maximum credit exposure to an individual counterparty;
- (c) Credit concentrations;
- (d) Maximum nominal exposure:
 - (i) per trader and per transaction; and
 - (ii) position limits.
- (e) Approved credit risk mitigation techniques;
- (f) Appropriate loss exposure triggers:
 - (i) loss alert;
 - (ii) stop loss;
 - (iii) value-at-risk; and

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(iv) earnings-at-risk.

(3) Monitoring

Monitoring of risk exposures, market conditions, and trading positions should be done at least daily. Derivatives instruments are highly influenced by movements in market factors. Thus, a bank must have a mechanism that can track and analyze the effect of market movements on its derivatives exposures.

To ensure proper monitoring of risks, a bank is expected to have technology and systems that can (a) track movements in reference variables (underlying) and other market factors affecting the value of the derivatives instruments, such as trigger events; and (b) incorporate observed market movements into the pricing and valuation of derivatives instruments.

While monitoring is undertaken independently from the personnel conducting derivatives activities, bank traders are expected to actively monitor their positions to ensure that they do not breach their limits. Bank traders should not wait until a limit is breached to alert senior management and risk control units. Instead, traders should promptly report unanticipated changes and progressively deteriorating positions, as well as other significant issues arising from their positions, to the risk control function and responsible management.

(4) Management information system

A bank must institute an information system that generates accurate and incisive reports to ensure that management and the board of directors are timely and regularly apprised of the bank's derivatives exposures. A bank is expected to have policies and procedures pertaining to the derivatives reporting specifying, among others, the types of derivatives reports to be generated, the purpose and contents thereof, responsible units that will generate the reports, frequency and deadlines of reports, recipients/users of reports, and the

type of action expected from the users of the report. At a minimum, management reports should contain the following: outstanding derivatives positions, compliance with or status of positions as against limits, analysis of derivatives positions, along with other bank exposures, in relation to the impact to earnings and capital, monitoring of trigger events, and deviations from established policies and procedures and justifications thereof.

The management information system must be able to translate the measured risks from derivatives activities from a technical and quantitative format to one that can easily be read and understood by senior managers and directors, who may not have specialized and technical knowledge of derivatives products. Such a system enables management and the board of directors to judge the changing nature of the bank's risk exposures. The electronic data processing capability must be commensurate to the volume and complexity of the bank's derivatives activities to facilitate the generation of needed reports.

The frequency and content of board of directors and management reporting will ultimately depend upon the nature and significance of derivatives activities. Where applicable, board of directors and management reports should consolidate information across functions and divisions. Board of directors and management reporting should be tailored to the intended audience, providing summary information to senior management and the board of directors and more detailed information to bank traders.

Management reports should be generated by control departments independent of the risk-takers. When risk-takers provide information (e.g., valuations or volatilities on thinly traded derivatives contracts) for management

reports, senior management should be informed of possible weaknesses in the data, and these positions should be audited frequently.

d. Comprehensive internal controls and independent audits

A sound system of internal controls promotes effective and efficient operations, reliable financial and regulatory reporting, and compliance with relevant laws, regulations and policies of the bank. In determining whether a bank's internal controls meet these objectives, the BSP will consider the overall control environment of the bank, particularly, the process of identifying, measuring, analyzing and managing risk, the adequacy of management information systems, and degree of adherence to control activities such as approvals, confirmations and reconciliations. Control of the reconciliation process is particularly important where there are differences in the valuation methodologies or systems used by the front and back offices.

(1) Risk control

A bank should have an independent risk control unit responsible for the design and implementation of the bank's risk management system. A strong risk control function is a key element in fulfilling the oversight responsibilities of board of directors and senior managers. This unit must be independent from business trading units and should report directly to senior management of the bank. The role and structure of risk control function should be commensurate to the nature, complexity and extent of a bank's derivatives activities.

A risk control unit should regularly evaluate risk-taking activities by assessing risk levels and the adequacy of risk management processes. It should also monitor the development and implementation of control policies and risk measurement systems. It should analyze daily reports produced by the bank's risk

measurement model, including an evaluation of the relationship between measures of risk exposure and trading limits. Risk control personnel staff should periodically communicate their observations to senior management and the board of directors.

A bank's control structure shall be considered sound if all the following elements are present:

(a) Formal approval process for new products

A bank should have an effective process to evaluate and review risks involved in products that are either new to the bank or new to the market and of potential interest to the bank. A bank that desires to engage in new products and transactions must first subject these products and transactions to a rigorous review and approval process. This will ensure that all bank personnel involved in the activity have sufficient knowledge of the product or transaction, and that the ensuring risk exposures can be identified, measured and analyzed. The process must be contained in a board of directors-approved policy that is fully documented and must be implemented consistently and with integrity.

Before initialing a new derivatives activity, all relevant personnel should understand the product. Risks arising from the new product should be integrated into the bank's risk measurement and control systems. The new product approval process should include a sign-off by all relevant areas such as risk control, operations, accounting, legal, audit, and senior management and trading operations.

Defining a product or activity as "new" is central to ensuring that variations on existing products receive the proper review and authorization. Factors that should be considered in classifying a product/activity as "new" include: capacity changes (e.g., end-user to dealer), structure variations

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(e.g., non-amortizing swap versus amortizing interest rate swap), products which require a new pricing methodology, legal or regulatory considerations, or market characteristics (e.g., foreign exchange forwards in major currencies as opposed to emerging market currencies).

A bank should introduce new products in a manner that adequately limits potential losses and permits the testing of internal systems.

(b) Segregation of functions/units subject to conflict of interest

A bank must separate the business unit conducting the derivatives activities from the unit/s tasked with the checking, accounting, reporting and control functions of its derivatives activities.

A bank should have policies and procedures addressing conflicts of interest, particularly among the following functions: proprietary trading, sales or marketing desks/units, personal trading, and asset management.

A bank that conducts derivatives activities with its subsidiaries and/or affiliates must establish policies and procedures to avoid actual, or even the appearance of a conflict of interest. Off-market rates between related parties should generally be forbidden.

A bank should avoid dealing in transactions conducted at off-market rates. A bank should have internal policies defining what constitutes “market rates” and identify the range of deviation from the benchmark rates which could still be considered as “market rates”. The bank’s monitoring system should be able to alert management of any breaches in the rate tolerance levels and the appropriate action that should be taken. A bank must be able to justify any off-market transaction.

(c) Competent and adequate personnel who are properly supervised

The increased complexity of derivatives activities requires highly skilled staff particularly in the risk-taking, risk

control, and operational functions. Management should regularly review the knowledge, skills and number of people needed to engage in the bank’s derivatives activities. The staff must be appropriately balanced among the different areas involved in derivatives activities such that no area is understaffed in terms of number or skill.

Staff turnover can create serious problems, especially if knowledge is concentrated in a few individuals. The impact of staff turnover can be particularly acute in specialized trading markets where bank traders are in high demand and are often recruited in teams.

To mitigate business continuity and succession risk arising from a high staff turnover, a bank should devise a system of building technical expertise across involved personnel through continuous technical training, periodic rotation and cross-training of staff members performing key functions and developing understudies.

The board of directors should ensure that the power and control delegated to these expert personnel are not abused. Therefore, the board of directors must establish appropriate controls over their activities.

(d) Independent control functions or units

The risk control and audit units should possess the authority, independence, and corporate stature to enable them to identify and report their findings unimpeded by bank traders. It is equally important to employ individuals with sufficient experience and technical expertise to be credible to the business line they monitor and senior executives to whom they report.

2. Audit

Audits should be conducted by qualified professionals who are independent of the business line being audited. Audits should supplement, and

not be a substitute for, risk control function.

The scope of audit coverage should be commensurate with the level of risk and volume of derivatives activity. The audit should include an appraisal of the effectiveness and independence of the bank's risk management process; the adequacy of operations, compliance, accounting and reporting systems; propriety of risk measurement models; and the effectiveness of internal controls. Auditors should test compliance with the bank's policies, including limits.

The level of auditor expertise should be consistent with the level and complexity of activities and degree of risk assumed. A bank may choose to out-source audit coverage to ensure that the professionals performing the work possess sufficient knowledge and experience.

Procedures should be in place to ensure that auditors are informed of

significant changes in product lines, risk management methods, risk limits, operating systems, and internal controls so that the auditors can update their scope and procedures accordingly. Auditors should periodically review and analyze performance and risk management reports to ensure that areas showing significant changes are given appropriate attention.

The audit function must have the support of management and the board of directors in order to be effective. Management should respond promptly to audit findings by investigating identified system and internal control weaknesses and implementing corrective action. Thereafter, management should periodically monitor newly implemented systems and controls to ensure they are working appropriately. The board of directors, or designated committee, should receive reports tracking management's actions to address identified deficiencies.

(As amended by Circular No. 594 dated 08 January 2008)

SALES AND MARKETING GUIDELINES FOR DERIVATIVES
[Appendix to Sec. X611 (2008 - X602)]

I. General principle

A bank, in dealing with its clients, should always act with honesty, fairness and in pursuance of the best interests of its clients. Due to the complex nature of derivatives and the increasingly sophisticated products introduced into the market, a bank acting as dealer or broker must have appropriate controls and procedures to ensure the suitability of the transactions to its clients. A bank should ensure that (1) a client understands the nature of the transaction and the risks involved and (2) the transaction meets the client's financial objectives and risk tolerance. A bank should also disclose sufficient, accurate and comprehensible information about derivatives products, including inherent risks, in a clear and balanced presentation in order to enable its clients to make informed investment decisions.

These guidelines prescribe the minimum standards for sales and marketing procedures for banks acting as dealers or brokers of derivatives.

II. Client suitability guidelines

A bank should ensure that the derivatives products it offers to a client are appropriate for that client through a client suitability process which involves obtaining client information, classifying a client according to his/its financial sophistication and conducting a suitability review.

a. Client information

A bank, at the inception of a possible business relationship with a client, should obtain from said client information about his/its financial situation, experience, and financial objectives relevant to his/its desired products/services. A bank should ensure that the clients' risk and return

objectives are clearly identified. This can be done through questionnaires and interviews. A bank may design and use its own system for obtaining client information that would be responsive to its client suitability process.

At a minimum, client information, including client classification, should be reviewed and updated annually or earlier, in cases of material changes in the client's financial situation or goals.

b. Client classification

Based on the information obtained from a client, a bank should be able to ascertain, at a minimum, a client's classification according to financial sophistication as embodied in Section X611 and its Subsections^{1/} and his/its risk tolerance. The client classification should serve as basis for a bank product/service offerings and level of disclosures required.

In dealing with corporate clients, a bank should determine whether the client is specifically authorized to enter into all or specific kinds of derivatives transactions and the person/s authorized to act in its behalf. A bank should also determine if a corporate client has competent/qualified personnel to handle the proposed derivatives activities. If a corporate client seeks to participate in highly sophisticated/more complex products, a bank should require the client to incorporate in its board resolution authorizing the latter's derivatives activities that it likewise has appropriate risk management techniques and systems sufficient to manage and monitor the risks it will take.

In determining an individual client's classification, a bank should consider the following:

(1) The client's knowledge and understanding of derivative transactions,

^{1/} A bank, however, may adopt its own sub-classification for its own purposes.

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related investments and the risks involved therein, including the derivatives markets;

(2) The length of time the client has been actively dealing with investment and/or derivative products, the frequency of dealings and the extent to which he has relied on the investment advice of a bank or any financial advisor, if any;

(3) The size and nature of investment transactions that have been undertaken by the client; and

(4) The client’s financial standing, which may include an assessment of his net worth or the value of his portfolio.

A bank must make a record of the classification under which each client is categorized, including sufficient information to support the categorization.

Only banks with Type 1 or 2 authorities may originate or distribute authorized derivatives products to non-sophisticated end-users for investment purposes. Non-sophisticated end-users should be provided greatest protection compared to all other client types.

c. *Suitability review*

Before presenting, proposing or recommending a particular derivatives product to a client, a dealer should determine that the derivatives product is suitable to the client’s financial situation and consistent with the clients’ mandates, financial objectives and constraints.

At a minimum, a bank should consider the following in choosing the derivatives products/ services offerings to its clients:

(1) Investment amount or investible funds;

(2) Concentration ratio (i.e., asset allocation of the client’s investible funds);

(3) Purpose for transacting in derivatives transaction (e.g., hedging vs. investment; long-term buy and hold as opposed to short-term active trading);

(4) Holding period or investment horizon;

(5) Client’s regulatory and legal circumstances;

(6) Liquidity needs;

(7) Returns objectives (e.g., income, growth in principal, maintenance of purchasing power);

(8) Risk tolerance; and

(9) Client’s understanding of the risks.

A bank should maintain a record of all the information as bases of its suitability assessment. It is highly recommended that a bank requires a client to sign its conformity to the suitability assessment (including the information basis of the assessment) in order to avoid disputes with the client on its suitability assessment.

For non-sophisticated clients, a bank should adopt a suitability statement explaining simply and clearly why the product offered is viewed suitable, considering the client’s needs and preferences. To ensure the statement will be effective, a bank should consider the following features:

- *Simple and plain language*: when technical terms need to be incorporated, they should be explained if the client is unlikely to understand their meaning; and

- *Concise and clear messages*: lengthy explanations and extensive statements are likely to reduce the effectiveness of the statement and make the client less likely to read the statement properly.

Ideally, each suitability letter for non-sophisticated will be different, reflecting the approach taken by the bank representative in obtaining client information, the derivatives product presentation, the client’s profile and considerations on which the investment proposal was based, all of which involve professional judgment. A bank, however, can apply a degree of standardization to aid quality control. A bank should clearly

link its proposed or recommended derivatives product to the client's own needs, priorities and attitude toward risk. A bank may mention alternative products suitable for the client. The suitability letter should be signed by the client and the officer authorized by the bank to advise/sell/propose the recommended product.

A bank does not need to comply with the requirement of suitability review in cases where the client is classified as a market counterparty, considering its recognized sophistication. However, a bank should be able to provide sufficient support for its classification.

III. Disclosures

A bank should always be mindful of its statements regarding its products/services, whether the statements pertain to promotion, marketing or sale thereof or in the course of making the required disclosures. A bank must institute measures to ensure that its clients understand the nature and risks in a derivative transaction. These procedures may vary with the sophistication of its client. A bank can tailor-fit information, marketing and sales presentations/materials in accordance with the client classification under Section X602 and its Subsections. A bank should take further steps to adequately disclose the attendant risks of specific types of transactions when dealing with an unsophisticated client, either generally or with respect to a particular derivatives transaction (e.g., non-sophisticated client or sophisticated client with respect to complex product types). A bank should adopt standards for its publications/materials/disclosure statements and review the aforementioned documents regularly to ensure that they meet the standards.

A bank, when providing information to its clients, including potential clients, must not knowingly misrepresent or give a false

impression in any of its advertisements, electronic communications, written materials (whether publicly disseminated or not) or oral representations regarding the financial derivatives offered. A misrepresentation is any statement that deviates from the truth or omits a material fact or even tends to mislead the recipients.

a. Financial promotion (marketing and sales)

A bank embarking on a financial promotion, whether through a direct offer or information/sales publications, should ensure it gives sufficient information to enable a client to make an informed assessment of the derivatives transaction, including its underlying. A bank must prominently indicate its name in all its promotional materials and must specify its role or capacity in the transaction (e.g., as issuer, dealer/distributor, broker).

A financial promotion is considered clear, fair and not misleading if all the following requisites are present:

(1) Any statement of fact, promise or prediction is clear, fair and not misleading. A statement should disclose relevant assumptions;

(2) A client, by himself, can discern from the presentation whether the statement is a fact, promise or prediction;

(3) The accuracy of all material statements of fact can be substantiated.

(4) Any comparison or contrast of a product offered should be with another investment intended to meet the same needs or to serve the same purpose. The facts on which any comparison or contrast is made are verified, or alternatively, that relevant assumptions are disclosed. The comparison or contrast should be presented in a fair and balanced way and includes all factors which are relevant to the comparison or contrast.

(5) The design, content or format of any presentation does not disguise, obscure or diminish the significance of any

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statement, warning or other matter which the presentation should contain;

(6) Disclosures on risks and warnings should not be less prominent than any other information on performance;

(7) No reference to an approval by a regulatory body or its officials shall be made, unless a written approval was actually obtained;

(8) A recommendation to consult/refer to a financial advisor, if the client has doubts on suitability of derivatives product; and

(9) It does not omit any information, the omission of which causes a material fact to be misleading, unclear, or unfair.

A bank should consider the client's knowledge of the transaction to which a given information relates. A bank should not assume that clients/recipients necessarily have an understanding of the derivatives product being promoted. A bank should assess its usage of terms, especially those which are technical. If promotional or marketing materials are specially designed for a targeted client base reasonably believed to have particular knowledge of the investment, this should be made clear in the materials.

b. Product disclosures

A bank must endeavor to explain the derivatives products it offers to its clients to enable the latter make an informed investment decision. Product disclosures should present an adequate description of at least (a) the nature of the derivatives product, including the underlying, (b) the amount of investment required and (c) the risks involved. The adequacy of description depends on the target client classification and type of product offered. In general, disclosure should always be presented in a balanced manner where the potential benefits of an investment are tempered by a fair indication of the risks involved.

A product disclosure, which includes an illustration of past or future performance

of the derivatives product or its underlying, must comply with the following:

(1) When using past performance of a derivatives instrument, or its underlying, to illustrate possible returns, the disclosure should state that past performance is not necessarily indicative of future performance. This should be presented in the main text of presentation material. Past performance must be culled from a sufficient time frame to provide a fair and balanced indication of performance; and

(2) When using any forecast on the economy, stock market, bond market and economic trends of markets, the disclosure should state that such forecast is not necessarily indicative of the likely or future performance of the instrument; and

(3) Illustrations of returns should include worst case scenarios (i.e., not just the likely or best scenarios). Benefits shown in headline rates (pro-forma returns highlighted) should be realistic and achievable, and not based on unreasonably optimistic view of events.

Product disclosures for derivatives products with some form of guarantee or protection must highlight which benefits are guaranteed/protected and those which are not. In case of structured deposit products, a bank must ensure that any representation or claim of PDIC guarantee should have been pre-cleared with the PDIC. In instances where the guarantee or protection involves a cost to the client, the bank must disclose the fee or charge for the same. A bank should also disclose the counterparty (e.g., issuer/guarantor) risk involved to clients so that they are not misled about the capital security/principal protection. A bank, when applicable, should state if the guaranteed or protected amount is payable only at the end of the term.

Product disclosures for leverage products/transactions²¹ should emphasize that while these types of products/

²¹ Leverage or gearing can be employed in structured product to be able to offer high yields.

strategies amplify the potential gain from an investment, they also increase the potential loss thereof. A client who intends to engage in margin buying, a means of applying leverage in investing, must be cautioned on possible loss exceeding the margin or initial cash outlay.

c. Minimum required disclosures

The minimum required disclosure should always be in writing. Except for a market counterparty, a bank should require its client to sign or initial the disclosure statement as affirmation of the client's receipt and understanding of the disclosure statement. A bank may opt to draft individual and separate suitability assessment and disclosure statement to its client or consolidate the same into a separate document or incorporate these with the main derivatives transaction agreement/ contract.

Product-specific minimum disclosures should include:

- (1) The nature of the derivatives product, including the underlying financial instruments and how these instruments work;
- (2) Investment horizon or tenor of financial derivatives;
- (3) Fees and charges, whether embedded in the structure or not;
- (4) Details on the issuing entity in case the dealing bank is not the issuing institution, (i.e., the bank acts as a broker/dealer, market maker);
- (5) Returns or benefits likely to be derived from the instrument, the amount and timing thereof and whether the benefits are guaranteed or not;
- (6) All risk factors that may result in the client receiving returns less than the illustrated returns and factors affecting the recoverable amount by the client;
- (7) Details of conflicts of interest, if any;
- (8) All termination clauses, when appropriate, including charges and restrictions³⁾;

(9) Any warning, exclusion or disclaimer in relation to the product, including, but not limited, to the following:

(a) The derivatives products carry higher risks than those associated with ordinary bank savings or time deposits;

(b) The transactions are risky and may not be appropriate if client is not willing or able to accept the risk of adverse movements in the underlying securities/reference rates;

(c) Past performance of the underlying reference is not a guarantee of future performance.

(d) When applicable, a bank should draw the attention of the client to the following:

(i) The effect of early redemption of a product on the return (e.g., penalties and a poor return);

(ii) The availability of maximum benefit advertised after a specified period; and

(iii) The pre-requisite conditions for the advertised growth rate of income.

Complex products (i.e., those outside the enumeration of instruments under Subsection X602.1 (a)(2) must carry a standard warning that they are not suitable for all clients, and are intended for experienced and sophisticated investors. Complex products should carry appropriate warnings on the high economic risks of complex derivatives transaction, such as

(1) Loss of all or a substantial portion of the investment due to leveraging or other sophisticated practices;

(2) Volatility of returns;

(3) Lack of liquidity considering that there may be no secondary market for the instrument;

(4) Restrictions on transferring interests; and

(5) Absence of information regarding valuation and pricing.

Appendix 26a contains a sample disclosure statement which a bank may adopt in accordance with the features of the derivatives product offered.

³⁾ For instance, for a structured deposit, the bank should ensure that the customer is fully aware of the tenor of the deposit and that the principal amount is only guaranteed if held to maturity.

IV. Sales and marketing personnel

Any informational or promotional presentation regarding derivatives products should be undertaken only by personnel who are knowledgeable on derivatives products involved. A bank, in assessing its personnel’s knowledge in derivatives transactions, may consider the personnel’s educational background, relevant training, professional experience in rendering investment advice, making presentations regarding derivatives products or assessing the propriety of investment products for a client. Personnel involved in derivatives transactions must likewise be familiar with all relevant laws, applicable rules and regulations and must ensure compliance therewith.

At a minimum, a bank should establish qualification standards for personnel

involved in derivatives activities as well as comply with certification requirements prescribed by existing securities laws, rules and regulations. In addition, a bank should implement, and maintain a reasonably comprehensive system of training of personnel geared at enhancing technical knowledge of its personnel to enable them to understand, explain the nature and risks of a bank’s derivatives products and ensure client suitability.

The bank’s board of directors and senior management^{4\} shall be liable to its clients for the acts performed and representations made by sales and marketing personnel in their official capacity. Notwithstanding the foregoing, a bank’s board of directors and senior management are not precluded from filing the necessary action against the erring sales and marketing personnel.

^{4\} For purposes of this appendix, senior management shall comprehend officers starting from the level of the president down to the level of vice presidents.

SAMPLE RISK DISCLOSURE STATEMENT FOR DERIVATIVES ACTIVITIES
[Appendix to Section X611 (2008 - X602)]

While derivatives instruments are utilized for hedging or managing investment risk, derivatives instruments themselves involve a variety of significant risks. Considering the complexity of derivatives products, these products are generally unsuitable for non-sophisticated investors.

You should not deal in derivatives products unless you understand their nature and the extent of your exposure to the attendant risks. And even assuming that you understand derivatives transactions, you should not deal with the same unless the product is suitable for you in the light of your circumstances, experience, financial position and operational resources.

As in any financial transaction, you should ensure that you understand and comply with the regulatory requirements applicable to you and/or limitations set by your board of directors or other governing body. You should also consider the legal, tax and accounting implications of entering into any derivatives transaction.

This product generally carries higher risks than those associated with ordinary bank investments and therefore not a suitable substitute for savings or time deposits. These transactions are risky and may not be appropriate if you are not willing or able to accept the risk of adverse movements in the underlying securities/reference rates.

This transaction does not guarantee a yield, return or income. Past performance of the reference rate or similar instruments is not a guarantee of future performance. The income from the transaction may or may not fluctuate depending on prevailing market conditions.

(A bank need not adopt all the following enumerated statements. It only has to incorporate those statements that may be applicable to the derivatives products or transactions)

- This transaction may be used for hedging purposes. If you are entering into the transaction for hedging purposes, this product may not match your exposure perfectly. You may be under or over hedged or may be subject to other exposures as a result of the transaction.*
- These are over-the-counter derivatives which may pose liquidity risks to you. These are generally not liquid because there is no exchange or secondary trading market through which you can dispose the derivative. Bid and offer prices for these instrument may not be quoted. Bid and offer quotes, if any, are established by the dealers in the instruments and consequently fair price may be difficult to establish.*
- While you may terminate this transaction prior to the specified termination date, the cost of early termination may be substantial. Pre-termination may reduce the expected return or the investment amount, even in the case of principal protected structured products.*

Product specific disclosures:

- This transaction can be subject to the risk of loss of the entire principal/notional amount of the transaction. You may lose some or all of your investment.*
- (For principal protected structured products) While the principal for structured deposits may be protected and carries PDIC guarantee, returns are variable and are often contingent on the performance of complex financial instruments that an average customer may not fully understand. There is still a potential loss of the principal amount invested if the structured deposit is not held to maturity, i.e. there is an early redemption fee.*
- (For leveraged products/ transactions) if the derivatives transactions require you to put up a margin, you may sustain a loss of the entire margin you deposited with the*

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bank to establish or maintain your position. If the market moves against you (i.e., unfavorably), you may even be called upon to pay additional margin (known as margin call) at short notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a loss and you will be responsible for the resulting deficit.

- (For non-readily realizable investments) You may have difficulty selling this investment at a reasonable price and, in some circumstances, it may be difficult to sell it at any price. Do not invest in this unless you have carefully thought about whether you can afford it and whether it is right for you.
- These instruments often involve a high degree of gearing or leverage, so that a relatively small movement in the price of the underlying asset or variable can result in a much larger movement, unfavorable or favorable, in the price of the instrument. The price of the instrument can therefore be volatile
- In buying options, the maximum loss can be limited to the premium (plus any commission or transaction charges) when the price of the underlying asset moves against you because you can simply allow the option to lapse. However, if you buy a call option on another derivatives instrument, e.g., futures contract, the exercise of the option may expose you to the risks for that particular derivatives.
- If you write an option, the risks are considerably greater. You may be liable for margin (i.e., minimum level of collateral) to maintain your position and a loss may be

sustained well in excess of the premium received. By writing an option, you are accepting a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the exercise price may have moved from the market price of the underlying asset. If you already own the underlying asset (known as covered call option), the risk is reduced. However, if you do not own the underlying asset, the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

Any scenario analysis is being provided for illustrative purposes only. It does not represent actual prices that may be available to you. It does not present all possible outcomes or describe all factors that may affect the value of the transaction.

No advice on investments has been given. If you have any doubt about the suitability of the product, you should contact a financial advisor or carefully consider whether the product is suitable for you.

In entering into any derivatives activity with or arranged by us, you should understand that we are not acting in the capacity of your financial adviser due to the inherent conflicts of interest in simultaneously acting as dealer and financial adviser. Notwithstanding the conflict of interest, we may act as your financial adviser only if you have so agreed in writing and only to the extent so provided.

THIS STATEMENT DOES NOT PURPORT TO DISCLOSE ALL OF THE RISKS OR RELEVANT CONSIDERATIONS IN ENTERING INTO DERIVATIVES TRANSACTIONS. YOU SHOULD REFRAIN FROM ENTERING INTO ANY SUCH ACTIVITY UNLESS YOU FULLY UNDERSTAND ALL SUCH RISKS AND HAVE INDEPENDENTLY DETERMINED THAT THE ACTIVITY IS SUITABLE FOR YOU.

(Name of Bank)

I/We have read and understood the risk warning set out above.

Date

(Signature of Customer)

(As amended by Circular 594 dated 08 January 2008)

**GENERAL GOVERNANCE PRINCIPLES AND STANDARDS ON
RELATIONSHIPS BETWEEN BANKS AND THEIR RELATED
NON-GOVERNMENTAL ORGANIZATIONS (NGOs)/FOUNDATIONS**
(Appendix to Subsec. X326.1)

Section 1. General Principles and Standards

To reinforce the observance of corporate governance principles and guidelines, the following principles and standards shall govern business relationships between banks and their related NGOs/Foundations engaged in retail microfinance operations:

General Principles:

1. Microfinance programs/operations of banks shall be supervised and administered separately from the microfinance programs/operations of related NGOs/foundations;
2. All transactions between banks and their related NGOs/foundations shall be in the ordinary course of business and upon terms not less favorable to the bank than those offered to other parties; and
3. Bank board of directors and management must at all times adhere to the three pillars of corporate governance, namely: fairness, accountability and transparency in all of its dealings with related NGOs/foundations.

Standards

1. Microfinance programs/operations of banks and their related NGOs/foundations should have separate organizational structure, manual of operations, management information system, etc.;
2. The board of directors should formulate policies that shall govern the dealings of the bank with its related NGO/foundation, e.g. prohibiting and/or limiting activities and transactions that could result in conflict of interests and providing

preferential treatment to the related NGO/foundation to the disadvantage of the bank. Also, the board must ensure that senior management implements the aforementioned policies by requiring the submission of periodic reports covering transactions with related NGO/foundation;

3. Formal agreements/contracts should govern the business relationships of banks and their related NGO/foundations covering both their overall/general relationship and specific transactions such as: (i) the purchase by bank of NGO/foundation's loan portfolio, (ii) the collection of loan payments (from NGO/foundation's borrowers) by the bank and (iii) the payment for trainings/seminars given by the NGO/foundation;

Terms and conditions of the formal agreements/contracts shall include, among other things, the following:

- Purchase of loan receivables of NGO/foundation
 - a. Criteria in selecting loan accounts;
 - b. Purchase price including premiums, if any;
 - c. Bank recourse in case of non-payment by borrowers;
- Collection of loan payments from borrowers of NGO/foundation
 - a. Compensation for utilizing bank resources, e.g. employees, transportation and equipment, etc.;
 - b. Mode of payment by the NGO/foundation;
- Conduct of microfinance trainings/seminars by BGO/foundation

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a. Lecturers shall have adequate background and/or experience in microfinance operations;

b. Training syllabus which include subjects on client selection, credit and cash flows analyses, delinquency management, etc.

4. Any loan, other credit accommodation or guarantee in any form whatsoever granted to a related NGO/foundation is subject to existing rules on DOSRI loans.

However such loan, other credit accommodation or guarantee shall be excluded in determining compliance with the Individual Ceiling on DOSRI loans: *Provided*, That such loan, other credit accommodation or guarantee is secured by the deposit of clients of the borrowing NGO/foundation which are maintained with the lending bank: *Provided further*, That all of the following conditions are met:

a. Existing regulations on the opening of deposit accounts and other deposit transactions shall apply except when specifically stated otherwise;

b. Depositors shall issue waivers of confidentiality of their deposits and enter hold-out agreements with the lending bank;

c. Interest rates on such deposits shall not exceed to that of similar type of deposit accounts;

d. Collected but undeposited capital build-up funds from clients shall be recorded in a temporary liability account in the books of related NGOs/foundations and shall be deposited with the related bank not later than fifteen (15) calendar days from date of collection;

e. Total loans, other credit accommodations and guarantees granted to the related NGO/foundation shall not exceed, at any time, the total deposits owned by its clients; and

f. That the NGO/foundation shall consider as payments to the clients' obligations any deposits used by the lending bank to settle any unpaid obligation(s) of the NGO/foundation.

5. Bank directors and management are reminded to perform their duties and responsibilities in accordance with the standards of corporate governance. Under Subsec. X141.3, duties and responsibilities of bank directors include, among others, the following:

a. To conduct fair business transactions with the bank;

b. To act honestly and in good faith, with loyalty and in the best interest of the institution;

c. To devote time and attention necessary to properly discharge their duties and responsibilities;

d. To act judiciously; and

e. To observe confidentiality.

Section 2. Requirements

In this connection, banks engaged in retail microfinance operations are required to:

1. To include in the biographical data of directors and officers their involvement, in any capacity, in the microfinance operations of related microfinance NGOs/foundations;

2. Require the approval of the board of directors of all related party transactions and that the same be covered by notarized agreements. It is also understood that all loan transactions with related NGOs/foundations shall comply with the existing requirements on DOSRI loans; and

3. Submit a copy of the said agreement/contract to the appropriate BSP department/group for review and evaluation.

(M-2011-033 dated 15 June 2011)

CLEARING PROCEDURES
[Appendix to Sec. X205 (2008 - X603)]

(Deleted by Circular No. 681 dated 08 February 2010)

**CLEARING OPERATIONS BETWEEN REGIONAL CLEARING CENTER
AND THE MANILA CLEARING CENTER
(Tarlac, Tarlac Used as Sample)
[Appendix to Subsec. X205 (2008 - X603)]**

(Deleted by Circular No. 681 dated 08 February 2010)

**PROCEDURES ON COLLECTION OF FINES/PENALTIES FROM BANKS AND/OR
DIRECTORS/OFFICERS OF BANKS**
[Appendix to Subsecs. X902.1 (2008 - X609.1) and X902.2 (2008 - X609.2)]

For uniform implementation of the regulations on collection of fines/penalties from banks and/or directors/officers of banks, the following procedures shall be observed:

1. Upon approval of the fines/penalties by the Governor/ Monetary Board, the Department/Office concerned shall send the Statement of Account (SOA)/billing letter to the bank with an advice that the penalty should be paid in full within fifteen (15) calendar days from receipt of SOA/billing letter. For entities which maintain demand deposit account (DDA) with BSP, the amount of the penalty/ies shall be automatically debited from the bank's DDA with the BSP after the lapse of the fifteen (15)-calendar day period. The bank shall likewise be advised that penalty or portion thereof which remained unpaid after the lapse of said fifteen (15)-day period shall be subject to additional charge of six percent (6%) per annum reckoned from the banking day immediately following the end of the fifteen (15)-day period up to the day of actual payment.

2. On the banking day immediately following the end of said fifteen (15)-day period, unpaid penalties shall be automatically debited, without additional charge, against the bank's DDA with the BSP by the Comptrollership Sub-sector (CoSS) based on the amount booked by the Department/Office concerned after first confirming with the CoSS the sufficiency of the bank's DDA balance to cover the amount of the penalty.

3. If, based on its confirmation with the CoSS, the Department/Office concerned

received information that the bank's DDA balance is insufficient to cover the amount of the penalty, it shall accordingly advise and request the bank to immediately fund its DDA.

4. As soon as it is funded, the bank's DDA shall be debited by the CoSS for the amount of the penalty, plus the six percent (6%) additional charge for late payment of the penalty reckoned from the banking day immediately following the end of the fifteen (15)-day period up to the day of actual payment, based on the amount booked by the Department/Office concerned.

5. Payment by TBs, RBs or Coop banks of penalty, plus the additional charge, if any, by check or demand draft shall be made directly to the BSP Cash Department or to BSP Regional Cash Units in accordance with the provisions of Subsec. X902.4.

6. In the case of penalty/ies imposed on bank directors/officers, said directors/officers shall be advised by the Department/Office concerned to pay within fifteen (15) calendar days from receipt of the SOA/billing letter directly to the BSP in the form of cash or check and in accordance with the provisions of Subsec. X902.4. Penalty or portion thereof which remained unpaid after the lapse of said fifteen (15)-day period shall also be subject to additional charge of six percent (6%) per annum reckoned from the banking day immediately following the end of the fifteen (15)-day period up to the day of actual payment.

(As amended by Circular No. 662 dated 09 September 2009)

PREScribed FORMAT
MEMORANDUM OF UNDERSTANDING
[Appendix to Subsec. X111.3 (2008 - X106.3)]

_____(Name of Bank)_____ and the Bangko Sentral ng Pilipinas (BSP) wish to protect the interest of the depositors, creditors, shareholders and the public in general and toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable banking laws, rules and regulations.

In consideration of the above premise, the BSP, through its authorized deputies, and the Bank, by and through its duly elected Board of Directors (Board), do hereby agree that the Bank shall at all times operate in compliance with the articles of this Memorandum of Understanding.

ACTION PLAN

Within thirty (30) days, the Board shall adopt and implement a capital restoration plan detailing the Board’s perception of what needs to be done to improve the Bank’s capital position, specifying how the Board will implement the plan and setting forth a timetable for the implementation of the plan.

Upon completion of the plan, the Bank shall submit the plan to the appropriate supervising and examining department of the BSP for review. The Board shall establish appropriate procedures for the implementation of the plan.

In the event the BSP recommends changes to the action plan, the Board shall immediately incorporate those changes into the plan.

The plan shall be implemented pursuant to the time frames set forth within the plan unless events dictate modifications to the plan are required. Where the Board considers modifications appropriate, those modifications shall be submitted to the BSP for approval.

CAPITAL PROGRAM

The Bank shall achieve by _____ (date) _____ and thereafter maintain the following capital levels:

- a. At least equal to ten percent (10%) of its risk assets;
- b. At least equal to the following amounts (in million pesos):

	Existing Requirements	Compliance Period		
		12/24/98	12/31/99	12/31/2000
Expanded KBs	3,500	4,500	4,950	5,400
Non-Expanded KBs	1,625	2,000	2,400	2,800

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	Existing Requirements	12/24/98	Compliance 12/31/99	Period 12/31/2000
Thrift Banks				
Within Metro Manila	200	250	325	400
Outside Metro Manila	40	40	52	64
Rural Banks				
Within Metro Manila	20	20	26	32
Cities of Cebu & Davao	10	10	13	16
1st/2nd/3rd class cities & 1st class municipalities	5	5	6.5	8
4th/5th/6th class cities & 2nd/ 3rd/4th class municipalities	3	3	3.9	4.8
5th/6th class municipalities	2	2	2.6	3.2

Within thirty (30) days, the Board shall develop a three (3)-year capital build-up program. The program shall include, as may be necessary:

- (a) Specific plans for the maintenance of adequate capital that should not be less than the requirements stated above;
- (b) Projections for growth and capital requirements based upon a detailed analysis of the Bank’s assets, liabilities, earnings, fixed assets and off-balance sheet activities;
- (c) Projections of sources and timing of additional capital to meet the Bank’s current and future needs;
- (d) The primary source(s) from which the Bank will strengthen its capital structure to meet the Bank’s needs; and
- (e) Contingency plans that identify alternative methods should the primary source(s) be not available.

COMPLIANCE/PROGRESS REPORTS

The Compliance Officer shall be responsible for monitoring and coordinating the Bank’s adherence to the provisions of this Memorandum of Understanding. The Compliance Officer shall submit a written progress report to the Board on a (Monthly/Quarterly) basis setting forth in detail:

- a. Actions taken to comply with each article of this Memorandum; and
- b. The results of those actions

The Board shall submit (monthly/quarterly) progress reports to the appropriate supervising and examining department of the BSP containing the abovementioned details.

FORMAL AGREEMENT

Although the Board has by this Memorandum of Understanding consented to submit certain proposed actions and programs for the review and approval of the BSP, the Board has the ultimate responsibility for proper and sound management of the Bank.

It is expressly and clearly understood that if, at any time, BSP deems it appropriate in fulfilling the responsibilities placed upon it by laws of the Republic of the Philippines to

undertake any action affecting the Bank, nothing in this Memorandum of Understanding shall in any way inhibit, estop, bar, or otherwise prevent it from so doing.

Any time requirements specified in this Memorandum of Understanding shall begin from the effective date of this Memorandum. Such time requirements may be extended by the BSP for good cause upon written application of the Board.

This Memorandum of Understanding shall be effective upon execution by the parties hereto, and its provisions shall continue in full force and effect until such time as they shall be amended by mutual consent of the parties to this Memorandum or excepted, waived, terminated by BSP.

IN TESTIMONY WHEREOF, the undersigned has hereunto set his hand this_____ day of _____ at the City of _____, Philippines.

BANGKO SENTRAL NG PILIPINAS

Authorized Deputy

Deputy Governor-SES

BANK

President

Chairman of the Board

SIGNED IN THE PRESENCE OF:

(Witness)

(Witness)

IMPLEMENTING GUIDELINES FOR BANKS PARTICIPATING DIRECTLY
IN THE CLEARING OPERATIONS¹ OF THE
PHILIPPINE CLEARING HOUSE CORPORATION
(Appendix to Items "b" of Sections 2205 and 3205)

Sec. 1 Definitions of Terms

a. *Clearing Day* – shall refer to a day when the PCHC processes the exchange of checks and other cash items of participating member banks.

b. *Value or Settlement Date* – Settlement of both inward and outward items shall be value dated on the day the checks are originally presented to PCHC or Regional Clearing Center (RCC), net of AM returns. For this purpose, the value or settlement date referred to herein shall be defined uniformly as the date of original presentation of the Checks and Other Cash Items (COCI), to PCHC or RCC for the Integrated Greater Manila local exchanges (Integrated GM LX) and regional local exchanges (RLX).

Unless otherwise modified in subsequent Circulars, value or settlement date for clearing items shall be as stated in the following schedule:

Session	Value/Settlement Date
Returned Items AM Returns Integrated Greater Manila local exchanges (Integrated GM LX) and regional local excnages (RLX)	On date of original presentation of COCI to PCHC or Regional Clearing Center (RCC)

Session	Value/Settlement Date
Integrated GM Outward to Region Integrated GM Inward from Region Region to Region PM Returns (for returned COCIs due to technical reasons only)	On the date the COCIs are received and processed at PCHC On date of return
Outward Items Integrated GM LX and RLX Integrated GM Outward to Region Integrated GM Inward from Region Region to Region	On date of original presentation of COCI to PCHC or RCC, net of AM returns On the date the COCIs are received and processed at PCHC
COCI not coursed through PCHC	On the date the COCI is cleared by the drawee bank

Sec. 2 Ceiling on Overdraft Due to Clearing Losses.

A ceiling shall be set on the amount of overdraft a bank may incur due to failure to cover clearing losses through interbank borrowings and/or repurchase agreements with BSP. The ceiling is defined as the sum of clean Overdraft Credit Line (OCL) equivalent to fifteen percent (15%) of rediscounting line with the BSP, and the collateralized OCL that will be extended by

¹ The revised clearing and settlement process shall become effective as follows:

Clearing Exchanges	From	To
1. Integrated Greater Manila Local Exchanges (Integrated GM LX)	01 January 2011	24 January 2011
2. Regional Local Exchanges (RLX)	01 January 2011	01 July 2011

Provided, That for RLX, the extended deferral from 24 January 2011 to 01 July 2011 shall refer only to the provision on the mandatory return of checks drawn against insufficient funds or credit, checks drawn against closed accounts and/or checks with stop payment orders, (i.e., not later than 7:30 AM of the next clearing day following the original presentation to PCHC or RCC), subject to the condition that checks returned due to insufficiency of funds or credit shall no longer be allowed to be covered or funded after the day they were presented to PCHC or RCC.

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BSP. A bank not meeting the following criteria:

- i. CAMELS composite rating of at least “3”
 - ii. CAR of at least ten percent (10%); or
 - iii. No chronic reserve deficiencies for the immediately preceding one (1) year, Or other measures as may be defined by the BSP for this purpose, should apply for collateralized OCL in an amount equivalent to at least five percent (5%) of their demand deposit liabilities as of end of month, two (2) months prior to the date of application with the Department of Loans and Credit (DLC); otherwise, its outward clearing items shall be subject to second day value dating.
- Other banks may also apply for collateralized OCL in any amount.

Sec. 3. Application for Collateralized OCL

- a. Banks shall file their application for collateralized OCL with the DLC supported by the documents indicated below:
 - (1) A duly notarized secretary’s certificate together with a resolution of the board of directors of the bank authorizing the bank to apply for the loan line and designating the officers authorized to negotiate, sign and execute all accessory documents for the loan line;
 - (2) Notarized Surety Agreement executed by the controlling stockholders (owning more than fifty percent (50%) of the voting stock) and every person or group of persons whose stockholdings are sufficient to elect at least one director obligating themselves jointly and severally with the bank to pay promptly on maturity or when due the BSP, its successor or assigns, all promissory notes covering availment against the loan line, if any; and
 - (3) Collateral documents to cover the loan line.
- b. The OCL line shall be secured by first class collateral that refer to the assets and securities which have relatively stable

and clearly definable value and/or greater liquidity and free from lien and encumbrances, to the extent of their applicable loan values, as follows:

Acceptable Collateral	Loan Value	
	With Surety Agreement	Without Surety Agreement
(1) Governemt securities-based on the current market value of the securities	80%	80%
(2) Unencumbered real estate properties in the name of the bank <ul style="list-style-type: none">i. <i>initial rate</i> - based on the appraised value (AV) of the land and insured improvementsii. <i>Final rate</i> - based on the AV of the land and insured improvements determined by a licensed and independent appraiser acceptable to the BSP in accordance with BSP's terms of reference	40%	30%
	70%	60%
(3) Mortgage credits <ul style="list-style-type: none">i. <i>Initial rate</i> - based on the AV of the property securing the loan evidenced by negotiable instruments or the outstanding balance of such loanii. <i>Final rate</i> - based on the AV of the property securing the loan evidenced by negotiable instruments as determined by a licensed and independent appraiser acceptable to the BSP in accordance with the BSP's terms of reference or the outstanding balance of such loans	40% of AV or 50% of the outstanding balance whichever is lower	30% of AV or 40% of the outstanding balance whichever is lower
	70% of AV or 80% of the outstanding balance whichever is lower	60% of AV or 70% of the outstanding balance whichever is lower
(4) Hold-out on foreign currency deposits with the BSP - based on current (buying) exchange rate	80%	80%
(5) Investment grade commercial papers	80%	80%

- c. The DLC shall possess the application for OCL and any subsequent amendments to the approved OCL. Upon approval, the DLC shall require the bank to submit the following:

(1) Duly signed and notarized OCL Agreement between the bank and the BSP; and

(2) PCHC certification that the bank participate in the PCHC clearing process in accordance with the MOA per BSP Circular Letter dated 11 September 2001.

It shall also inform the Payments and Settlements Office (PSO) and Supervision and Examination Sector (SES) of the amount of the bank’s approved OCL and any changes that may occur thereafter.

d. The amount of the approved OCL shall be reviewed and if necessary, amended annually or as circumstances warrant by the DLC. A nominal processing fee of ten thousand (P10,000.00) shall be collected annually or upon amendment of the OCL.

e. The bank shall be allowed the flexibility of changing or substituting collateral, specially matured government securities. The DLC shall process any request for amendment to the collateral offerings.

f. The loan value of the collaterals securing the OCL shall be correspondingly reduced under any of the following circumstances:

(1) There are collections received on the mortgage credits;

(2) The mortgage credits become past due;

(3) The property mortgage was sold; and

(4) The collateral assets fall short of the definition of first class collateral.

g. The bank shall duly inform DLC of any collections on mortgaged credits or sale of assets mortgaged and ensure that adequate records on collections and sales made by the branches are maintained in its head office.

Sec. 4 Availments Against the Approved Clean/Collateralized OCL

a. Provided the overdraft does not exceed the ceiling as defined in Section 2 hereof, the bank may avail of the clean/collateralized OCL. The availment shall be granted the next banking day after taking into account the amount of AM returns, for value the previous banking day.

b. The availment shall bear interest at one-tenth of one percent (1/10 of 1%) per day or the ninety-one (91)-day Treasury Bill rate of the last auction immediately preceding the availments, plus three percentage points whichever is higher.

c. The availment shall be fully debited to the demand deposit account of the bank with BSP on the next banking day without need of demand.

d. The availment shall be for a maximum period of five (5) consecutive clearing days or five (5) clearing days within any thirty (30)-day rolling calendar period, after which the OCL shall be suspended.

Sec. 5 Procedures for Unwinding and Exclusion

Should the overdraft exceed the ceiling as defined in Section 2 hereof, no availment of the clean/collateralized OCL shall be allowed.

a. In the case of end-of-day overdraft, the PSO shall advise the PCHC of the amount available for settlement of the drawee bank’s inward clearing items net clearing loss, beyond which amount inward clearing items will be unwound in accordance with the PCHC Clearing House Rules and Regulations.

b. In the case of final overdraft, i.e., after AM returns, where unwinding is no longer possible, the bank shall be excluded for next clearing. The PSO shall advise the PCHC of such exclusion upon prior Monetary Board Approval.

Sec. 6 Conversion/Suspension of Clean/Collateralized OCL

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- a. Banks found to be abusing their clean/collateralized OCL privilege shall be subject to suspension of the OCL. The following shall constitute an abuse of the OCL privilege and shall automatically result in the suspension of the OCL.
 - i. Availment of OCL for five (5) consecutive clearing days; or
 - ii. Availment of OCL for five (5) times within any thirty (30) – day rolling calendar period.
- The suspension of the OCL may be lifted upon the request by the bank concerned

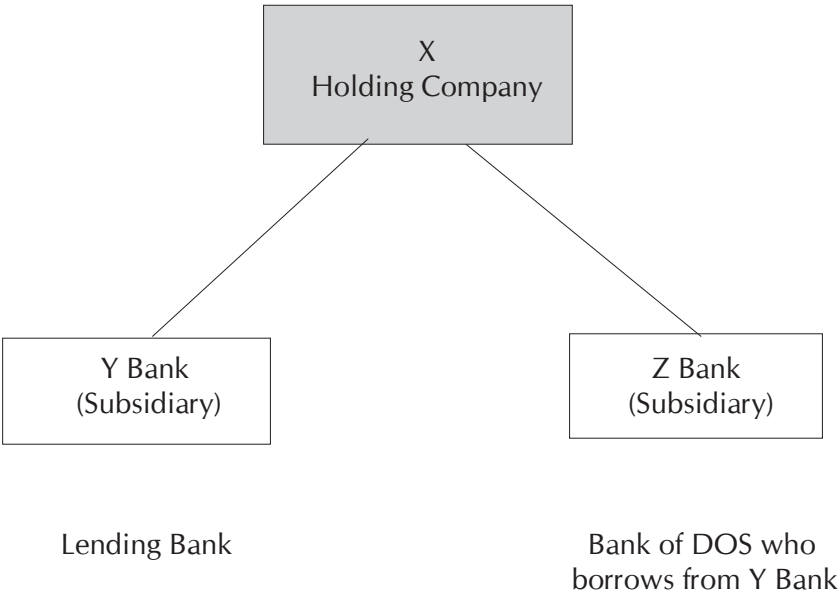
subject to the approval by the Monetary Board.

The collateralized OCL may be converted into an emergency loan provided the bank complies with the guidelines governing the grant of emergency loans under subsec. X272.2 or may be subject to foreclosure of collateral.

(As amended by Circular Nos. 705 dated 29 December 2010, 681 dated 08 February 2010, 516 dated 06 March 2006 and CL dated 04 August 2000)

ILLUSTRATIONS WHEN A DIRECTOR, OFFICER AND STOCKHOLDER (DOS)
SHALL WAIVE THE SECRECY OF DEPOSITS
(Appendix to Subsec. X338.1b)

- A. When the loan is obtained from a bank that is a subsidiary of a holding company of which both the borrower's bank and the lending bank are subsidiaries.

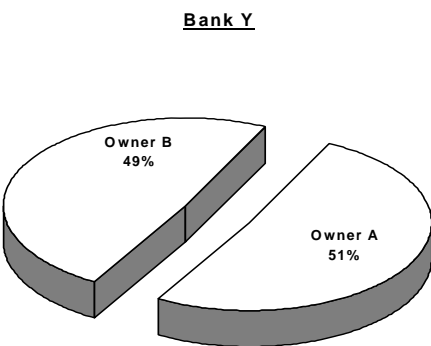


Thus, if Mr. A, who is a director of Z Bank borrows from Y Bank, he should waive the secrecy of deposits of whatever nature in all banks in the Philippines since both Y Bank and Z bank are subsidiaries of X Holding Company.

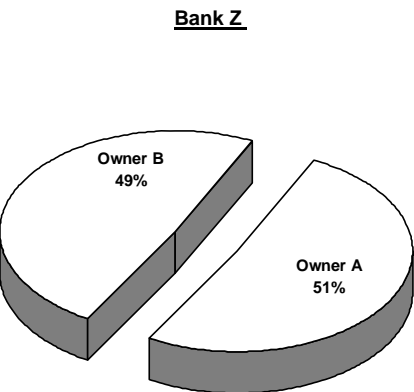
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- B. When the loan is from a bank in which a controlling proportion of the shares is owned by the same interest that owns a controlling proportion of the shares of his bank.

Lending bank’s Equity Structure



Borrower’s bank Equity Structure



In illustration above, the controlling shares in both banks belong to the “same interest”, Owner A.

**CLASSIFICATION, ACCOUNTING PROCEDURES, VALUATION AND
SALES AND TRANSFERS OF INVESTMENTS IN DEBT SECURITIES
AND MARKETABLE EQUITY SECURITIES**
(Appendix to Subsec. X388.5)

Section 1. Statement of Policy. It is the policy of the BSP to promote full transparency of the financial statements of banks and other supervised institutions in order to strengthen market discipline, encourage sound risk management practices, and stimulate the domestic capital market. Towards these ends, the BSP desires to align local financial accounting standards with international accounting standards as prescribed by the International Accounting Standards Board (IASB) to the greatest extent possible.

Sec. 2. Scope. This Appendix covers accounting for investments in debt and equity securities except:

- a. those that are part of hedging relationship;
- b. those that are hybrid financial instruments;
- c. those financial liabilities that are held for trading;
- d. those financial assets and financial liabilities which, upon initial recognition, are designated by the FIs as at fair value through profit or loss; and
- e. those that are classified as loans and receivables.

It also does not include accounting for derivatives and non-derivative financial instruments other than debt and equity securities. The foregoing exceptions and exclusions shall be covered by separate regulations.

Sec. 3. Investments in Debt and Equity Securities. Depending on the intent, investments in debt and equity securities shall be classified into one (1) of four (4) categories and accounted for as follows:¹

a. Held to Maturity (HTM) Securities - These are debt securities with fixed or determinable payments and fixed maturity that an FI has the positive intention and ability to hold to maturity other than:

(1) those that meet the definition of *Securities at Fair Value Through Profit or Loss*; and

(2) those that the FI designates as Available-for-Sale Securities .

An FI shall not classify any debt security as HTM if the FI has, during the current financial year or during the two (2) preceding financial years, sold or reclassified more than an insignificant amount of HTM investments before maturity (more than insignificant in relation to the total amount of HTM investments) other than sales or reclassifications that:

(a) are so close to maturity or the security's call date (i.e., less than three (3) months before maturity) that changes in the market rate of interest would not have a significant effect on the security's fair value;

(b) occur after the FI has substantially collected all [i.e., at least eighty-five percent (85%)] of the security's original principal through scheduled payments or prepayments; or

(c) are attributable to an isolated event that is beyond the FI's control, is non-recurring and could not have been reasonably anticipated by the FI.

For this purpose, the phrase "*more than an insignificant amount*" refers to sales or reclassification of one percent (1%) or more of the outstanding balance of the HTM portfolio: *Provided, however,* That sales or reclassifications of less than one percent (1%) shall be evaluated on case-to-case basis.

¹ Reclassification allowed until 30 November 2005 as per MAB dated 23 November 2005

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Sales or reclassifications before maturity that do not meet any of the conditions prescribed in this Appendix shall require the entire HTM portfolio to be reclassified to Available-for-Sale. Further, the FI shall be prohibited from using the HTM account during the reporting year of the date of sales or reclassifications and for the succeeding two (2) full financial years. Failure to reclassify the HTM portfolio to Available-for-Sale on the date of sales or reclassifications, shall subject the FI and concerned officers to penalties and sanctions provided under Item "c" of X388.5. This provision shall be applied prospectively, i.e., on prohibited sales or reclassifications occurring on 13 March 2005 (effectivity date of Cir. 476 dated 16 February 2005) and thereafter.

Securities held in compliance with BSP regulations, e.g., securities held as liquidity reserves and for the faithful performance of trust duties, may be classified either as HTM, Securities Held-for-Trading (HFT) or Available-for-Sale: *Provided*, That the provision of Item (4) of paragraph 2 of Section 3.a.1 shall not apply to sales or reclassifications of the said securities booked under HTM.

a.1. Positive intention and ability to hold investments in HTM securities to maturity – An FI does not have a positive intention to hold to maturity an HTM security if:

(a) the FI intends to hold the security for an undefined period;

(b) the FI stands ready to sell the security (other than if a situation arises that is non-recurring and could not have been reasonably anticipated by the FI) in response to changes in market interest rates or risks, liquidity needs, changes in the availability of and the yield on alternative investments, changes in financing sources and terms or changes in foreign currency risk; or

(c) the issuer has a right to settle the security at an amount significantly below its amortized cost.

Sales before maturity could satisfy the condition of HTM classification and therefore need not raise a question about the FI's intention to hold other HTM securities to maturity if they are attributable to any of the following:

(i) A significant deterioration in the issuer's creditworthiness; for example, a sale following a downgrade in a credit rating by an external rating agency would not necessarily raise a question about the FI's intention to hold other investments to maturity if the downgrade provides evidence of a significant deterioration in the issuer's creditworthiness judged by reference to the credit rating at initial recognition. Similarly, if an FI uses internal ratings for assessing exposures, changes in those internal ratings may help to identify issuers for which there has been a significant deterioration in creditworthiness, provided the FI's approach to assigning internal ratings and changes in those ratings give a consistent, reliable and objective measure of the credit quality of the issuers. If there is evidence that an instrument is impaired, the deterioration in creditworthiness is often regarded as significant;

(ii) A change in tax law that eliminates or significantly reduces the tax-exempt status of interest on the HTM security (but not a change in tax law that revises the marginal tax rates applicable to interest income);

(iii) A major business combination or major disposition (such as sale of a segment) that necessitates the sale or transfer of HTM securities to maintain the FI's existing interest rate risk position or credit risk policy: *Provided*, That the sale or transfer of HTM security shall be done only once and within a period of six (6) months from the date of the business combination or major disposition: *Provided, further*, That prior BSP approval is required for sales or transfers occurring

after the prescribed six (6)-month time frame. In this case, FIs shall submit to the appropriate department of the SES, a plan stating the reason for the extension and the proposed schedule for the disposition of the HTM security;

(iv) A change in statutory or regulatory requirements significantly modifying either what constitutes a permissible investment or the maximum level of particular types of investments, thereby causing an FI to dispose of an HTM security;

(v) A significant increase in the industry's regulatory capital requirements that causes the FI to downsize by selling HTM securities; or

(vi) A significant increase in the risk weights of HTM securities used for regulatory risk-based capital purposes.

An FI does not have a demonstrated ability to hold to maturity an investment in HTM security if:

(aa) it does not have the financial resources available to continue to finance the investment until maturity; or

(bb) it is subject to an existing legal or other constraint that could frustrate its intention to hold the security to maturity.

Sales before maturity due to events that are non-recurring and could not have been reasonably anticipated by the FI such as a run on a bank, likewise satisfy the condition of HTM classification and therefore need not raise a question about the FI's intention and ability to hold other HTM investments to maturity.

An FI assesses its intention and ability to hold its investment in HTM securities to maturity not only when those securities are initially recognized, but also at each time that the FI prepares its financial statements.

a.2. HTM securities shall be measured upon initial recognition at their fair value plus transaction costs that are directly attributable to the acquisition of the securities.

For this purpose, *transactions costs* include fees and commissions paid to

agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

After initial recognition, an FI shall measure HTM securities at their amortized cost using the effective interest method.

For this purpose, the *effective interest method* is a method of calculating the amortized cost of a security (or group of securities) and of allocating the interest income over the relevant period using the effective interest rate. The *effective interest rate* shall refer to the rate that exactly discounts the estimated future cash receipts through the expected life of the security or when appropriate, a shorter period to the net carrying amount of the security. When calculating the effective interest rate, an FI shall estimate cash flows considering all contractual terms of the security (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid to the other party to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar securities can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a security (or group of securities), the FI shall use the contractual cash flows over the full contractual terms of the security.

A gain or loss arising from the change in the fair value of the HTM security shall be recognized in profit or loss when the security is derecognized or impaired, and through the amortization process.

An FI shall assess at each time it prepares its financial statements whether

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there is any objective evidence that an HTM security is impaired.

If there is objective evidence that an impairment loss on HTM securities has been incurred, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the security's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the security shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

As a practical expedient, a creditor may measure impairment of HTM securities on the basis of an instrument's fair value using an observable market price.

An FI first assesses whether objective evidence of impairment exists individually for HTM securities that are individually significant, and individually or collectively for HTM securities that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed HTM security, whether significant or not, it includes the asset in a group of HTM securities with similar credit risk characteristics and collectively assesses them for impairment. HTM securities that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the security that exceeds

what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

b. Securities at Fair Value through Profit or Loss – These consist initially of HFT securities. HFT are debt and equity securities that are:

(1) acquired principally for the purpose of selling or repurchasing them in the near term; or

(2) part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

For this purpose, an FI shall adopt its own definition of short-term which shall be within a twelve (12)-month period. Said definition which shall be included in its manual of operations, shall be applied and used consistently.

b.1 HFT securities shall be measured upon initial recognition at their fair value. Transaction costs incurred at the acquisition of HFT securities shall be recognized directly in profit or loss. After initial recognition, an FI shall measure HFT securities at their fair values without any deduction for transaction costs that it may incur on sale or other disposal. A gain or loss arising from a change in the fair value of HFT securities shall be recognized in profit or loss under the account "Trading Gain/(Loss)".

c. Available-for-Sale Securities. These are debt or equity securities that are designated as Available-for-Sale or are not classified/designated as (a) HTM, (b) Securities at Fair Value through Profit or Loss, or (d) Investment in Non-Marketable Equity Securities (INMES).

c.1 Available-for-Sale securities shall be measured upon initial recognition at their fair value plus transaction costs that are directly attributable to the acquisition of the securities. After initial recognition,

an FI shall measure Available-for-Sale securities at their fair values, without any deduction for transaction costs it may incur on sale or other disposal. A gain or loss arising from a change in the fair value of an Available-for-Sale security shall be recognized directly in equity under the account "Net Unrealized Gains/(Losses) on Securities Available-for-Sale" and reflected in the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the security is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss. Dividends on an Available-for-Sale equity security are recognized in profit or loss when the FI's right to receive payment is established.

For the purpose of recognizing foreign exchange gains and losses on a monetary Available-for-Sale security that is denominated in a foreign currency, it shall be treated as if it were carried at amortized cost in the foreign currency. Accordingly, for such an Available-for-Sale security, exchange differences resulting from changes in amortized cost are recognized in profit or loss and other changes in carrying amount are recognized directly in equity. For Available-for-Sale securities that are not monetary items (for example, equity instruments), the gain or loss that is recognized directly in equity includes any related foreign exchange component.

An FI shall assess at each time it prepares its financial statements whether there is any objective evidence that an Available-for-Sale security is impaired.

When a decline in the fair value of an Available-for-Sale security has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity shall be

removed from equity and recognized in profit or loss even though the security has not been derecognized.

The amount of the cumulative loss that is removed from equity and recognized in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that security previously recognized in profit or loss.

Impairment losses recognized in profit or loss for an investment in an equity instrument classified as Available-for-Sale shall not be reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as Available-for-Sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

c.2.Underwriting Accounts (UA) shall be a sub-account under Available-for-Sale. These are debt and equity securities purchased which have remained unsold/locked-in from underwriting ventures on a firm basis. UA account is applicable only to UBs and IHs.

d. INMES - These are equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

INMES shall be measured upon initial recognition at its fair value plus transaction costs that are directly attributable to the acquisition of the security. After initial recognition, an FI shall measure INMES at cost. A gain or loss arising from the change in fair value of the INMES shall be recognized in profit or loss when the security is derecognized or impaired.

An FI shall assess each time it prepares its financial statements whether there is any

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objective evidence that an INMES is impaired.

If there is objective evidence that an impairment loss has been incurred on an INMES, the amount of impairment loss is measured as the difference between the carrying amount of the security and the estimated future cash flows discounted at the current market rate of return for a similar financial instrument. Such impairment loss shall not be reversed.

For Securities at Fair Value through Profit or Loss and Available-for-Sale, an FI is required to book the mark-to-market valuation on a daily basis. However, an FI may opt to book the mark-to-market valuation every end of the month: *Provided*, That an adequate mechanism is in place to determine the daily fair values of securities.

An FI shall recognize an investment in debt or equity security on its balance sheet when, and only when, the FI becomes a party to the contractual provisions of the financial instrument. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable using trade date accounting or settlement date accounting. The method used is applied consistently for all purchases and sale of financial assets that belong to the same category.

Sec. 4. Reclassifications¹

a. An FI shall not reclassify a security into or out of the Fair Value through Profit Loss category while it is held.

b. If, as a result of a change in intention or ability, it is no longer appropriate to classify a debt security as HTM, it shall be reclassified as Available-for-Sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be accounted for in accordance with Section 3.c.1.

c. Whenever sales or reclassifications of more than an insignificant amount of

HTM investments do not meet any of the conditions in Section 3.a, any remaining HTM investments shall be reclassified as Available-for-Sale. On such reclassification, the difference between the carrying amount and fair value shall be accounted for in accordance with Section 3.c.1.

d. If a reliable measure becomes available for an INMES, it shall be reclassified as Available-for-Sale and remeasured at fair value, and the difference between its carrying amount and the fair value shall be accounted for in accordance with Section 3.c.1.

e. If, as a result of a change in intention or ability, or because the two (2) preceding financial years' referred to in Section 3.a have passed, it becomes appropriate to carry the debt security at amortized cost (i.e., HTM) rather than at fair value (i.e, Available- for-Sale), the fair value carrying amount of the security on that date becomes its new amortized cost. Any previous gain or loss on that debt security that has been recognized directly in equity in accordance with Section 3.c.1 shall be amortized to profit or loss over the remaining life of the HTM using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the security using the effective interest method, similar to the amortization of a premium and a discount. If the security is subsequently impaired, any gain or loss that has been recognized directly in equity is recognized in profit or loss in accordance with Section 3.c.1.

f. If, in the rare circumstance that a reliable measure of fair value is no longer available, it becomes appropriate to carry the equity security at cost (i.e., INMES) rather than at fair value (i.e., Available-for-Sale), the fair value carrying amount of the security on that date becomes its new cost. Any previous gain or loss on that equity security that has been recognized directly in equity

¹ The guidelines governing the reclassification of financial assets between categories in accordance with the provisions of the October 2008 amendments to PAS39 and PFRS7 are shown in Annex A.

in accordance with Section 3.c.1 shall remain in equity until the security is sold or otherwise disposed of, when it shall be recognized in profit or loss. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized directly in equity is recognized in profit or loss in accordance with Section 3.c.1; and

g. The following securities booked under the HTM category, shall be exempted from the “tainting” provision for prudential reporting purposes which prohibits banks from using the HTM category and requires reclassification of the entire HTM portfolio to the Available-for-Sale category during the reporting year and for the succeeding two (2) full financial years whenever a bank sells or reclassifies more than an insignificant amount of HTM investments before maturity, other than for reasons specified in Items “a(a)” to “a(c)” of Section 3 of this *Appendix: Provided*, That securities rejected under Items “i” and “ii”, shall continue to be booked under the HTM category:

i. Securities offered and accepted in tender offers pursuant to liability management transactions of the Republic of the Philippines: *Provided*, That banks maintain appropriate documentation on such transactions;

ii. Securities offered and accepted in debt exchange offerings of GOCCs which carry the guarantee of the Philippine National Government; and

iii. Foreign currency denominated NG/BSP bonds/debt securities, outstanding as of 10 February 2007, which were reclassified from the HTM category in view of the increased risk-weights of said securities under *Appendix 63b* within thirty (30) calendar days after 10 February 2007. The subject securities once reclassified shall be accounted for in accordance with the measurement requirements of their new category (i.e., Available-for-Sale securities).

Sec. 5. Impairment. A debt or equity security is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of event that occurred after the initial recognition of the security (a “loss event”) and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, no matter how likely, are not recognized. Objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

a. significant financial difficulty of the issuer or obligor;

b. a breach of contract, such as a default or delinquency in interest or principal payments;

c. the FI, for economic or legal reasons relating to the issuer’s financial difficulty, granting to the issuer a concession that the FI would not otherwise consider;

d. it becoming probable that the issuer will enter bankruptcy or other financial reorganization;

e. the disappearance of an active market for that security because of financial difficulties; or

f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including:

(1) adverse change in the payment status of issuers in the portfolio; or

(2) national or local economic conditions that correlate with defaults on the securities in the portfolio.

The disappearance of an active market because an FI’s held securities are no longer publicly traded is not evidence of impairment. A downgrade of an issuer’s credit rating is not, of itself, evidence of impairment, although it may be evidence of impairment when considered with other

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available information. A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk free interest rate).

In addition to the types of events enumerated in Items “a” to “f” in this Section, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be

recovered. A significant or prolonged decline in the fair value of an investment in an equity security below its cost is also objective evidence of impairment.

Sec. 6. Operations Manual. The FI shall maintain an operations manual for booking and valuation of HTM, Securities at Fair Value through Profit or Loss, Available-for-Sale and INMES.

These guidelines shall no longer be applicable when an FI adopts PFRS 9 under *Appendix 97*.

(As amended by Circular Nos. 738 dated 11 October 2011, 733 dated 05 August 2011, 708 dated 10 January 2011, 670 dated 18 November 2009, 628 dated 31 October 2008, 626 dated 23 October 2008, 558 dated 22 January 2007, 546 dated 21 September 2006 and 509 dated 01 February 2006)

RECLASSIFICATION OF FINANCIAL ASSETS BETWEEN CATEGORIES

The following guidelines govern the reclassification of investments in debt and equity securities between categories:

Section I. Conditions for Reclassifications

FIs shall be allowed to reclassify their investments in debt and equity securities from the Held for Trading (HFT) or Available for Sale (AFS) categories to the Held to Maturity (HTM) or Unquoted Debt Securities Classified as Loans (UDSCL) categories, subject to the following conditions:

(1) The reclassification shall be done in accordance with the provisions of the October 2008 amendments to the International Accounting Standards (IAS) 39: *Financial Instruments: Recognition* and Measurements and International Financial Reporting Standards (IFRS) 7: *Financial Instruments: Disclosures*;

(a) Only non-derivative financial assets may be reclassified from HFT to AFS, HTM or UDSCL. This shall however exclude those that are Designated at Fair Value through Profit or Loss (DFVPL).

(b) A financial asset may be reclassified out of HFT into AFS/HTM/UDSCL only in rare circumstances and if there is a change in intention (i.e., the financial asset is no longer held for the purpose of selling or repurchasing it in the near term). The financial assets shall be reclassified at their fair values on the effective date of reclassification all at the same time. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of a financial asset on the effective date of reclassification becomes its new cost or amortized cost, as applicable.

For this purpose, FIs may reclassify all or a portion of its financial assets for HFT to AFS/HTM/UDSCL as of the same date which shall be any day from 01 July 2008 to 14 November 2008. For example, an FI may choose to reclassify all financial assets booked under HFT to AFS/HTM/UDSCL as of 01 July 2008 using their fair values as of 01 July 2008. Another FI may choose to reclassify all financial assets booked under HFT to AFS/HTM/UDSCL as of 14 November 2008 using their fair values as of 14 November 2008. Thereafter, FIs shall not be allowed to "retrospectively" reclassify HFT to AFS/HTM/UDSCL. Any reclassification on or after 15 November 2008 shall take effect only from the date when the reclassification is made.

(c) A financial asset booked under HFT that would have also met the definition on UDSCL if the financial asset had not been required to be classified as HFT at initial recognition, may be reclassified from HFT to UDSCL if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

(d) The financial assets shall be reclassified at their fair values on the effective date of reclassification, not necessarily all at the same time. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of a financial asset on the effective date of reclassification becomes its new cost or amortized cost, as applicable.

For this purpose, FIs may reclassify said financial assets from HFT to UDSCL as of any date from 01 July 2008 to 14 November 2008. Thereafter, FIs shall not be allowed to retrospectively reclassify HFT to UDSCL. Any reclassification on or

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after 15 November 2008 shall take effect only from the date when the reclassification is made.

(e) The financial asset reclassified in accordance with *Items "(b)", "(c)" or "(d)"* above shall thereafter be treated in accordance with the guidelines provided in *Appendix 20: Provided, however, That* if an FI subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate.

(f) FIs that shall reclassify based on the provision of this Annex shall comply with the disclosure requirements under the Amendments to IAS 39 and IFRS 7 in preparing their audited financial statements.

(2) Financial assets that are reclassified from HFT/AFS to HTM/UDSCL shall thereafter be treated in accordance with the guidelines provided under *Appendix 33*;

(3) Reclassification from the AFS to the HTM category shall only be allowed if there was a change in intention for holding the debt instrument, and the financial institution has the ability to hold it until maturity; and

(4) FIs may reclassify from HFT/AFS to AFS/HTM/UDSCL effective 01 July 2008: *Provided, That* any reclassification made in periods beginning on or after 15 November 2008 shall take effect from the date when the reclassification is made.

Sec. II. Alternative accounting treatment for prudential reporting purposes. The following may be adopted for purposes of prudential reports:

(1) A financial asset booked under AFS may be reclassified from AFS to HTM/UDSCL if the FI has the intention and ability

to hold the financial assets for the foreseeable future or until the maturity using the fair value carrying amount of the financial assets as of the effective date of reclassification.

For this purpose, FIs may reclassify said financial assets from AFS to HTM/UDSCL as of any day from 01 July 2008 to 14 November 2008. Thereafter, FIs shall not be allowed to retrospectively reclassify AFS to HTM/UDSCL. Any reclassification on or after 15 November 2008 shall take effect only from the date when the reclassification is made.

(2) Financial assets that are booked under AFS category because of the tainting of the HTM portfolio may be reclassified to HTM or UDSCL using the fair value carrying amount of the financial assets as of the effective date of reclassification.

For this purpose, FIs may reclassify said financial assets from AFS to HTM/UDSCL as of any day from 01 July 2008 to 14 November 2008.

(3) Hybrid financial assets (other than CLNs) may be included among the financial assets that may be reclassified out of the HFT and into the AFS/HTM/UDSCL in accordance with *Items "(1)(b)" and "(1)(c)"* in Sec. I by, first, bifurcating the embedded derivative from the host instrument and booking the derivatives under Derivatives with Positive/Negative Fair Value; and second, reclassifying the host contract to AFS/HTM/UDSCL.

(4) CLNs and other similar instruments that are linked to ROPs, on the other hand, may be included among the financial assets that may be reclassified (i) out of the HFT into AFS/HTM/UDSCL in accordance with *Items "(1)(b)" and "(1)(c)"*; or (ii) from AFS to UDSCL or HTM in accordance with *Item "(1)(d)"* all in Sec. I and *Item "1"* above, without bifurcating the embedded derivatives from the host instrument: *Provided, That* this shall only apply for CLNs that are outstanding as of the effective

date of reclassification, which shall not be on or later than 15 November 2008.

Sec. III. Applicability to Trust Institutions

The guidelines shall likewise apply to trust institutions except for the following accounts:

- (a) UIT Funds; and
- (b) Pre-need, escrow and other accounts whose investments are regulated by or require approval from other regulatory agencies: *Provided*, That prior to the reclassification, the approval/consent and reflect the change in client's investment profile in the revised Investment Policy Statement as provided

in *Appendix 83: Provided, further*, That in the case of managed retirement funds/ employee benefit trust accounts, such reclassification shall be aligned with the liquidity requirements resulting from the latest actuarial valuation of the fund/account.

Sec. IV. Reportorial Requirements. FIs that reclassify financial assets out of the HFT/ AFS categories shall submit a report on Reclassification of Financial Assets between Categories to the Supervisory Data Center, Supervision and Examination Sector on or before 30 November 2008.

(Circular No. 626 dated 23 October 2008 as amended by Circular No. 628 dated 31 October 2008)

ESTABLISHING THE MARKET BENCHMARKS/REFERENCE PRICES AND
COMPUTATION METHOD USED TO MARK-TO MARKET DEBT
AND MARKETABLE EQUITY SECURITIES
(Appendix to Subsec. X388.5)

General Principle

As a general rule, to the extent a credible market pricing mechanism as determined by the BSP exists for a given security, that market price shall be the basis of marking-to-market. However, in the absence of a market price, a calculated price shall be used as prescribed herein.

Marking-to-Market Guidelines

To ensure consistency, the following shall be used as bases in marking-to-market debt and equity securities:

Type of Security	Market Price Basis
A. Equity Securities Listed in the Stock Exchange	
1. Traded in the Philippines	Same day closing price as quoted at the Philippine Stock Exchange. In case of halt trading/suspension or holidays, use the last available closing price.
2. Traded Abroad	Latest available closing price from the exchange where the securities are traded.
B. Foreign Currency-Denominated Debt Securities Quoted in Major Information Systems (e.g., Bloomberg, Reuters)	
1. US Treasuries	Price as of end of day, Manila time.
2. US Agency papers (e.g., Fannie Maes, Freddie Macs, Ginnie Maes, Municipal papers	Latest available price for the day, Manila time. In the absence of a price, use average quotes of at least three (3) regular brokers/market makers.*
3. Brady Bonds	Same as B.2.
4. For all US\$-denominated government and corporate securitites	Same as B.2.
5. Other foreign-currency securities	Same as B.2.

* Based on done rates if available. If done rates are not available, use the mid rate between bid and offer. If no mid-rates are available use the bid rate.

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C. Foreign Currency Denominated Debt Securities Traded in a Local Registered Exchange or Market

The basis for marking-to-market foreign currency-denominated debt securities traded in a local registered exchange or market shall be the same as those used in Peso-Denominated Government Securities in Section D below.

D. Peso-Denominated Government Securities

The benchmark or reference prices shall be based on the weighted average of done or executed deals in a trading market registered with the SEC. In the absence of done deals, the best firm bid per benchmark tenor shall be used in calculating the benchmark: *Provided*, That the best firm offer per benchmark tenor shall likewise be included as soon as permissible under securities laws and regulations.

The benchmark or reference rate shall be computed and published in accordance with prescribed guidelines on the computation of reference rates by a Calculation Agent which is recognized by the Bankers Association of the Philippines (BAP): *Provided*, That both the Calculation Agent and its method of computation are acceptable to the BSP.

To ensure the integrity of the benchmark or reference prices, the Calculation Agent shall perform the following:

1. Monitor the quality of the contributed source rates for the benchmark;
2. Monitor the data contributors and replace participants, upon consultation with the BAP, that fail to meet commitments to the benchmark;
3. Monitor the activities of the participants to ensure compliance with

their commitments and for possible market manipulation and enforce sanctions on errant participants and immediately inform BAP and the BSP thereon; and

4. Review and upgrade the benchmark setting methodology upon consultation with BAP on a continuing basis, including documentation and publications thereof.

Accordingly, all data on done and firm bids/offers must be credible and verifiable and preferably sourced from trade executions and reporting systems that are part of a regulated and organized market duly licensed by the SEC where the data contributors are bound to uphold the principles of transparency, fair trading and best execution.

E. Peso-Denominated Private Debt Securities

The basis for marking-to-market peso-denominated debt securities traded in an organized market shall be the same as those used in Peso-Denominated Government Securities in Section D above.

For private debt securities which are not traded in an organized market, the mark-to-market value shall be based on the corresponding government security benchmark plus risk premium. The corresponding government security benchmark shall be determined according to Section D above. In determining the risk premium, the credit risk rating of the securities involved given by a BSP-recognized credit risk rating agency shall be established and taken into account whenever available. In the absence of such credit risk rating, alternative analyses may be used: *Provided*, That, these are well-justified by sound risk analysis principles.

Other Guidelines

For the market valuation of securities with odd tenors, interpolated yields derived from the benchmark or reference rates in accordance with the BSP-approved guidelines for computation of reference rate in Section D above shall be used.

Penalties and Sanctions

FIs and the concerned officers found to have violated the provisions of these regulations shall be subject to the penalties prescribed under Subsec. X388.5: *Provided*, That non-compliance with the above guidelines may be a basis for a finding of unsafe and unsound banking practice.
(As amended by M-2007-006 dated 28 February 2007)

GUIDELINES ON THE USE OF SCRIPLESS (RoSS) SECURITIES
AS SECURITY DEPOSIT FOR THE FAITHFUL PERFORMANCE OF TRUST DUTIES
(Appendix to Sec. X405 and X415)

Definition of Terms and Acronyms

Scripless securities and RoSS securities
- refers to uncertificated securities issued by the Bureau of Treasury (BTr) that are under the BTr’s Registry of Scripless Securities

Trust institution - refers to a bank that is authorized to engage in trust business

BTr - Bureau of Treasury

RoSS - Registry of Scripless Securities

BSP - Bangko Sentral ng Pilipinas

BSP-SES - Supervision and Examination Sector of BSP

SRSO - Supervisory Reports and Studies Office of BSP-SES

BSP-Comptrollership - Accounting Department of BSP

GSSED - Government Securities Eligible Dealer of the BTr

DDA - refers to the regular demand deposit account of a bank with BSP-Comptrollership

MOR - Manual of Regulations for Banks

Appropriate supervising and examining department or responsible SED - refers to the Department of Commercial Banks I in the case of EKBs; or the Department of Commercial Banks II in the case of non-EKBs and branches of foreign banks; or the Department of Thrift Banks and Non-Bank

Financial Institutions in the case of thrift banks, supervised by BSP.

A. Basic Requirements

1. The BSP-SES shall file with BTr an application to open a RoSS Principal Securities Account where RoSS securities of trust institutions used as security deposit for trust duties shall be held. BSP-SES shall use *Annex 1* for this purpose.
2. Using *Annex 1-A*, BSP-SES shall also apply for a Client Securities Account (sub-account) for each trust institution under its RoSS Principal Securities Account to enable BSP-SES to keep track of the security deposit. BTr shall maintain Client Securities Accounts for ₱1,000 each month per account.
3. A trust institution which has a DDA with BSP-Comptrollership shall act as its own settlement bank.
A trust institution which does not have a DDA with the BSP-Comptrollership shall designate a settlement bank which will act as conduit for transferring securities for trust duties to the BSP-SES account and for paying interest, interest coupons and redemption proceeds. The trust institution shall inform the appropriate SED of the BSP of the designation of a settlement bank.
4. Each trust institution shall accomplish an *Autodebit/Autocredit Authorization* for its client securities account under the BSP-SES RoSS account. The document will authorize the BTr and the BSP to credit the DDA of the trust institution with BSP-Accounting for coupons/interest payments on securities in the BSP-SES RoSS accounts and to debit the DDA for the monthly fees payable to BTr for maintaining its client securities accounts with BSP-SES. It will also

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authorize the BTR and BSP to credit the deposit account of BSP-SES with BSP-Comptrollership for the redemption proceeds of securities that mature while in the BSP-SES RoSS account.

A trust institution with a DDA with BSP-Comptrollership shall use *Annex 2-A* while a trust institution with a settlement arrangement shall use *Annex 2-B*.

5. BSP-SES shall open a deposit account with BSP-Comptrollership where the redemption value of securities shall be credited, in the event such securities mature while lodged in the RoSS account of BSP-SES.

6. SRSO shall be responsible for keeping track of the deposit and withdrawal of securities held under the BSP-SES Principal Securities Account and the Client Securities Accounts of the trust institutions. SRSO shall instruct BTr to transfer securities out of the BSP-SES account and the corresponding client securities accounts of trust institutions only after receiving authorization from the Director (or in his absence, the designated alternate officer) of the appropriate SED of SES.

SRSO shall also be responsible for keeping track of the BSP-SES deposit account with the BSP-Comptrollership representing credits for the redemption value of security deposit of trust institutions that have matured while in the RoSS account of BSP-SES. SRSO shall maintain sub-accounts for each trust institution for the purpose. SRSO shall instruct BSP-Comptrollership to transfer balances out of the deposit account and the corresponding sub-account of the trust institution only after receiving authorization from the Director (or in his absence, the designated alternate officer) of the appropriate SED of SES.

7. BSP-SES shall subscribe to the *Telerate* electronic trading system which is linked to BTr's RoSS and cause the installation of a *Telerate* terminal at SRSO.

Trust institutions may be required to reimburse BSP-SES for whatever expenses that may be incurred in connection with the subscription.

8. Every trust institution must ensure that it has adequate security deposit for trust duties pursuant to the provisions of Subsecs. X405.1, X405.2, X405.3 and X405.4 of the MOR.

9. BTr shall provide BSP-SES with the end-of-day transaction report whenever a transaction in any client securities account is made. BTr shall also provide BSP-SES a monthly report of balances of each client securities account.

10. Every quarter, the responsible SED of BSP-SES shall determine, based on the *Report of Trust and Other Fiduciary Business and Investment Management Activities* (CBP 7-16-35TR) submitted by the trust institution, whether or not the trust institution's security deposit for trust duties is sufficient pursuant to the provision of the MOR mentioned above. In case of deficiency, the department shall recommend the imposition of sanctions and/or any other appropriate action to higher authorities.

B. Procedures for Assigning RoSS Securities as Security Deposit for Trust Duties

1. The trust institution shall advise the appropriate BSP-SES department that it will transfer RoSS securities to BSP-SES. The advise should be received by the BSP-SES at least two (2) banking days before the date of transfer using the prescribed form (*Annex 3*) and checking Box "b" of said form. (Box "a" shall be checked by a new trust institution that is making an initial security deposit pursuant to Subsec. X404.2 of the MOR.) The advice should be sent by cc mail or by fax to be followed by an official letter duly signed by an authorized trust officer.

2. The trust institution shall electronically instruct BTr to transfer

securities from its own RoSS accounts to the BSP-SES RoSS and its corresponding Client Securities Account on the specified date. In the case of a trust institution with a settlement arrangement, the instruction shall be coursed through the settlement bank and the securities shall come from the RoSS account of the same bank.

3. BTr shall effect the transfer upon verification of RoSS balances. At the end of the day, BTr shall transmit a transaction report to SRSO containing the transfer.

4. SRSO shall provide the appropriate BSP-SES department a copy of the report.

5. The BSP-SES department concerned shall check from the report whether BTr effected the transfer indicated in the advice (*Annex 3*) sent earlier by the trust institution.

C. Procedures for Replacing RoSS Securities

1. The trust institution shall advise the appropriate SED of BSP-SES that it will replace existing RoSS securities assigned as security deposit. The advise should be received by the BSP-SES at least two (2) banking days before the date of replacement using the prescribed form (*Annex 3*). The trust institution shall check Box “c” of the form and indicate the details of the securities to be withdrawn. The advice should be sent by cc mail or by fax to be followed by an official letter duly signed by an authorized trust officer.

2. The responsible BSP-SES department shall verify whether the securities to be replaced are in the RoSS account of BSP-SES and the sub-account of the trust institution and whether the book value of the securities to be deposited is equal to or greater than those to be withdrawn. The department concerned shall immediately communicate with the trust institution in case of a discrepancy.

3. The trust institution shall electronically instruct BTr to transfer

securities from its own RoSS account to the BSP-SES RoSS accounts and its corresponding Client Securities Account on the specified date. In the case of a trust institution with a settlement arrangement, the instruction shall be coursed through the settlement bank and the securities shall come from the RoSS account of the same bank.

4. BTr shall effect the transfer upon verification of RoSS balances. At the end of the day, BTr shall transmit a transaction report to SRSO containing the transfer.

5. SRSO shall immediately provide the appropriate BSP-SES department a copy of the report.

6. The BSP-SES department concerned shall immediately check from the report whether the securities transferred to the BSP-SES account are the same securities described in the advice (*Annex 3*) sent earlier. If in order, the Director (or in his absence, the designated alternate officer) of the department concerned shall authorize SRSO to instruct BTr to transfer the securities specified to be withdrawn from the BSP-SES account to the trust institution’s (or the settlement bank’s) RoSS account. The Department concerned shall use *Annex 5* and check Boxes “a” and “d”. Should there be any discrepancy, the department shall inform the trust institution immediately. The authority to allow the withdrawal should be transmitted to SRSO not later than the day after the replacement securities were transferred to the BSP-SES account.

The BSP-SES department concerned shall also advise the trust institution that it has approved the replacement of security deposit by using *Annex 6* and checking Boxes “a” and “d” and the appropriate box under “d” depending on whether or not the trust institution has a settlement arrangement.

7. On the same day, SRSO shall instruct BTr to transfer the securities

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specified to be withdrawn from the BSP-SES account to the RoSS account of the trust institution (or its settlement bank).

8. BTr shall effect the transfer/withdrawal. At the end of the day, BTr shall send a report to SRSO containing the transfer/withdrawal.

9. SRSO shall provide the appropriate BSP-SES department a copy of the report.

10. The responsible BSP-SES department shall check from the report whether BTr effected the transfer/withdrawal.

D. Procedures for Withdrawing RoSS Securities

1. The trust institution shall advise the appropriate BSP-SES department that it will withdraw existing RoSS securities assigned as security deposit. The advice should be received by the BSP-SES at least two (2) banking days before the date of withdrawal using the prescribed form (*Annex 4*) and indicating therein details of the securities to be withdrawn. The advice should be sent by cc mail or by fax to be followed by an official letter duly signed by an authorized trust officer.

2. The responsible BSP-SES department shall verify whether the securities to be withdrawn are in the RoSS account of BSP-SES and the Client Securities Account of the trust institution. The department shall also determine whether the amount of remaining security deposit will still be adequate in spite of the proposed withdrawal. If in order, the Director (or in his absence, the designated alternate officer) of the department concerned shall authorize SRSO to instruct BTr to transfer the securities specified to be withdrawn from the BSP-SES account to the trust institution's own RoSS account (or its settlement bank). The Department concerned shall use *Annex 5* and check Boxes "b" and "d". Should there be any discrepancy, the department shall inform the trust institution immediately. The authority to allow the withdrawal should be

transmitted to SRSO not later than the date of the withdrawal indicated in the advice (*Annex 4*) sent earlier by the trust institution.

The BSP-SES department concerned shall also advise the trust institution that it has approved the withdrawal of security deposit by using *Annex 6* and checking Boxes "b" and "d" and the appropriate box under "d" depending on whether or not the trust institution has a settlement arrangement.

3. On the same date, SRSO shall instruct BTr to transfer the securities specified to be withdrawn from the BSP-SES account to the RoSS account of the trust institution (or its settlement bank).

4. BTr shall effect the transfer/withdrawal. At the end of the day, BTr shall send to SRSO a report which contains the transfer/withdrawal.

5. SRSO shall provide the appropriate BSP-SES department a copy of the report.

6. The BSP-SES department concerned shall check from the report whether BTr effected the withdrawal stated in the advice (*Annex 4*) sent earlier by the trust institution.

E. Procedures for Crediting Interest Coupon Payments

On coupon or interest payment date, BTr shall instruct BSP-Comptrollership to credit the DDA of trust institutions or their designated settlement banks for coupon/interest payment of securities held under the RoSS account of BSP-SES.

F. Procedures for Crediting and Withdrawing the Redemption Value of Matured Securities That are in the BSP-SES RoSS Account

1. On maturity date, BTr shall instruct BSP-Comptrollership to credit the deposit account of BSP-SES with BSP-Comptrollership for the redemption value of securities that mature while held as security deposit in the RoSS account of BSP-SES.

2. BTr shall send to SRSO a copy of the credit advice.

3. SRSO shall immediately provide the appropriate BSP-SES department a copy of the credit advice.

4. The responsible BSP-SES department shall immediately inform the trust institution concerned of the cash credit and shall inquire whether the trust institution intends to transfer securities to the RoSS account of the BSP-SES to replace the matured securities.

5. The trust institution shall advise the appropriate BSP-SES department that it will transfer RoSS securities to BSP-SES in place of the cash credited to the deposit account of BSP-SES with BSP-Comptrollership for matured securities. The trust institution shall check Box “d” of the prescribed form (*Annex 3*). The concerned department shall determine if the book value of the securities to be transferred is equal to or greater than the cash credit.

6. The trust institution shall electronically instruct BTr to transfer securities from its own RoSS accounts to the BSP-SES RoSS account and its corresponding Client Securities Account on the specified date. In the case of a trust institution with a settlement arrangement, the instruction shall be coursed through the settlement bank and the securities shall come from the RoSS account of the same bank.

7. BTr shall effect the transfer upon verification of RoSS balances. At the end of the day, BTr shall send a report to SRSO containing the transfer.

8. SRSO shall provide the appropriate BSP-SES department a copy of the report.

9. The BSP-SES department concerned shall immediately check from the report whether the securities transferred to the BSP-SES account are the same securities described in the advice (*Annex 3*) sent earlier by the trust institution. If in order, the Director (or in his absence, the designated alternate officer) of the Department shall direct the SRSO to instruct BSP-Accounting Department to debit the BSP-SES deposit account and transfer the funds to the DDA of the trust institution (or its designated settlement bank). The Department concerned shall use *Annex 5* and check Boxes “c” and “e”.

The BSP-SES department concerned shall also advise the trust institution that it has approved the replacement of matured securities by using *Annex 6* and checking Boxes “c” and “e” and the appropriate box under “e” depending on whether or not the trust institution has a settlement arrangement.

10. SRSO shall direct BSP-Accounting to debit the BSP-SES deposit account and credit the same amount to the DDA of the trust institution (or its designated settlement bank) using *Annex 7*.

11. BSP-Accounting shall effect the transaction and send a copy of the debit advice to SRSO and a copy of the credit advice to the trust institution (or the designated settlement bank).

12. SRSO shall send a copy of the debit advice to the SES department concerned.

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Annex 1

SUPERVISION AND EXAMINATION SECTOR

(Date)

Treasurer of the Philippines
Bureau of Treasury
Palacio del Gobernador
Intramuros, Manila

Attention: Registry of Scripless Securities (RoSS)

Dear _____:

The Supervision and Examination Sector of the Bangko Sentral ng Pilipinas (BSP-SES) hereby makes an application to open a Principal Securities Account in the Registry of Scripless Securities (RoSS) for the purpose of holding the security deposit for the faithful performance of trust duties of institutions engaged in trust business pursuant to Section 65 of R.A. No. 337, as amended.

We understand that the Bureau of Treasury shall maintain the Principal Securities Account of BSP-SES for free.

Very truly yours,

Deputy Governor

SUPERVISION AND EXAMINATION SECTOR

(Date)

Treasurer of the Philippines
Bureau of Treasury
Palacio del Gobernador
Intramuros, Manila

Attention: Registry of Scripless Securities (RoSS)

Dear Ms. _____

In connection with the Principal Securities Account of BSP-SES in the Registry of Scripless Securities (RoSS), please open Client Securities Account for the following trust institutions so we can keep track of their security deposit for the faithful performance of trust duties. Please note that the settlement bank of the institution, if it is required, is also indicated.

Name of Trust Institution	Name of Settlement Bank, where required
1. _____	_____
2. _____	_____
3. _____	_____

We understand that the Bureau of Treasury will maintain the Client Securities Account for P1,000 per month per account.

Very truly yours,

Authorized Signatory

To be used by a trust institution with own demand deposit account with BSP-Comptrollership

Letterhead of Trust Institution

AUTODEBIT/AUTOCREDIT AUTHORIZATION

The _____ (name of bank) hereby authorizes the Bureau of Treasury (BTr) and the Bangko Sentral ng Pilipinas (BSP) to debit/credit our demand deposit account with BSP-Comptrollership for coupons/interest payment of our securities in the BSP-SES RoSS accounts; and to settle the payment of monthly maintenance fees to BTr of our client securities account under the BSP-SES RoSS account. We also authorize the BTr and the BSP to credit the Account of BSP-SES with BSP-Comptrollership for the redemption proceeds of our securities in the event such securities mature while in the RoSS account of BSP-SES.

This authorization will take effect on _____ (indicate date) .

(Authorized Signatory)

To be used by a trust institution with settlement arrangement with a bank

Letterhead of Trust Institution

AUTO DEBIT/AUTOCREDIT AUTHORIZATION

The _____ (name of settlement bank) _____ for the account of _____ (name of trust institution) _____ hereby authorizes the Bureau of Treasury (BTr) and the Bangko Sentral ng Pilipinas (BSP) to debit/credit our demand deposit account with BSP-Comptrollership for coupons/interest payment of securities of the trust institution in the BSP-SES RoSS accounts; for maturing securities of the trust institution held in our RoSS Principal Securities Account with BTr; and to settle the payment of monthly maintenance fees to BTr of our client securities account under the BSP-SES RoSS account.

The _____ (name of trust institution) _____ also authorizes the BTr and the BSP to credit the Account of BSP-SES with BSP-Comptrollership for the redemption proceeds of our securities in the event such securities mature while in the RoSS account of BSP-SES.

This authorization will take effect on _____ (indicate date) _____ .

(Authorized Signatory of Settlement Bank)

(Authorized Signatory of Trust Institution)

Letterhead of Trust Institution

Date:

The Director
SED I/SED II/SED III/SED IV
Bangko Sentral ng Pilipinas
A. Mabini St., Manila

Dear Sir:

We are transferring on (indicate date of transfer) the following securities to your Principal Securities Account and our Client Securities Account (sub-account) as our security deposit for the faithful performance of trust duties pursuant to Section 65 of R.A. No. 337, as amended.

<u>Type</u>	<u>ISIN</u>	<u>Purchase Date</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Remaining Tenor ^{a/}</u>	<u>Face Amount</u>	<u>Purchase Price</u>
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We are transferring the above securities:

- a. ☐ As our initial deposit
- b. ☐ As an additional security deposit
- c. ☐ To replace the following securities which we deposited on (date) .

<u>Type</u>	<u>ISIN</u>	<u>Purchase Date</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Remaining Tenor ^{a/}</u>	<u>Face Amount</u>	<u>Purchase Price</u>
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- d. ☐ To replace matured securities the redemption value of which P is credited to the deposit account of BSP-SES with BSP-Comptrollership.

Very truly yours,

Name and Designation of Authorized Signatory

^{a/} Reckoned from actual date of transfer/withdrawal.

Letterhead of Trust Institution

Date:

The Director
SED I/SED II/SED III/SED IV/SED V
Bangko Sentral ng Pilipinas
A. Mabini St., Manila

Dear Sir:

We wish to withdraw on (indicate date of transfer) the following securities used as security deposit for the faithful performance of trust duties from the Principal Securities Account and from our corresponding Client Securities Account (sub-account).

<u>Type</u>	<u>ISIN</u>	<u>Purchase Date</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Remaining Tenor ^{a/}</u>	<u>Face Amount</u>	<u>Purchase Price</u>
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Very truly yours,

Name and Designation of Authorized Signatory

^{a/} Reckoned from actual date of transfer/withdrawal.

MEMORANDUM
SED I/SED II/SED III/ SED IV

F o r : The Director
Supervisory Reports and Studies Office

From : The Director

Subject : Scripless Securities Used As Deposit for Trust Duties

Date :

In connection with the request of (indicate name of trust institution) dated _____ to:

- a. ☐ Replace outstanding RoSS securities
- b. ☐ Withdraw RoSS securities
- c. ☐ Replace cash credit of matured securities with outstanding RoSS securities
you are hereby authorized to:
- d. ☐ Instruct the Bureau of Treasury to transfer the following securities out of the BSP-SES RoSS accounts to the RoSS Principal Securities Account of (indicate name of trust institution or, where applicable, the name of its settlement bank)

<u>Type</u>	<u>ISIN</u>	<u>Purchase Date</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Remaining Tenor ^{a/}</u>	<u>Face Amount</u>	<u>Purchase Price</u>
-------------	-------------	----------------------	-------------------	-----------------	--------------------------------------	--------------------	-----------------------

- e. ☐ Instruct BSP-Comptrollership to debit the BSP-SES deposit account in the amount of P _____ and to transfer said amount to the demand deposit account of (indicate name of trust institution or, where applicable, the name of its designated settlement bank).

Authorized Signatory

^{a/} Reckoned from actual date of transfer/withdrawal.

SED I/SED II/SED III/SED IV

(Date)

(Name of Trust Institution)

(Address)

Subject: Scripless Securities Used As Deposit for Trust Duties

Dear Mr. _____:

We are pleased to inform you that we have approved your request dated _____ to:

- a. ☐ Replace outstanding RoSS securities
- b. ☐ Withdraw RoSS securities
- c. ☐ Replace cash credit of matured securities with outstanding RoSS securities.

Accordingly, we have authorized the Supervisory Reports and Studies Office to:

- d. ☐ Instruct the Bureau of Treasury to transfer the following securities out of the BSP-SES RoSS accounts to -
 - ☐ the RoSS Principal Securities Account
 - ☐ your settlement bank's RoSS Principal Securities Account, the securities described in your request.
- e. ☐ Instruct BSP-Comptrollership to debit the BSP-SES deposit account in the amount of P_____ and to credit said amount to -
 - ☐ your demand deposit account with BSP-Comptrollership
 - ☐ your settlement bank's demand deposit account with BSP-Comptrollership

Very truly yours,

Authorized Signatory

PROFORMA PAYMENT FORM
[Appendix to Subsec. X902.2 (2008 - X609.2)]

BANGKO SENTRAL NG PILIPINAS
Manila

(Name of Department/Office)

FOR -

The Director
Cash Department

Please issue OFFICIAL RECEIPT to _____ (name of payor) as payment of
_____ (nature of payment) and effect the following accounting entries:

Account Code	Account Title/Description Accountee Type/Code/Name	DR/CR	Amount
			P

Total Debit _____
Total Credit P _____

Approved by: _____
(Name of BSP Official/Position)

Date: _____

Received by: _____
Date: _____

Official Receipt No: _____
Date: _____

(As amended by Circular No. 662 dated 09 September 2009)

SUGGESTED GESTATION/GRACE PERIODS FOR
AGRICULTURE AND FISHERIES PROJECTS
(Appendix to Sec. X349)

PROJECT	GESTATION (Years)	SUGGESTED MAXIMUM GRACE PERIOD (Years)
A. Crops		
Abaca	4-6	5
Blackpepper	3-4	4
Cacao	4-6	5
Calamansi	4-6	6
Cashew	5	5
Coconut	7-8	7
Coffee	3-4	4
Durian	5-7	7
Lanzones	6-8	7
Mango	5-7	7
Mangosteen	6-8	7
Pomelo	5-7	7
Rambutan	6-7	5
Rubber	5-7	7
Palm Oil	4-6	7
Pili	6-8	7
Jackfruit /	5-7	7
Others ^a		
B. Livestock		will depend on the cash flow or type of project, up to a maximum of seven (7) years
C. Poultry		
D. Fisheries		

Note: Cash Flows/Cost and Return Analysis for these projects are available at the Agribusiness and Marketing Assistance Service, Department of Agriculture.

^{a/} Others - other crops/projects as may be determined by the Department of Agriculture through the Agricultural Credit Policy Council which may include industrial tree crops planted in private lands and used for intercropping purposes.

BASIC GUIDELINES IN ESTABLISHING BANKS
(Appendix to Sec. X102)

A. GUIDING PRINCIPLE

The new banking organization must have suitable shareholders, adequate financial strength, a legal structure in line with its operational structure, and a management with sufficient expertise and integrity to operate the bank in a sound and prudent manner. Where the proposed owner or parent organization is a foreign bank, the prior consent of its home country supervisor should be obtained.

B. THE APPLICATION

1. The application for authority to establish a bank shall be accomplished in triplicate. The original copy and duplicate copy shall be submitted to the Central Application and Licensing Group (CALG), SES, BSP. The third copy shall be retained by the organizers.

2. The required papers/documents and other information in support of the application are, as follows:

- a. Agreement to organize a bank.
- b. Accomplished bio-data sheet of each of the incorporators, proposed directors and officers, and subscribers.
- c. Evidence of Filipino citizenship of each of the incorporators, proposed directors and officers, and subscribers if he/she claims to be a Filipino citizen:

(1) In case of a natural-born Filipino citizen, original or certified true copy of birth certificate from issuing office. In case the birth certificate cannot be produced by reason of destruction or otherwise, an affidavit to that effect by the civil registrar concerned should be submitted accompanied by an affidavit by the incorporator, director, officer or subscriber himself stating, among other things, the date and place of his birth and the names of his parents and their citizenship at the time of

the affiant's birth; and joint affidavit of two (2) disinterested/unrelated persons stating, among other things, the date and place of the subject's birth and the names of his parents and their citizenship at the time of the subject's birth; or

(2) In case of a naturalized citizen of the Philippines, the naturalization certificate, certificate of registration thereof with the civil registrar and other pertinent papers; or

(3) In the absence of the above-mentioned documents, a photocopy of the passport (with original to be presented for verification).

d. Statement of assets and liabilities as of a date not earlier than ninety (90) days prior to the filing of application of each of the subscribers, sworn to by the subscriber himself and duly notarized, with supporting schedules showing the following information:

(1) In the case of cash in banks: (a) name of depository bank, (b) nature of deposit, and (c) amount of deposit with each bank as of balance sheet date;

(2) In the case of securities: (a) name and address of issuing corporation/entity, (b) number of shares owned as of balance sheet date, (c) par value, (d) date and cost of acquisition, and (e) information as to whether the securities are actively traded in the stock market and, if so, their current market price;

(3) In the case of land: (a) description (agricultural, etc.), (b) area, (c) location, (d) date and cost of acquisition, (e) transfer certificate of title or tax declaration number, (f) amount of encumbrance or lien, if any, (g) assessed value, and (h) current market value (*state basis of valuation*);

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(4) In the case of real estate improvements: (a) description of improvement (residential house, etc.), (b) location, (c) date and cost of acquisition/construction, (d) assessed value, and (e) current market value (state basis of valuation);

(5) In the case of accounts receivable, state the name and address of each debtor and the amount due from each; and

(6) In the case of accounts payable or other liabilities, state the name and address of each creditor and the amount owed to each.

(Evidences of asset ownership such as bank certification/statement, savings passbook, certificate of time deposit, bond or stock certificate, transfer certificate of title, tax declaration, etc. and waiver of rights under R. A. No. 1405, as amended, shall be submitted/presented for verification).

e. Certified photocopies of Income Tax Returns (ITRs) for the last two (2) calendar years of each of the incorporators, proposed directors and officers, and subscribers.

f. Clearances from the National Bureau of Investigation (NBI) and Bureau of Internal Revenue (BIR) of each of the incorporators, proposed directors and officers, and subscribers.

g. For corporate subscribers:

(1) Copy of the board resolution authorizing the corporation to invest in such bank; and designating the person who will represent the corporation in connection therewith;

(2) Copy of the latest articles of incorporation and by-laws;

(3) List of directors and principal officers;

(4) List of major stockholders, indicating the citizenship and the number, amount and percentage of the voting and non-voting shares held by them;

(5) A copy of the corporation's audited financial statements for the last two (2) years prior to the filing of application;

(6) A copy of the corporation's annual report to the stockholders for the year immediately preceding the date of filing of application;

(7) Certified photocopies of ITRs for the last two (2) calendar years; and

(8) BIR clearance.

h. For foreign bank subscribers:

(1) A copy of the board resolution authorizing the bank to invest in a bank in the Philippines, and designating the person who will represent the bank in connection therewith;

(2) Historical background of the bank, as follows:

(a) Date and place of incorporation;

(b) List of domestic branches, agencies, other offices, subsidiaries and affiliates and their line of business (if different from banking) in the home country;

(c) List of foreign branches, agencies, other offices, subsidiaries and affiliates, and their location and line of business (if different from banking);

(d) Range of banking services offered; and

(e) Financial and commercial relationship with the Philippine government, local banks, business entities and residents, past or present;

(3) A copy each of the bank's latest amended articles of incorporation and by-laws;

(4) List of the bank's directors and their citizenships;

(5) List of principal officers of the bank's head office;

(6) List of major stockholders, indicating the citizenship and the number, amount and percentage of the voting and non-voting shares held by them;

(7) A copy of the bank's audited financial statements for the last two (2) years

prior to the filing of application;

(8) A copy of the bank's annual report to the stockholders for the year immediately preceding the date of filing of application; and

(9) A certification from the bank's home country supervisory authority that the bank's home country supervisory authority has no objection to the bank's investment in a bank in the Philippines, and that adequate information on the bank and its subsidiaries will be provided to the Bangko Sentral to the extent allowed under existing laws.

i. Detailed plan of operation and economic justification for establishing the bank. *(The plan of operation should describe and analyze the market area from which the bank expects to draw the majority of its business and establish a strategy for the bank's ongoing operations. It should also describe how the bank will be organized and controlled internally. The economic justification for establishing the bank should provide information on the economic profile of the region, e.g., population, agricultural/industrial/service projects to be financed).*

j. Projected monthly financial statements for the first twelve (12) months of operations, together with assumptions. *(The financial projections should be consistent and realistic in relation to the bank's proposed strategic plan, and should show sufficient capital to support the bank's strategy, specially in the light of start-up costs and possible operational losses in the early stages.)*

k. Proposal by each of the subscribers on how they will raise the amount to pay for their proposed paid-up capitalization in the bank.

3. The application shall be considered filed on a first-come, first-served basis: *Provided, That* all the required documents

are complete and properly accomplished.

4. Pursuant to Section 26 of R. A. No. 7653, approval of application shall be subject, among others, to the waiver of secrecy of deposits under Sec. X338.

5. Prescribed application form, together with other forms, is available at the CALG.

C. CAPITAL REQUIREMENT/ STOCKHOLDINGS

1. Banks to be established shall comply with the required minimum capital prescribed under Subsec. X111.1 or as may be prescribed by the Monetary Board.

2. At least twenty-five percent (25%) of the total authorized capital stock shall be subscribed by the subscribers of the proposed bank, and at least twenty-five percent (25%) of such subscription shall be paid-up: *Provided, That* in no case shall the paid-up capital be less than the minimum required capital stated in Item 1 above.

3. Stockholdings of any person or persons related to each other within the third (3rd) degree of consanguinity or affinity, or one (1) or more corporations wholly-owned or majority of the voting stock of which is owned by such person or persons shall not exceed twenty percent (20%) of the voting stock of the bank; while stockholdings of any other corporation, or two (2) or more corporations wholly-owned or majority of the voting stock of which is owned by the same group of persons shall not exceed thirty percent (30%) of the voting stock of the bank. *(Temporarily waived for a period of 10 years from the effectivity of R.A. No. 7906, i.e., 17 March 1995 for TBs; and from the date of approval of R.A. No. 7353, i.e., 2 April 1992 for RBs).*

4. At least seventy percent (70%) of voting stock of any KB shall be owned by Filipino citizens: *Provided, That* such percentage may be lowered to sixty percent (60%) with

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approval of the President of the Philippines. For any TB, at least forty percent (40%) of its voting stock shall be owned by Filipino citizens. Subject to Section 4 of R.A. No. 7353, all of the capital stock of any RB shall be fully owned and held, directly or indirectly, by Filipino citizens or corporations, associations or cooperatives qualified under Philippine laws to own and hold such capital stock.

D. INCORPORATORS/SUBSCRIBERS, DIRECTORS AND OFFICERS

1. The incorporators/subscribers and proposed directors and officers must be persons of integrity and of good credit standing in the business community. The subscribers must have adequate financial strength to pay for their proposed subscriptions in the bank.
2. The incorporators/subscribers and proposed directors and officers must not have been convicted of any crime involving moral turpitude, and unless otherwise allowed under the provisions of existing laws are not officers or employees of a government agency, instrumentality, department or office charged with the supervision of, or the granting of loans to banks.
3. A bank may be organized with not less than five (5) nor more than fifteen (15) incorporators. In case there are more than fifteen (15) persons initially interested in organizing and investing in the proposed bank, the excess may be listed among the original subscribers in the Articles of Incorporation.
4. The number of members of the board of directors of the bank shall not be less than five (5) nor more than fifteen (15) and shall always be in odd numbers.
5. At least two-thirds (2/3) of the members of the board of directors of any KB shall be Filipino citizens; at least a majority of the members of the board of

directors of any TB shall be Filipino citizens; and all members of the board of directors of an RB shall be Filipino citizens.

6. No appointive or elective public official, whether full-time or part-time shall at the same time serve as officer of a KB or a TB except in cases where such service is incident to financial assistance provided by the government or a government-owned or -controlled corporation to the bank.

7. The proposed directors and officers of the bank shall be subject to qualifications and other requirements under Sections X141, X142 and X143.

a. Qualifications of a director. A director shall have the minimum qualifications prescribed in Subsec. X141.2. In addition, for TBs and RBs, at least one (1) of the members of the Board of Directors must, in addition to the minimum qualifications, have at least one (1) year experience in banking and/or finance: *Provided*, That this requirement may be waived if the TB or RB is to be established in a municipality or city where there is no existing bank.

b. Qualifications of an officer. An officer shall have the minimum qualifications prescribed in Subsec. X142.2. In addition, for KBs, the president must, in addition to the minimum qualifications, have at least two (2) years experience in banking and/or finance. For TBs and RBs, any one (1) of the president, chief operating officer or general manager must, in addition to the minimum qualifications, have at least two (2) years experience in banking and/or finance.

c. Disqualifications of a director. The disqualifications prescribed under Subsec. X143.1 shall apply.

d. Disqualifications of an officer. The disqualifications prescribed under Subsec. X143.2 shall apply.

E. REQUIREMENTS FOR THE ISSUANCE OF AUTHORITY TO OPERATE

- 1. Within sixty (60) days from receipt of advice of approval by the Monetary Board/ Governor of their application for authority to establish the bank, the organizers shall:
 - a. Submit the articles of incorporation, treasurer’s sworn statement and by-laws in seven (7) copies; and
 - b. Deposit with any KB (for KBs and TBs) and any bank (for RBs) the initial paid-up capital of the proposed bank.
- 2. Within thirty (30) days after the articles of incorporation and by-laws had been passed upon by the Office of the General Counsel and the corresponding certificates of authority to register had been issued, the organizers shall effect the filing and registration of said documents with the SEC.
- 3. Within six (6) months (for KBs and TBs) and eight (8) months (for RBs) from receipt of advice of approval by the Monetary Board/Governor of their application for authority to establish the bank, the organizers shall:
 - a. Complete the construction and furnishing of the bank building, which shall be equipped with vault and appropriate security devices such as lighting system, time delay device, tamper-resistant locks, alarm system, etc., and provided with furniture, fixtures, equipment and bank forms;
 - b. Effect and complete the recruitment and hiring of officers and employees of the bank;
 - c. Submit the following documentary requirements at least thirty (30) days before the scheduled start of operations:
 - (1) Proof of registration of articles of incorporation and by-laws;
 - (2) Certification of compliance with the conditions of approval duly signed by the incorporators;
 - (3) List of principal and junior officers

- and their respective designations and salaries;
- (4) Bio-data sheet, evidence of citizenship and NBI and BIR clearances of each of the officers (who have not had the previous approval of the Monetary Board/ Governor) which are needed for the evaluation of their qualifications as officers;
- (5) Chart of organization *(The chart should show the names of departments/ units/offices with their respective functions and responsibilities, and the designations of positions in each department/unit/office with their respective duties and responsibilities. The internal organization should provide for a management structure with clear accountability, a board of directors with ability to provide independent check on management, and independent audit and compliance functions, and should follow the “four eyes” principle, e.g., segregation of various functions, cross-checking, dual control of assets, double signatures, etc.);*
- (6) Manual of operations embodying the policies and operating procedures of each department/unit/office, covering such areas as signing/delegated authorities, etc. (for KBs and TBs);
- (7) Plantilla showing the positions with corresponding salaries, the total of which should more or less conform with the amount of salaries shown in the submitted projected statement of earnings and expenses;
- (8) Two (2) sets of specimens of principal bank accounting and other forms;
- (9) Bond policy on officers and custodial employees;
- (10) Insurance policy on bank properties required to be insured;
- (11) Blueprint of floor layout of bank premises;
- (12) Contract of lease on bank’s

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- premises, if the same are to be leased;
- (13) Excerpts of the minutes of the organizational meetings confirming all organizational and pre-opening transactions relative to activities undertaken to prepare the bank to operate (such as appointment of officers, contract of lease, etc.);
- (14) An alphabetical list of stockholders with the number and percentage of voting stocks owned by them;
- (15) A separate list containing the names of persons who own voting stocks in banks and who are related to each other within the third (3rd) degree of consanguinity or affinity, with proper indication of the combined percentage of voting stocks held by them in the particular bank, as well as corporations which are wholly-owned or a majority of the stock of which is owned by any of such persons, including their wholly- or majority-owned subsidiaries;
- (16) Certification by the President that no person who is the spouse or relative within the second (2nd) degree of consanguinity or affinity of any person holding the position of Chairman, President, Executive Vice-President or any position of equivalent rank, General Manager, Treasurer, Chief Cashier or Chief Accountant will be appointed to any of said positions in the bank;
- (17) Appointment of an officer of the proposed bank who shall have undergone orientation on the reportorial requirements with the Department of Thrift Banks and Non-Banks Financial Institutions (DTBNBFI), and a certification by the Manager that he is fully aware of said reportorial requirements and the respective

- deadlines for submission to the Bangko Sentral (for TBs); and
- (18) Other documents/papers which may be required.
- d. File with SRSO a request for ocular inspection of the bank premises at least thirty (30) days before the scheduled start of operation.

F. INAUGURATION/OPENING OF THE BANK FOR BUSINESS AFTER THE CERTIFICATE OF AUTHORITY TO OPERATE HAS BEEN ISSUED

- G. REQUIREMENTS WITHIN THIRTY (30) DAYS AFTER FIRST DAY OF OPERATIONS**
1. Inform the Bangko Sentral of the first day of operation and the banking hours and days;
and
2. Submit a statement of condition as of the first day of operation.

H. REVOCATION OF AUTHORITY TO ESTABLISH A BANK

The authority to establish a bank shall be automatically revoked if the bank is not organized and opened for business within six (6) months (for KBs and TBs) and eight (8) months (for RBs) after receipt by the organizers of the notice of approval by the Monetary Board/Governor of their application. Extension may be granted upon presentation of justifiable reason for failure to open the bank within the prescribed period, and proof that the bank can be opened within the extension period.

(As amended by Circular No. 774 dated 16 November 2012)

RULES AND REGULATIONS FOR COOPERATIVE BANKS
(Appendix to Sec. X102)

Pursuant to Monetary Board Resolution No. 192 dated 11 February 2010, following are the revised rules and regulations governing the organization, membership, establishment, administration, activities, supervision and regulation of Cooperative Banks to implement the provisions of Chapter XII of Republic Act No. 9520 otherwise known as the Philippine Cooperative Code of 2008, which amends Republic Act No. 6938 otherwise known as the Cooperative Code of the Philippines.

Sec. 1 Statement of Policy. The Bangko Sentral is committed to developing a sound and vibrant cooperative banking sector to support the growth of rural economies and communities. Toward this end, these rules and regulations recognize the unique nature and character of Coop Banks while at the same time ensure that they are operating within a level playing field with other types of banks and thereby comply with banking laws, rules and regulations.

Sec. 2 Definition of Cooperative Banks
A Coop Bank is one organized for the primary purpose of providing a wide range of financial services to cooperatives and their members. It shall be organized only by cooperative organizations that are duly established and registered under the Philippine Cooperative Code of 2008 (R.A. No. 9520).

A *cooperative organization* is a duly registered association of persons with a common bond of interest, who have voluntarily joined together to achieve their social, economic and cultural needs and aspirations by making equitable contributions to the capital required

patronizing their products and services and accepting a fair share of the risks and benefits of the undertaking in accordance with universally-accepted cooperative principles.

For purposes of these regulations, a Cooperative Bank shall, likewise, be considered a cooperative that should be registered with the Cooperative Development Authority (CDA), subject to the requirements and requisite authorization of the Bangko Sentral.

Sec. 3 Registration, Application Procedures and Pre-Operating Requirements for Coop Banks

1. A prospective Coop Bank shall file its application for licensing as a bank with the Bangko Sentral, and upon approval, shall be registered with the CDA;
2. Duly registered cooperatives applying for authority to establish a Coop Bank shall submit the following documents to the Central Application and Licensing Group (CALG), SES;
 - a. Certificate of registration or re-registration with the CDA;
 - b. Board resolution authorizing the investment of the cooperative to the Coop Bank;
 - c. Board resolution appointing/designating the authorized representative of the cooperative to the Coop Bank. The authorized representative must either be the chairman, president or secretary of the cooperative;
 - d. Latest AFS of the cooperatives;
 - e. Articles of Cooperation, Treasurer’s Sworn Statement and By-Laws of the proposed Coop Bank in six (6) copies;
 - f. Certificate of Good Standing of each cooperative from the CDA;

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- g. Bio-data, accomplished in the prescribed form under oath and in triplicate, by each of the authorized representatives of the cooperative members, and proposed members of the board of directors and officers of the Coop Bank;
- h. NBI/BIR clearances of the authorized representatives of the cooperative members and proposed members of the board of directors and officers of the Coop Bank;
- i. Latest statement of assets and liabilities of authorized representatives which must be not earlier than ninety (90) days from date of application;
- j. Projected monthly financial statements for the first three (3) years of operations which must be supported by the following:
 - 1. reasonable assumptions;
 - 2. plantilla of organization including the estimated salaries and allowances of the officers and employees, as well as the members of the board of directors;
 - 3. schedule of proposed banking premises, furniture, fixtures and equipment indicating their estimated cost; and
 - 4. such other information as may be necessary.
- k. Detailed plan of operations which should include the following minimum information:
 - 1. marketing plan describing how the bank expects to generate viable and sustainable business;
 - 2. description of how the bank will be organized and controlled internally to ensure that an appropriate system of corporate governance will be in place; and
 - 3. adequate operational policies and procedures, internal control procedures and management expertise to operate the proposed bank in a safe and sound manner.
- l. Economic justification. The economic justification for establishing the bank should provide information on the economic

- profile of the proposed area of operation, i.e., whether it is industrial, agricultural, etc., number of existing business establishments, population, expected competition and such other relevant information.
- 3. A Coop Bank established under R.A. No. 9520 shall comply with the pre-operating requirements specified in Section 11, Appendix 38.
 - a. Within eight (8) months from receipt of advice of approval of the Monetary Board of its application, the proposed Coop Bank shall:
 - 1. Complete the construction and furnishing of the bank building which shall be equipped with facilities, furniture, forms and stationery, and vault of reinforced concrete with a steel two (2)-hour fire resistant door and equipped with time delay device, in accordance with the specifications of the Bangko Sentral;
 - 2. Effect and complete the training/seminar of directors, officers and employees of the Coop Bank; and
 - 3. Inaugurate and open the Coop Bank for business.
 - b. At least thirty (30) days prior to the start of operations, the Coop Bank shall submit the following requirements
 - 1. Certification of compliance with the conditions of approval of the applications duly signed by the cooperators;
 - 2. Proof of registration of Articles of Cooperation, Treasurer’s Sworn Statement and By-Laws of the Bank;
 - 3. Certificate of deposits of the bank’s paid-in capital;
 - 4. Request for ocular inspection of the bank premises at least thirty (30) days before the scheduled date of operations;
 - 5. Certificates of training/seminar of officers and employees;
 - 6. Certificates of attendance of the special seminar for members of the board

¹ Required under Subsec. X111.1

of directors conducted or accredited by the Bangko Sentral;

7. List of principal and junior officers and their respective designations and salaries;

8. Bio-data sheets, NBI/BIR clearances, ITRs for the last two (2) years of directors/officers who have not had the previous approval of the Monetary Board, for evaluation of their qualifications prior to their appointment;

9. Chart of organization. The chart should show the names of departments/units/offices with their respective functions and responsibilities, and the designations of positions in each department/unit/office with their respective duties and responsibilities. The internal organization should provide for a management structure with clear accountability, a board of directors with ability to provide independent check on management and independent audit and compliance functions, and should follow the "four eyes" principle, i.e., segregation of various functions, cross checking, dual control of assets, double signatures;

10. Manual of Operations embodying the policies and operating procedures of each department/unit/office covering such areas as signing/delegated authorities;

11. Two (2) sets of specimens of principal bank accounting and other forms;

12. Blueprint of floor layout of bank premises;

13. Contract of lease on bank's premises, if the same are to be leased;

14. Insurance coverage of bank properties;

15. Fidelity bonds of accountable officers;

16. Excerpts of the minutes of the organizational meetings confirming all organizational and pre-opening transactions relative to activities undertaken to prepare the bank to operate (such as appointment

of officers, contract of lease, etc.);

17. An alphabetical list of stockholders with the number and percentage of voting stocks owned by them;

18. A separate list containing the names of persons who own voting stocks in banks and who are related to each other within the 3rd degree of consanguinity or affinity, with proper indication of the combined percentage of voting stocks held by them in the particular bank, as well as corporations which are wholly-owned or a majority of the stock of which is owned by any of such persons, including their wholly or majority-owned subsidiaries;

19. Certification by the president or officer of equivalent rank that no person who is the spouse or relative within the 2nd degree of consanguinity or affinity of any person holding the position of chairman, president, executive vice president or any position of equivalent rank, general manager, treasurer, chief cashier or chief accountant will be appointed to any of said positions in the bank;

20. Appointment of an officer of the proposed bank who shall have undergone orientation on the reportorial requirements with the Bangko Sentral and a certification by the manager that he is fully aware of said reportorial requirements and the respective deadlines for submission to the Bangko Sentral;

21. A certification by the PDIC that the organizers had already been briefed on all of its requirements for newly established banks; and

22. Other documents/papers which may be required.

Sec. 4 Capital Requirements. Coop Banks that will be established under R.A. No. 9520 shall have a minimum paid in capital of Ten Million Pesos (P10.0 million).

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No cooperative member shall own or control more than forty percent (40%) of the total capital contributions of a Coop Bank. This limitation shall also apply to cooperatives purchasing government-held preferred shares of Coop Banks which are converted into common shares.

Coop Banks shall issue par value shares only.

Sec. 5 Members of the Board of Directors, Officers, Quorum and Voting Rights

1. The definition, qualifications, responsibilities and duties of the Board of Directors and Officers that are generally applicable to all banks under Sections X141 to X143 shall also apply to Coop Banks.

2. Coop Banks shall, likewise, comply with the following regulations on the minimum qualification requirements of the members of its Board of Directors and Officers:

a. At least one (1) member of the Board of Directors of a Coop Bank shall have a one (1) year experience in banking; and

b. The manager of a Coop Bank must have actual banking experience (at least manager or assistant manager)

3. The quorum requirement for general assembly meetings, whether special or regular, shall be one-half plus one of the number of voting shares of all the members in good standing.

The quorum requirement for amendments of articles of cooperation and by-laws shall be three-fourths (3/4) of the number of voting shares of all the members with voting rights, present and constituting a quorum.

4. The voting rights of members shall be proportionate to the number of their paid-up shares. Existing Coop Banks shall amend their Articles of Cooperation to conform to this provision within a period of one (1) year from 06 March 2010.

5. In the meetings of the board of directors, whether special or regular, the quorum requirement shall be one-half plus one of all the members of the board of directors. Each director shall only have one vote.

Sec. 6 Membership in a Coop Bank

Membership in a Coop Bank shall either be regular or associate. Regular membership shall be limited to cooperative organizations which are holders of common shares of bank. Such common shares shall not be withdrawable but may be sold or transferred to qualified member cooperative organizations.

Associate members are those that subscribe and hold preferred shares of the bank, the features of which shall be defined in the Articles of Cooperation. Associate members may include, but shall not be limited to, individual members of the bank's member-primary cooperatives.

In the case of Samahang Nayon (SN) and Municipal Katipunan ng mga Samahang Nayon (MKS) which held common shares of Coop Banks prior to the effectivity of R.A. No. 9520, they shall apply for conversion to full-fledged cooperatives in order to maintain their status as regular members of cooperative banks.

Coop Banks shall inform their members SN and MKS that they have to convert to full-fledged cooperatives within a period of one (1) year from 22 March 2009. If the SN or MKS fails to do so, the Coop Bank concerned shall convert the common shares held by such associations to preferred shares. The conversion to full-fledged cooperatives and conversion of common shares to preferred shares shall both be reported to the Bangko Sentral within six (6) months from 06 March 2010.

Sec. 7 Establishment of Coop Banks

1. At least five (5) cooperatives may

form a Coop Bank: *Provided*, That majority of the Coop Bank’s voting shares of stock shall be held by member-cooperatives located in the said province where the head office is located. The said majority requirement shall be maintained on an ongoing basis, except in meritorious cases as may be allowed by the Monetary Board.

2. Only one (1) Coop Bank may be established in each province. However, an additional Coop Bank may be established in the same province: *Provided*, That the additional Coop Bank may be located in a city or municipality other than the city or municipality where the first Coop Bank is located. The establishment of another Coop Bank will be authorized depending on the economic conditions of the province as may be determined by the Bangko Sentral.

The Articles of Cooperation and By-Laws of any Coop Bank, or any amendment thereto, shall be registered with the CDA only when accompanied by a certificate of authority issued by the Monetary Board, under its official seal.

Sec. 8 Establishment of Branches and Other Offices

1. The Coop Bank of the province may set up branches/extension offices/other banking offices (OBOs) anywhere within the province subject to compliance with the applicable branching rules and regulations as provided in Section X151.

2. Coop Banks from other provinces may set up branches/extension offices/OBOs in cities or municipalities where there are no other Coop Bank head office/branch/extension office.

3. The establishment of branches/extension offices mentioned in Items 1 and 2 above shall be subject to the following minimum combined capital requirement:

a. At least ten million pesos (P10.0 million) to establish branches/extension

offices anywhere within the province where its head office is located;

b. At least fifty million pesos (P50.0 million) to establish branches/extension offices in any island group (i.e., Luzon, Visayas, Mindanao) where the head office is located, except in Metro Manila; and

c. At least P100.0 million to establish branches/extension offices anywhere in the country except in Metro Manila unless the Coop Bank is qualified to establish a branch/extension office in Metro Manila and/or restricted areas as provided in Items d.1 and d.2 of Subsection X151.4 on the branching guidelines.

Other relevant branching rules and regulations which are not inconsistent with the above provisions shall continue to be governed by Section X151.

Sec. 9 Powers, Functions and Allied Undertakings of Coop Banks

1. A Coop Bank shall primarily provide financial, banking and credit services to cooperatives and their members, although it may provide the same services to non-members or the general public.

2. The powers and functions of a Coop Bank shall be subject to such rules and regulations as may be promulgated by the Bangko Sentral. In addition to the powers granted to Coop banks under existing laws, any Coop Bank may perform any or all of the banking services offered by other types of banks, subject to prior approval of the Bangko Sentral.

Consistent with existing rules and regulations applicable to banks other than universal banks on limits on investments in the equities of financial allied undertakings under Section X378, a Coop Bank with existing investments in insurance companies, including insurance cooperatives, shall not increase but may reduce and once reduced, shall not increase such equity holdings: *Provided*, That

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the entire equity holding shall be divested within a period of five (5) years from 06 March 2010.

Sec. 10 Privileges, Incentives and Assistance for Coop Banks. The Coop Banks shall be given the same privileges and incentives granted to RBs, TBs, KBs and UBs to rediscount notes with the Bangko Sentral, the Land Bank of the Philippines, and other government banks.

The foreclosure of mortgages covering loans granted by Coop Banks and execution of judgment thereon involving real properties levied upon by a sheriff shall be exempt from the publications in newspaper now required by law where the total amount of loan, excluding interest due and unpaid, does not exceed P250,000 or such amount as the Bangko Sentral may prescribe as may be warranted by prevailing economic conditions and by the nature and character

of the Coop Banks. It shall be sufficient publication in such cases if the notices of foreclosure and execution of judgment are posted in conspicuous areas in the bank's premises, municipal hall, the municipal public market, the barangay hall and the barangay public market, if any, where the property mortgaged is situated during the period of sixty (60) days immediately preceding the public auction or execution of judgment and shall be attached to the records of the case.

Sec. 11 Applicability of Banking Laws With respect to the operations and governance of Coop Banks, the provisions of the banking laws, rules and regulations shall prevail, notwithstanding Section 71 of RA 8791, otherwise known as the General Banking Act of 2000.

(Circular No. 682 dated 15 February 2010, as amended by Circular No. 774 dated 16 November 2012)

**INSTRUCTIONS FOR DIRECTORS AND OFFICERS
OF PROPOSED COOPERATIVE BANKS**

The term *officers* shall include the president, senior vice-president, vice president, manager, secretary, cashier, and others mentioned as officers of the bank, or those whose duties as such are defined in the by-laws, or are generally known to be the officers of the bank (or any of its branches and offices other than the head office) either thru announcement, representation, publication or any kind of communication made by the bank.

The term *directors* shall include: (1) directors who are named as such in the Articles of Cooperation; (2) directors duly elected in subsequent meetings of authorized representative of each cooperative-member, and (3) those elected to fill vacancies in the board of directors.

The following are the qualifications and disqualifications of directors and officers of Coop Banks:

1. Qualifications for directors. A director must have the following minimum qualifications:

- (a) He shall be at least twenty-five (25) years of age at the time of his election or appointment;
- (b) He shall be at least a college graduate or have at least five (5) years experience in business;
- (c) He must have attended a special seminar for board of directors conducted or accredited by the BSP within a period of six (6) months from the date of his election; and
- (d) He must be fit and proper for the position of a director of the Coop Bank. In determining whether a person is fit and proper for the position of a director, the following matters must be considered:
 - integrity/probity;
 - competence;
 - education;

- diligence; and
- experience/training.

At least one (1) of the members of the board of directors must, in addition to the above-mentioned minimum qualifications, have at least one (1) year experience in banking.

The foregoing qualifications for directors shall be in addition to those already required or prescribed under existing laws.

2. Persons disqualified to become directors. Without prejudice to specific provisions of law prescribing disqualifications for directors, the following persons are disqualified from becoming directors:

(a) Permanently disqualified

Directors/officers/employees permanently disqualified by the Monetary Board from holding a director position:

- (1) Persons who have been convicted by final judgment of the court for offenses involving dishonesty or breach of trust such as estafa, embezzlement, extortion, forgery, malversation, swindling and theft;
- (2) Persons who have been convicted by final judgment of the court for violation of banking laws;
- (3) Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract; or
- (4) Directors, officers or employees of closed banks/QBs/trust entities who were responsible for such institution's closure as determined by the Monetary Board.

(b) Temporarily disqualified

Directors/officers/employees disqualified by the Monetary Board from holding a director position for a specific/ indefinite period of time. Included are:

- (1) Persons who refuse to fully disclose the extent of their business interest to the appropriate department of the SES when

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required pursuant to a provision of law or of a circular, memorandum or rule or regulation of the BSP. This disqualification shall be in effect as long as the refusal persists;

(2) Directors who have been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings, both regular and special, of the board of directors during their incumbency, or any twelve (12) month period during said incumbency. This disqualification applies for purposes of the succeeding election;

(3) Persons who are delinquent in the payment of their obligations as defined hereunder:

(a) Delinquency in the payment of obligations means that an obligation of a person with a bank/QB/trust entity where he/she is a director or officer, or at least two obligations with other banks/Fl, under different credit lines or loan contracts, are past due pursuant to Sec. X306 of the MORB and Sec. 4306Q of the MORNBFi;

(b) Obligations shall include all borrowings from a bank/QB obtained by:

(i) A director or officer for his own account or as the representative or agent of others or where he/she acts as a guarantor, endorser, or surety for loans from such Fls;

(ii) The spouse or child under the parental authority of the director or officer;

(iii) Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director or officer;

(iv) A partnership of which a director or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and

(v) A corporation, association or firm wholly-owned or majority of the capital of which is owned by any or a group of persons mentioned in the foregoing Items "i", "ii" and "iv";

This disqualification shall be in effect as long as the delinquency persists.

(4) Persons convicted for offenses involving dishonesty, breach of trust or violation of banking laws but whose conviction has not yet become final and executory;

(5) Directors and officers of closed banks/QBs/trust entities pending their clearance by the Monetary Board;

(6) Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board on recommendation by the appropriate department of the SES of such directors' election/re-election;

(7) Directors who failed to attend the special seminar for board of directors required under Item "3" of Subsec. X141.2 of the MORB or Subsec. 4141Q.2 of the MORNBFi. This disqualification applies until the director concerned had attended such seminar;

(8) Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity;

(9) Those under preventive suspension; or

(10) Persons with derogatory records with the NBI, court, police, Interpol and monetary authority (central bank) of other countries (for foreign directors and officers) involving violation of any law, rule or regulation of the government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duties of a bank/QB/trust entity director/officer. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity.

3. Qualification for officers

(a) He shall be at least twenty-one (21)

years of age;

(b) He shall be at least a college graduate, or have at least five (5) years experience in banking or trust operations or related activities or in a field related to his position and responsibilities, or have undergone training in banking acceptable to the appropriate department of the SES; and

(c) He must be fit and proper for the position he is being proposed/appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered:

- integrity/probity;
- competence;
- education;
- diligence; and
- experience/training.

Any one of the president, chief operating officer or general manager of a national Coop Bank must, in addition to the abovementioned minimum qualifications, have at least two (2) years actual banking experience in a senior management capacity (head or assistant head) while the manager of a local Coop Bank must have actual banking experience (at least manager or assistant manager).

The foregoing qualifications for officers shall be in addition to those already required or prescribed under existing laws.

4. Persons disqualified to become officers. The grounds for disqualification for directors shall likewise apply to officers, except that stated in Items "2.b.2" and "2.b.7".

(a) Except as may be authorized by the Monetary Board or the Governor, the spouse or a relative within the second degree of consanguinity or affinity of any person holding the position of chairman, president, executive vice president or any position of equivalent rank, general manager, treasurer, chief cashier or chief accountant is disqualified from holding or being elected or appointed to any of said positions in the same bank; and the spouse

or relative within the second degree of consanguinity or affinity of any person holding the position of manager, cashier, or accountant of a branch or office of a bank is disqualified from holding or being appointed to any of said positions in the same branch or office.

(b) Any officer or employee of the CDA or any appointive or elective public official, except a barangay official;

(c) Except as may otherwise be allowed under C.A. No. 108, otherwise known as "The Anti-Dummy Law", as amended, foreigners cannot be officers or employees of a Coop Bank.

The foregoing disqualifications for officers shall be in addition to those already required or prescribed under existing laws.

5. Government officers and employees.

Any officer or employee of the CDA shall be disqualified to be elected or appointed to any position in a cooperative; and (2) elective officials of the government, except barangay officials, shall be ineligible to become officers and directors of cooperatives.

However, any government employee may, in the discharge of his duties as member in the cooperative, be allowed by the head office concerned to use official time for attendance at the general assembly, board and committee meetings of cooperatives as well as cooperative seminars, conferences, workshops, technical meetings, and training courses locally or aboard: *Provided*, That the operations of the office concerned are not adversely affected.

Unless otherwise provided, officers elected or appointed without possessing the qualifications or possessing any of the disqualifications as enumerated herein, shall vacate their respective positions immediately.

SETTLEMENT OF INTERBANK TRANSACTIONS VIS-À-VIS COVERING
RESERVE REQUIREMENT/DEFICIENCY OF BANKS’ DEMAND DEPOSIT
ACCOUNT WITH THE BANGKO SENTRAL
(Appendix to Subsec. X203)

Start Time	Agency Involved	Activities	Cut-off Time
Current Day (T + 0)			
9:00 AM	PCHC	Regular check clearing processing window	4:30 PM
9:00 AM	BSP-PSO	Start of PhilPaSS business hours	
		Beginning balances generated for PhilPaSS-DDA Regular window for same day interbank transactions Posting/Settlement of other DDA transactions (i.e. BTr and other BSP departments) <ul style="list-style-type: none">• ATM transactions• BSP ECWS transactions• Cash deposits with BSP Head Office and Regional Offices/EFTIS• OFW remittances (under negotiation)• BTr-GS sale/purchase via DvP/PCHC-EPCS• PDS Settlement Highway for GS-eDvP• End-of-month EFTIS Transactions• PDS Settlement Highway for USD sale/purchase (peso lag) via Pvp• Interbank borrowings/Lending• E-Rediscounting	11:00 AM 12:00 noon 2:00 PM 3:00 PM 4:00 PM - do – 4:30 PM 5:45 PM - do – - do -
10:00 AM	BSP-TD	BSP Term RP/FRP availments/RDA/SDA/ Outright GS purchase/sale	3:00 PM
10:00 AM	BSP-PSO	PhilPaSS settlement cut-off of BSP Term/RP/ RRP availments /RDA/SDA/Outright GS purchase/sale	5:45 PM
4:30 PM	BSP-PSO	Posting of PCHC ECCS results	4:45 PM
4:45 PM	BSP-PSO	Interbank window for end-of-day liquidity/ reserve position	5:45 PM
4:45 PM	BSP-TD	BSP Overnight RP	5:15 PM
4:45 PM	BSP-TD	BSP Overnight RRP and 7-day SDA transactions	5:30 PM
4:45 PM	BSP-PSO	PhilPaSS settlement cut-off of BSP Overnight RP/RRPand 7-day SDA transactions	5:45 PM
6:00 PM	BSP-PSO	PhilPaSS close of business	
6:00 PM	BSP-PSO	Release of final copy of PhilPaSS DDA balance via MT950 (end-of-day DDA balance before AM returns clearing) Release of notice to PCHC of the amount available for settlement of the bank’s clearing losses, if greater than DDA	6:30 PM
6:00 PM	PCHC	Receipt of BSP notice of the amount available for settlement of the bank’s clearing losses, if greater than DDA	6:30 PM
Next Day (T + 1)			
2:00 AM	PCHC	Returned COCI receiving window	7:30 AM
7:30 AM	BSP-PSO	Posting/settlement of PCHC AM returns	
7:45 AM	BSP-PSO	Interbank window for losses in AM returns (back value T + 0)	7:45 AM
8:00 AM	BSP-TD	Overnight BSP-RP window for losses in AM returns (back value T + 0)	8:45 AM
9:00 AM	BSP-PSO	DDA balances (T + 0) available on demand via EFTIS Release of notice to PCHC of bank’s suspension in clearing operations, if any	8:45 AM
9:00 AM	PCHC	Receipt of BSP notice of bank’s suspension in clearing operations, if any	

List of Acronyms

- ATM - Automated Telling Machine
- BTr - Bureau of the Treasury
- DDA - Demand Deposit Account
- DVP - Delivery versus Payment
- ECCS - Electronic Cheque Clearing System
- ECWS - Electronic Cash Withdrawal System
- eDvP - Enhanced Delivery versus Payment
- EFTIS - Electronic Fund Transfer Instruction System
- EPCS - Electronic Peso Clearing System
- GS - Government Securities
- OFW - Overseas Filipino Workers
- PDS - Philippine Dealing System
- PvP - Payment versus Payment
- RDA - Reserve Deposit Account
- RP - Regular Repurchase Agreement
- RRP - Reverse Repurchase Agreement
- SDA - Special Deposit Account

As amended by Circular Nos. 705 dated 29 December 2010 and 681 dated 08 February 2010)

¹ The revised clearing and settlement process shall become effective as follows:

Clearing Exchanges	From	To
1.Integrated Greater Manila Local Exchanges (Integrated GM LX)	01 January 2011	24 January 2011
2.Regional Local Exchanges (RLX)	01 January 2011	01 July 2011

Provided, That for RLX, the extended deferral from 24 January 2011 to 01 July 2011 shall refer only to the provision on the mandatory return of checks drawn against insufficient funds or credit, checks drawn against closed accounts and/or checks with stop payment orders, (i.e., not later than 7:30 AM of the next clearing day following the original presentation to PCHC or RCC), subject to the condition that checks returned due to insufficiency of funds or credit shall no longer be allowed to be covered or funded after the day they were presented to PCHC or RCC

GUIDELINES GOVERNING THE REDISCOUNTING
OF HOUSING LOAN PAPERS OF QUALIFIED BANKS
UNDER HUDCC PROGRAM
(Appendix to Sec. X276)

Section 1. Statement of Policy. The Bangko Sentral, consistent with its primary objective of maintaining price stability under its charter (R.A. No. 7653), shall comply with its mandate under Section 11(c) of R.A. No. 7835 (Comprehensive and Integrated Shelter Financing Act) by providing short-term rediscounting facility to qualified banking institutions providing financing for socialized and low-cost housing.

Sec. 2 Criteria for Eligibility

- a. Eligible Banks
KBs, TBs and RBs/Coop Banks which are qualified to rediscount with the DLC, under existing rules and regulations, and with unused rediscounting ceiling at the time of application for rediscounting can avail themselves of this rediscounting facility.
- b. Eligible Housing Loan Paper
Housing loan papers for rediscounting under this facility shall satisfy the following requirements:
 - (1) *Loan purpose and amount.* The loan shall be used for the construction of a house/acquisition of a house and lot. The amount of the loan shall not exceed ₱180,000.00 for socialized housing and ₱375,000.00 for economic housing, as prescribed under existing guidelines of the HUDCC for the implementation of various government housing programs, or in such other amounts which HUDCC may prescribe in the future for said housing loans.
 - (2) *Loan limit.* The amount of the loan shall not exceed the amount of amortization covering principal payments due within one (1) year from date of rediscount, subject to

the terms and conditions discussed in Section 3.
(3) *Security.* The subject property shall be covered by a duly registered Real Estate Mortgage (REM) in favor of the rediscounting bank.

Sec. 3 Terms and Conditions of Rediscounting Availments

- a. Maximum Loan Value
Banks can obtain additional availments annually representing amortizations for the current year against the mortgaged property. However, total cumulative availments for a mortgaged property shall not exceed eighty percent (80%) of the collateral value.
- b. Interest Rate
The loan availment shall be assessed an interest rate equivalent to the prevailing rediscount rate at the date of rediscount: *Provided*, That the banks’ spread shall not exceed three percent (3%) per annum.
- c. Maturity
Rediscounting availments shall be due on demand but not beyond 360 days from date of rediscount.

Sec. 4 Sanctions. Non-remittance or delayed remittance within the allowable period of the corresponding loan value of collections on rediscounted notes shall be considered as sufficient ground for suspension of banks’ rediscounting privilege as follows:

First offense	-one (1) month suspension
Second offense	-two (2) months suspension
Third offense	-three (3) months suspension
Fourth offense	-permanent suspension

**MINIMUM CRITERIA FOR ACCREDITATION OF PARTICIPATING
FINANCIAL INSTITUTIONS IN GOVERNMENT BANKS
WHOLESALE LENDING PROGRAM**
(Appendix to Subsec. X303.8)

I. Accreditation Criteria

For accreditation purposes, PFIs shall initially be evaluated/appraised on the basis of the following pre-qualifying criteria:

1. The PFI shall submit a certification on the following:

a. Compliance with the prescribed minimum capital to risk assets ratio of ten percent (10%), minimum capitalization, legal and liquidity reserve requirements for deposit liabilities, deposit substitutes, common trust funds (CTFs) and Trust and Other Fiduciary Accounts (TOFA)-Others, liquidity floor requirement for government funds held, and ceilings on credit accommodations to directors, officers, stockholders and their related interests (DOSRI), for six (6) consecutive months prior to the filing of application for accreditation.

b. As of application date, the PFI has generally complied with the orders or instructions of the Monetary Board and/or BSP Management, more particularly:

(i) Set-up of the required general loan loss and specific provisioning requirements.; and

(ii) Correction of major violations and previous years' exceptions noted in the latest BSP examination.

c. The PFI has no past due obligations with the BSP or with any government financial institution.

d. The PFI's accounting records, systems, procedures and internal control systems are satisfactorily maintained.

2. Profitability

a. For PFIs operating for more than three (3) years as of date of filing of the application for accreditation - Operating

profitably for three (3) consecutive years prior to the filing of application for accreditation.

b. For PFIs operating for less than three (3) years as of date of filing of the application for accreditation - Operating profitably for two (2) consecutive years prior to the filing of application for accreditation.

3. Capital

Compliance with minimum capital accounts of P400.0 million or BSP required minimum capitalization applicable to the category where the PFI belongs, whichever is higher.

4. Non-performing loans ratio for six (6) consecutive months prior to the filing of application for accreditation shall not exceed the industry ratio which may be obtained from the SRSO of the BSP.

5. Ownership/Management

For PFIs operating for less than three (3) years as of date of filing of the application for accreditation –

a. Domestic bank owned by reputable individuals/institutions and managed by reputable and experienced bankers.

b. Philippine branch of a foreign bank carrying an international investment grade rating acceptable to the government bank with foreign bank's (Head Office/parent bank) unconditional and irrevocable guarantee on loan availments of Philippine branch or subsidiary.

II. Grant and Renewal of Credit Lines to Accredited PFIs

1. Government banks shall provide credit lines for a specified term to each accredited PFI based on the results of the quantitative and qualitative evaluation guidelines to be

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formulated in accordance with credit policies and procedures approved by the bank’s Board of Directors and/or as prescribed by the institutions, organizations or agencies which provide the funds.

2. PFIs shall be subject to quantitative and qualitative evaluation as well as the

accreditation criteria when applying for renewal of credit lines.

3. Government banks may suspend the release of funds to PFIs that failed to meet any of the quantitative and qualitative evaluation guidelines and/or the accreditation criteria.

DEED OF UNDERTAKING
FOR THE ISSUANCE OF REDEEMABLE PREFERRED SHARES
[Appendix to Subsec. X126.5a(3)(e)]

We, the majority of the members of the Board of Directors and key executive officers of _____, a banking corporation duly registered and organized under the laws of the Republic of the Philippines, with principal office and place of business at _____, by these presents do hereby obligate ourselves to undertake the following in the issuance of preferred stock:

1. That the issuance of preferred stock shall be in accordance with the terms and conditions of approval by the Bangko Sentral ng Pilipinas (BSP) and pertinent rules and regulations of the BSP and that of the Securities and Exchange Commission (SEC)/Cooperative Development Authority (CDA);
2. That any preferred shares so issued shall not be redeemed, retired, converted to any other kind of stocks or securities or paid back in cash or property without the prior approval of BSP in accordance with Subsections X126.5 and 3127.4 of the Manual of Regulations for Banks, Section 8, R.A. 7353 and other applicable regulations and banking laws;
3. That in no case shall the issuance of preferred shares be treated as similar to or as a substitute of other form of temporary investments of clients and depositors such as time deposits, savings deposits, money market placements or other form of investments subject to withdrawal;
4. That outstanding preferred shares may be redeemed or retired only if the shares redeemed or retired are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption or retirement: *Provided*, That no outstanding preferred share shall be redeemed within five (5) years from full payment of the subscription or issuance of stock certificate therefore;
5. That we, the undersigned, shall ensure that the above undertakings are strictly complied with and observed at all times by the management of the bank;
6. That non-compliance with this undertaking shall subject the directors/officers involved liable to such administrative sanctions as the Monetary Board may impose and such other sanctions as may be provided pursuant to Section 37 of R.A. 7653, without prejudice to the criminal sanctions under Section 36 of the same Act.

IN WITNESS WHEREOF, we have hereunto affix our signature on this _____ day of _____, 20__.

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Directors:	Officers:
_____	_____
_____	_____
_____	_____
_____	_____

REPUBLIC OF THE PHILIPPINES)
PROVINCE/CITY OF _____) S.S.

BEFORE ME, a Notary Public, for and in the Province/City of _____ this
_____ day of _____, 200_, personally appeared the herein named persons with
their Community Tax Receipts, known to me to be the same persons who executed the
foregoing instrument and acknowledged before me that the same is their own free and voluntary
act and deed.

Name	Comm. Tax Cert. No.	Date of Issue	Place of Issue
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the date and place
above written.

Notary Public
Until December 31, 20____
PTR No. _____
Issued at _____ on _____

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of _____.

**GUIDELINES TO GOVERN THE SELECTION, APPOINTMENT, REPORTING
REQUIREMENTS AND DELISTING OF EXTERNAL AUDITORS AND/OR
AUDITING FIRM OF COVERED ENTITIES**
[Appendix to Sec. X189 (2008 - X165) and Subsec. X162.3 (2008 - X169.3)]

Pursuant to Section 58 of the Republic Act No. 8791, otherwise known as "The General Banking Law of 2000", and the existing provisions of the executed Memorandum of Agreement (hereinafter referred to as the MOA) dated 12 August 2009, binding the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Professional Regulation Commission (IC) - Board of Accountancy (BOA) and the Insurance Commission (IC) for a simplified and synchronized accreditation requirements for external auditor and/or auditing firm, the Monetary Board, in its Resolution No. 950 dated 02 July 2009, approved the following revised rules and regulations that shall govern the selection and delisting by the BSP of covered institution which under special laws are subject to BSP supervision.

A. STATEMENT OF POLICY

It is the policy of the BSP to ensure effective audit and supervision of banks, QBs, trust entities and/or NSSLAs including their subsidiaries and affiliates engaged in allied activities and other FIs which under special laws are subject to BSP supervision, and to ensure reliance by BSP and the public on the opinion of external auditors and auditing firms by prescribing the rules and regulations that shall govern the selection, appointment, reporting requirements and delisting for external auditors and auditing firms of said institutions, subject to the binding provisions and implementing regulations of the aforesaid MOA.

B. COVERED ENTITIES

The proposed amendment shall apply to the following supervised institution, as

categorized below, and their external auditors:

1. *Category A*
 - a. UBs/KBs;
 - b. Foreign banks and branches or subsidiaries of foreign banks, regardless of unimpaired capital; and
 - c. Banks, trust department of qualified banks and other trust entities with additional derivatives authority, pursuant to Sec. X611 regardless of classification, category and capital position.
2. *Category B*
 - a. TBs;
 - b. QBs;
 - c. Trust department of qualified banks and other trust entities;
 - d. National Coop Banks; and
 - e. NBFIs with quasi-banking functions.
3. *Category C*
 - a. RBs;
 - b. NSSLAs;
 - c. Local Coop Banks; and
 - d. Pawnshops.

The above categories include their subsidiaries and affiliates engaged in allied activities and other FIs which are subject to BSP risk-based and consolidated supervision: *Provided*, That an external auditor who has been selected by the BSP to audit covered entities under *Category A* is automatically qualified to audit entities under *Category B* and *C* and if selected by the BSP to audit covered entities under *Category B* is automatically qualified to audit entities under *Category C*.

C. DEFINITION OF TERMS

The following terms shall be defined as follows:

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1. *Audit* – an examination of the financial statements of any issuer by an external auditor in compliance with the rules of the BSP or the SEC in accordance with then applicable generally accepted auditing and accounting principles and standards, for the purpose of expressing an opinion on such statements.

2. *Non-audit services* – any professional services provided to the covered institution by an external auditor, other than those provided to a covered institution in connection with an audit or a review of the financial statements of said covered institution.

3. *Professional Standards* - includes: (a) accounting principles that are (1) established by the standard setting body; and (2) relevant to audit reports for particular issuers, or dealt with in the quality control system of a particular registered public accounting firm; and (b) auditing standards, standards for attestation engagements, quality control policies and procedures, ethical and competency standards, and independence standards that the BSP or SEC determines (1) relate to the preparation or issuance of audit reports for issuers; and (2) are established or adopted by the BSP or promulgated as SEC rules.

4. *Fraud* – an intentional act by one (1) or more individuals among management, employees, or third parties that results in a misrepresentation of financial statements, which will reduce the consolidated total assets of the company by five percent (5%). It may involve:

- a. Manipulation, falsification or alteration of records or documents;
- b. Misappropriation of assets;
- c. Suppression or omission of the effects of transactions from records or documents;
- d. Recording of transactions without substance;
- e. Intentional misapplication of accounting policies; or

f. Omission of material information.

5. *Error* - an intentional mistake in financial statements, which will reduce the consolidated total assets of the company by five percent (5%). It may involve:

- a. Mathematical or clerical mistakes in the underlying records and accounting data;
- b. Oversight or misinterpretation of facts; or
- c. Unintentional misapplication of accounting policies.

6. *Gross negligence* - wanton or reckless disregard of the duty of due care in complying with generally accepted auditing standards.

7. *Material fact/information* - any fact/information that could result in a change in the market price or value of any of the issuer's securities, or would potentially affect the investment decision of an investor.

8. *Subsidiary* - a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by a bank, QB, trust entity or NSSLA.

9. *Affiliate* - a corporation, not more than fifty percent (50%) but not less than ten percent (10%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by a bank, QB, trust entity or NSSLA and a juridical person that is under common control with the bank, QB, trust entity or NSSLA.

10. *Control* - exists when the parent owns directly or indirectly more than one half of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control.

Control may also exist even when ownership is one half or less of the voting power of an enterprise when there is:

- a. Power over more than one half of the voting rights by virtue of an agreement with other stockholders;

b. Power to govern the financial and operating policies of the enterprise under a statute or an agreement;

c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or

d. Power to cast the majority votes at meetings of the board of directors or equivalent governing body.

11. *External auditor* - means a single practitioner or a signing partner in an auditing firm.

12. *Auditing firm* – includes a proprietorship, partnership limited liability company, limited liability partnership, corporation (if any), or other legal entity, including any associated person of any of these entities, that is engaged in the practice of public accounting or preparing or issuing audit reports.

13. *Associate* – any director, officer, manager or any person occupying a similar status or performing similar functions in the audit firm including employees performing supervisory role in the auditing process.

14. *Partner* - all partners including those not performing audit engagements.

15. *Lead partner* – also referred to as engagement partner/partner-in-charge/managing partner who is responsible for signing the audit report on the consolidated financial statements of the audit client, and where relevant, the individual audit report of any entity whose financial statements form part of the consolidated financial statements.

16. *Concurring partner* - the partner who is responsible for reviewing the audit report.

17. *Auditor-in-charge* – refers to the team leader of the audit engagement.

D. GENERAL CONSIDERATION AND LIMITATIONS OF THE SELECTION PROCEDURES

1. Subject to mutual recognition provision of the MOA and as implemented

in this regulation, only external auditors and auditing firms included in the list of BSP selected external auditors and auditing firms shall be engaged by all the covered institutions detailed in Item "B". The external auditor and/or auditing firm to be hired shall also be in-charge of the audit of the entity's subsidiaries and affiliates engaged in allied activities: *Provided*, That the external auditor and/or auditing firm shall be changed or the lead and concurring partner shall be rotated every five (5) years or earlier: *Provided further*, That the rotation of the lead and concurring partner shall have an interval of at least two (2) years.

2. Category A covered entities which have engaged their respective external auditors and/or auditing firm for a consecutive period of five (5) years or more as of 18 September 2009 shall have a one (1)-year period from said date within which to either change their external auditors and/or auditing firm or to rotate the lead and/or concurring partner.

3. The selection of the external auditors and/or auditing firm does not exonerate the covered institution or said auditors from their responsibilities. Financial statements filed with the BSP are still primarily the responsibility of the management of the reporting institution and accordingly, the fairness of the representations made therein is an implicit and integral part of the institution's responsibility. The independent certified public accountant's responsibility for the financial statements required to be filed with the BSP is confined to the expression of his opinion, or lack thereof, on such statements which he has audited/examined.

4. The BSP shall not be liable for any damage or loss that may arise from its selection of the external auditors and/or auditing firm to be engaged by banks for regular audit or non-audit services.

5. Pursuant to paragraph (5) of the MOA, SEC, BSP and IC shall mutually

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recognize the accreditation granted by any of them for external auditors and firms of Group C or D companies under SEC, Category B and C under BSP, and insurance brokers under IC. Once accredited/selected by any one (1) of them, the above-mentioned special requirements shall no longer be prescribed by the other regulators.

For corporations which are required to submit financial statements to different regulators and are not covered by the mutual recognition policy of this MOA, the following guidance shall be observed:

a. The external auditors of UBs which are listed in the Exchange, should be selected/accredited by both the BSP and SEC, respectively; and

b. For insurance companies and banks that are not listed in the Exchange, their external auditors must each be selected/accredited by BSP or IC, respectively. For purposes of submission to the SEC, the financial statements shall be at least audited by an external auditor registered/accredited with BOA.

This mutual recognition policy shall however be subject to the BSP restriction that for banks and its subsidiary and affiliate bank, QBs, trust entities, NSSLAs, their subsidiaries and affiliates engaged in allied activities and other FIs which under special laws are subject to BSP consolidated supervision, the individual and consolidated financial statements thereof shall be audited by only one (1) external auditor/auditing firm.

6. The selection of external auditors and/or auditing firm shall be valid for a period of three (3) years. The SES shall make an annual assessment of the performance of external auditors and/or auditing firm and will recommend deletion from the list even prior to the three (3)-year renewal period, if based on assessment, the external auditors' report did not comply with BSP requirements.

E. QUALIFICATION REQUIREMENT

The following qualification requirements are required to be met by the individual external auditor and the auditing firm at the time of application and on continuing basis, subject to BSP's provisions on the delisting and suspension of accreditation:

1. Individual external auditor

a. General requirements

(1) The individual applicant must be primarily accredited by the BOA. The individual external auditor or partner in-charge of the auditing firm must have at least five (5) years of audit experience.

(2) Auditor's independence.

In addition to the basic screening procedures of BOA on evaluating auditor's independence, the following are required for BSP purposes to be submitted in the form of notarized certification that:

(a) No external auditor may be engaged by any of the covered institutions under Item "B" hereof if he or any member of his immediate family had or has committed to acquire any direct or indirect financial interest in the concerned covered institution, or if his independence is considered impaired under the circumstances specified in the Code of Professional Ethics for CPAs. In case of a partnership, this limitation shall apply to the partners, associates and the auditor-in-charge of the engagement and members of their immediate family;

(b) The external auditor does not have/ shall not have outstanding loans or any credit accommodations or arranged for the extension of credit or to renew an extension of credit (except credit card obligations which are normally available to other credit card holders and fully secured auto loans and housing loans which are not past due) with the covered institutions under Item "B" at the time of signing the engagement and during the engagement. In the case of partnership, this prohibition shall apply to the partners and the auditor-in-charge of the engagement; and

(c) It shall be unlawful for an external auditor to provide any audit service to a covered institution if the covered institution's CEO, CFO, Chief Accounting Officer (CAO), or comptroller was previously employed by the external auditor and participated in any capacity in the audit of the covered institution during the one-year preceding the date of the initiation of the audit;

(3) Individual applications as external auditor of entities under *Category A* above must have established adequate quality assurance procedures, such consultation policies and stringent quality control, to ensure full compliance with the accounting and regulatory requirements.

b. Specific requirements

(1) At the time of application, regardless of the covered institution, the external auditor shall have at least five (5) years experience in external audits;

(2) The audit experience above refers to experience required as an associate, partner, lead partner, concurring partner or auditor-in-charge; and

(3) At the time of application, the applicant must have the following track record:

(a) For *Category A*, he/she must have at least five (5) corporate clients with total assets of at least P50.0 million each.

(b) For *Category B*, he/she must have had at least three (3) corporate clients with total assets of at least P25.0 million each.

(c) For *Category C*, he/she must have had at least three (3) corporate clients with total assets of at least P5.0 million each;

2. Auditing firms

a. The auditing firm must be primarily accredited by the BOA and the name of the firm's applicant partner's should appear in the attachment to the certificate of accreditation issued by BOA. Additional partners of the firm shall be furnished by BOA to the concerned regulatory agencies (e.g. BSP, SEC and IC) as addendum to the firm's accreditation by BOA.

b. Applicant firms to act as the external auditor of entities under *Category A* in Item "B" must have established adequate quality assurance procedures, such consultation policies and stringent quality control, to ensure full compliance with the accounting and regulatory requirements.

c. At the time of application, the applicant firm must have at least one (1) signing practitioner or partner who is already selected/accredited, or who is already qualified and is applying for selection by BSP.

d. A registered accounting/auditing firm may engage in any non-auditing service for an audit client only if such service is approved in advance by the client's audit committee. Exemptions from the prohibitions may be granted by the Monetary Board on a case-by-case basis to the extent that such exemption is necessary or appropriate in the public interest. Such exemptions are subject to review by the BSP.

e. At the time of application, the applicant firm must have the following track record:

(1) For *Category A*, the applicant firm must have had at least twenty (20) corporate clients with total assets of at least P50.0 million each;

(2) For *Category B*, the applicant firm must have had at least five (5) corporate clients with total assets of at least P20.0 million each;

(3) For *Category C*, the applicant firm must have had at least five (5) corporate clients with total assets of at least P5.0 million each.

F. APPLICATION FOR AND/OR RENEWAL OF THE SELECTION OF INDIVIDUAL EXTERNAL AUDITOR

1. The initial application for BSP selection shall be signed by the external auditor and shall be submitted to the appropriate department of the SES together with the following documents/information:

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- a. Copy of effective and valid BOA Certificate of Accreditation with the attached list of qualified partner/s of the firm;
 - b. A notarized undertaking of the external auditor that he is in compliance with the qualification requirements under Item "E" and that the external auditor shall keep an audit or review working papers for at least seven (7) years in sufficient detail to support the conclusion in the audit report and making them available to the BSP's authorized representative/s when required to do so;
 - c. Copy of Audit Work Program which shall include assessment of the audited institution's compliance with BSP rules and regulations, such as, but not limited to the following:
 - (1) capital adequacy ratio, as currently prescribed by the BSP;
 - (2) AMLA framework;
 - (3) risk management system, particularly liquidity and market risks; and
 - (4) loans and other risk assets review and classification, as currently prescribed by the BSP rules and regulations.
 - d. If the applicant will have clients falling under Category A, copy of the Quality Assurance Manual which, aside from the basic elements as required under the BOA basic quality assurance policies and procedures, specialized quality assurance procedures should be provided consisting of, among other, review asset quality, adequacy of risk-based capital, risk management systems and corporate governance framework of the covered entities.
 - e. Copy of the latest AFS of the applicant's two (2) largest clients in terms of total assets.
2. Subject to BSP's provision on early deletion from the list of selected external auditor, the selection may be renewed within two (2) months before the expiration of the three (3)-year effectivity of the selection upon submission of the written

- application for renewal to the appropriate department of the SES together with the following documents/information:
- (a) copy of updated BOA Certificate of Accreditation with the attached list of qualified partner/s of the firm;
 - (b) notarized certification of the external auditor that he still possess all qualification required under Item "F.1.b" of this Appendix;
 - (c) list of corporate clients audited during the three (3)-year period of being selected as external auditor by BSP. Such list shall likewise indicate the findings noted by the BSP and other regulatory agencies on said AFS including the action thereon by the external auditor; and
 - (d) written proof that the auditor has attended or participated in trainings for at least thirty (30) hours in addition to the BOA's prescribed training hours. Such training shall be in subjects like international financial reporting standards, international standards of auditing, corporate governance, taxation, code of ethics, regulatory requirements of SEC, IC and BSP or other government agencies, and other topics relevant to his practice, conducted by any professional organization or association duly recognized/accredited by the BSP, SEC or by the BOA/PRC through a CPE Council which they may set up.
- The application for initial or renewal accreditation of an external auditor shall be accomplished by a fee of P2,000.00.
- G. APPLICATION FOR AND/OR RENEWAL OF THE SELECTION OF AUDITING FIRMS**
1. The initial application shall be signed by the managing partner of the auditing firm and shall be submitted to the appropriate department of the SES together with the following documents/information:
- a. copy of effective and valid BOA Certificate of Accreditation with attachment listing the names of qualified partners;

b. notarized certification that the firm is in compliance with the general qualification requirements under Item "E.2" and that the firm shall keep an audit or review working papers for at least seven (7) years insufficient detail to support the conclusions in the audit report and making them available to the BSP's authorized representative/s when required to do so;

c. copy of audit work program which shall include assessment of the audited institution's compliance with BSP rules and regulations, such as, but not limited to the following;

(1) capital adequacy ratio, as currently prescribed by the BSP;

(2) AMLA framework;

(3) risk management system, particularly liquidity and market risks; and

(4) loans and other risk assets review and classification, as currently prescribed by the BSP rules and regulations.

d. If the applicant firm will have clients falling under *Category A*, copy Quality Assurance Manual where, aside from the basic elements as required under the BOA basic quality assurance policies and procedures, specialized quality assurance procedures should be provided relative to, among others review asset quality, adequacy of risk-based capital, risk management systems and corporate governance framework of covered entities;

e. Copy of the latest AFS of the applicant's two (2) largest clients in terms of total assets; and

f. Copy of firm's AFS for the immediately preceding two (2) years.

2. Subject to BSP's provision on early deletion from the list of selected auditing firm, the selection may be renewed within two (2) months before the expiration of the three (3)-year effectivity of the selection upon submission of the written application for renewal to the appropriate department of the SES together with the following documents/information:

a. a copy of updated BOA Certificate of Registration with the attached list of qualified partner/s of the firm;

b. amendments on Quality Assurance Manual, inclusive of written explanation on such revision, if any; and

c. notarized certification that the firm is in compliance with the general qualification requirements under Item "G.1.b" hereof;

The application for initial or renewal accreditation of an auditing firm shall be accompanied by a fee of P5,000.00.

H. REPORTORIAL REQUIREMENTS

1. To enable the BSP to take timely and appropriate remedial action, the external auditor and/or auditing firm must report to the BSP within thirty (30) calendar days after discovery, the following cases:

a. Any material finding involving fraud or dishonesty (including cases that were resolved during the period of audit);

b. Any potential losses the aggregate of which amounts to at least one percent (1%) of the capital;

c. Any finding to the effect that the consolidated assets of the company, on a going concern basis, are no longer adequate to cover the total claims of creditors; and

d. Material internal control weaknesses which may lead to financial reporting problems.

2. The external auditor/auditing firm shall report directly to the BSP within fifteen (15) calendar days from the occurrence of the following:

a. Termination or resignation as external auditor and stating the reason therefor;

b. Discovery of a material breach of laws or BSP rules and regulations such as, but not limited to:

(1) CAR; and

(2) Loans and other risk assets review and classification.

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c. Findings on matters of corporate governance that may require urgent action by the BSP.

3. In case there are no matters to report (e.g. fraud, dishonesty, breach of laws, etc.) the external auditor/auditing firm shall submit directly to BSP within fifteen (15) calendar days after the closing of the audit engagement a notarized certification that there is none to report.

The management of the covered institutions, including its subsidiaries and affiliates, shall be informed of the adverse findings and the report of the external auditor/auditing firm to the BSP shall include pertinent explanation and/or corrective action.

The management of the covered institutions, including its subsidiaries and affiliates, shall be given the opportunity to be present in the discussions between the BSP and the external auditor/auditing firm regarding the audit findings, except in circumstances where the external auditor believes that the entity’s management is involved in fraudulent conduct.

It is, however, understood that the accountability of an external auditor/auditing firm is based on matters within the normal coverage of an audit conducted in accordance with generally accepted auditing standards and identified non-audit services.

I. DELISTING AND SUSPENSION OF SELECTED EXTERNAL AUDITOR/AUDITING FIRM

1. An external auditor’s duly selected pursuant to this regulation shall be suspended or delisted, in a manner provided under this regulation, under any of the following grounds:

a. Failure to submit the report under Item "H" of this Appendix or the required reports under Subsec. X190.1;

b. Continuous conduct of audit despite loss of independence as provided under Item

"E.1" or contrary to the requirements under the Code of Professional Ethics;

c. Any willful misrepresentation in the following information/documents;

(1) application and renewal for accreditation;

(2) report required under Item "H"; and

(3) Notarized certification of the external auditor and/or auditing firm.

d. The BOA found that, after due notice and hearing, the external auditor committed an act discreditable to the profession as specified in the Code of Professional Ethics for CPAs. In this case, the BOA shall inform the BSP of the results thereof;

e. Declaration of conviction by a competent court of a crime involving moral turpitude, fraud (as defined in the Revised Penal Code), or declaration of liability for violation of the banking laws, rules and regulation, the Corporation Code of the Philippines, the Securities Regulation Code (SRC); and the rules and regulations of concerned regulatory authorities;

f. Refusal for no valid reason, upon lawful order of the BSP, to submit the requested documents in connection with an ongoing investigation. The external auditor should however been made aware of such investigation;

g. Gross negligence in the conduct of audits which would result, among others, in non-compliance with generally accepted auditing standards in the Philippines or issuance of an unqualified opinion which is not supported with full compliance by the auditee with generally accepted accounting principles in the Philippines (GAAP). Such negligence shall be determined by the BSP after proper investigation during which the external auditor shall be given due notice and hearing;

h. Conduct of any of the non-audit services enumerated under Item "E.1" for his statutory audit clients, if he has not

undertaken the safeguards to reduce the threat to his independence; and

i. Failure to comply with the Philippine Auditing Standards and Philippine Auditing Practice Statements.

2. An auditing firms; accreditation shall be suspended or delisted, after due notice and hearing, for the following grounds:

a. Failure to submit the report under Item "H" or the required reports under Sec. X190.1.

b. Continuous conduct of audit despite loss of independence of the firm as provided under this regulation and under the Code of Professional Ethics;

c. Any willful misrepresentation in the following information/ documents;

(1) Application and renewal for accreditation;

(2) Report required under Item "H"; and

(3) Notarized certification of the managing partner of the firm.

d. Dissolution of the auditing firm/partnership, as evidenced by an Affidavit of Dissolution submitted to the BOA, or upon findings by the BSP that the firm/partnership is dissolved. The accreditation of such firm/partnership shall however be reinstated by the BSP upon showing that the said dissolution was solely for the purpose of admitting new partner/s have complied with the requirements of this regulation and thereafter shall be reorganized and re-registered;

e. There is a showing that the accreditation of the following number or percentage of external auditors, whichever is lesser, have been suspended or delisted for whatever reason, by the BSP:

(1) at least ten (10) signing partners and currently employed selected/accredited external auditors, taken together; or

(2) such number of external auditors constituting fifty percent (50%) or more of the total number of the firm's signing

partners and currently selected/accredited auditors, taken together.

f. The firm or any one (1) of its auditors has been involved in a major accounting/auditing scam or scandal. The suspension or delisting of the said firm shall depend on the gravity of the offense or the impact of said scam or scandal on the investing public or the securities market, as may be determined by the BSP;

g. The firm has failed reasonably to supervise an associated person and employed auditor, relating to the following:

(1) auditing or quality control standards, or otherwise, with a view to preventing violations of this regulations;

(2) provisions under SRC relating to preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto;

(3) the rules of the BSP under this Appendix; or

(4) professional standards.

h. Refusal for no valid reason, upon order of the BSP, to submit requested documents in connection with an ongoing investigation. The firm should however be made aware of such investigation.

3. Pursuant to paragraph 8 of the aforesaid MOA, the SEC, BSP and IC shall inform BOA of any violation by an accredited/selected external auditor which may affect his/her accreditation status as a public practitioner. The imposition of sanction by BOA on an erring practitioner shall be without prejudice to the appropriate penalty that the SEC, IC or BSP may assess or impose on such external auditor pursuant to their respective rules and regulations. In case of revocation of accreditation of a public practitioner by BOA, the accreditation by SEC, BSP and IC shall likewise be automatically revoked/derecognized.

The SEC, BSP and IC shall inform each other of any violation committed by an external auditor who is accredited/selected by any one (1) or all of them. Each agency

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shall undertake to respond on any referral or endorsement by another agency within ten (10) working days from receipt thereof.

4. Procedure and Effects of Delisting/ Suspension.

a. An external auditor/auditing firm shall only be delisted upon prior notice to him/it and after giving him/it the opportunity to be heard and defend himself/itself by presenting witnesses/ evidence in his favor. Delisted external auditor and/or auditing firm may re-apply for BSP selection after the period prescribed by the Monetary Board.

b. BSP shall keep a record of its proceeding/investigation. Said proceedings/ investigation shall not be public, unless otherwise ordered by the Monetary Board for good cause shown, with the consent of the parties to such proceedings.

c. A determination of the Monetary Board to impose a suspension or delisting under this section shall be supported by a clear statement setting forth the following:

(1) Each act or practice in which the selected/accredited external auditor or auditing firm, or associated entry, if applicable, has engaged or omitted to engage, or that forms a basis for all or part of such suspension/delisting;

(2) The specific provision/s of this regulation, the related SEC rules or professional standards which the Monetary Board determined as has been violated; and

(3) The imposed suspension or delisting, including a justification for either sanction and the period and other requirements specially required within which the delisted auditing firm or external auditor may apply for re-accreditation.

d. The suspension/delisting, including the sanctions/penalties provided in Sec. X189 shall only apply to:

(1) Intentional or knowing conduct, including reckless conduct, that results in violation or applicable statutory, regulatory or professional standards; or

(2) Repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory or professional standards.

e. No associate person or employed auditor of a selected/accredited auditing firm shall be deemed to have failed reasonably to supervise any other person for purpose of Item "1.2.g" above, if:

(1) There have been established in and for that firm procedures, and a system for applying such procedures, that comply with applicable rules of BSP and that would reasonably be expected to prevent and detect any such violation by such associated person; and

(2) Such person or auditor has reasonably discharged the duties and obligations incumbent upon that person by reason of such procedures and system, and had no reasonable cause to believe that such procedures and system were not being complied with.

f. The BSP shall discipline any selected external auditor that is suspended or delisted from being associated with any selected auditing firm, or for any selected auditing firm that knew, or in the exercise or reasonable care should have known, of the suspension or delisting of any selected external auditor, to permit such association, without the consent of the Monetary Board.

g. The BSP shall discipline any covered institution that knew or in the exercise of reasonable care should have known, of the suspension or delisting of its external auditor or auditing firm, without the consent of the Monetary Board.

h. The BSP shall establish for appropriate cases an expedited procedure for consideration and determination of the question of the duration of stay of any such disciplinary action pending review of any disciplinary action of the BSP under this Section.

J. SPECIFIC REVIEW

When warranted by supervisory concern, the Monetary Board may, at the expense of the covered institution require the external auditor and/or auditing firm to undertake a specific review of a particular aspect of the operations of these institutions. The report shall be submitted to the BSP and the audited institution simultaneously, within thirty (30) calendar days after the conclusion of said review.

K. AUDIT BY THE BOARD OF DIRECTORS

Pursuant to Section 58 of RA. No. 8791, otherwise known as “The General Banking Law of 2000” the Monetary Board may also direct the board of directors of a covered institution or the individual members thereof, to conduct, either personally or by a committee created by the board, an annual balance sheet audit of the covered institution to review the internal audit and the internal control system of the concerned entity and to submit a report of such audit to the Monetary Board

within thirty (30) calendar days after the conclusion thereof.

L. AUDIT ENGAGEMENT

Covered institutions shall submit the audit engagement contract between them, their subsidiaries and affiliates and the external auditor/auditing firm to the appropriate department of the SES within fifteen (15) calendar days from signing thereof. Said contract shall include the following provisions:

1. That the covered institution shall be responsible for keeping the auditor fully informed of existing and subsequent changes to prudential regulatory and statutory requirements of the BSP and that both parties shall comply with said requirements;
2. That disclosure of information by the external auditor/auditing firm to the BSP as required under Items “H” and “J” hereof, shall be allowed; and
3. That both parties shall comply with all the requirements under this Appendix.
(As amended by Circular No. 660 dated 25 August 2009)

IMPLEMENTING RULES AND REGULATIONS OF REPUBLIC
ACT NO. 6848 (THE ISLAMIC BANK CHARTER)
(Appendix to Sec. X101)

Pursuant to Section 43 of R.A. No. 6848, otherwise known as “The Charter of the Al-Amanah Islamic Investment Bank of the Philippines”, the Monetary Board, in its Resolution Nos. 161 and 244 dated 14 February and 6 March 1996, respectively, approved the following Implementing Rules and Regulations:

Sec. 1. Domicile and Place of Business

The principal domicile and place of business of the Al-Amanah Islamic Investment Bank of the Philippines, hereinafter called the Islamic Bank, shall be in Zamboanga City. It may establish branches, agencies or other offices at such places in the Philippines or abroad subject to applicable laws, rules and regulations of the *BSP*.

Sec. 2. Purpose and Basis

The primary purpose of the Islamic Bank shall be to promote and accelerate the socio-economic development of the Autonomous Region by performing banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on the Islamic concept of banking.

All business dealings and activities of the Islamic Bank shall be subject to the basic principles and rulings of Islamic *Shari’a* within the purview of the aforementioned declared policy. Any *zakat* or “tithe” paid by the Islamic Bank on behalf of its shareholders and depositors shall be considered as part of compliance by the Islamic bank with its obligation to appropriate said *zakat* fund and to disburse it in legitimate channels to be ascertained first by the *Shari’a* Advisory Council.

Sec. 3. Shari’a Advisory Council

The *Shari’a* Advisory Council of the Islamic Bank shall be composed of at least three (3) but not more than five (5) members, selected from among Islamic scholars and jurists of comparative law.

The members shall be elected at a general shareholders’ meeting of the Islamic Bank every three (3) years from a list of nominees prepared by the Board of Directors of the Islamic Bank. The Board is hereby authorized to select the members of the first *Shari’a* Advisory Council and to determine their remunerations.

Sec. 4. Functions of the Shari’a Advisory Council

The functions of the *Shari’a* Advisory Council shall be to offer advice and undertake reviews pertaining to the application of the principles and rulings of the Islamic *Shari’a* to the Islamic Bank’s transactions, but it shall not directly involve itself in the operations of the Bank.

Any member of the *Shari’a* Advisory Council may be invited to sit in the regular or special meetings of the Board of Directors of the Islamic Bank to expound his views on matters of the Islamic *Shari’a* affecting a particular transaction but he shall not be entitled to vote on the question presented before the board meetings.

Sec. 5. Islamic Bank’s Powers

The Al-Amanah Islamic Investment Bank of the Philippines, upon its organization, shall be a body corporate and shall have the power:

1. To prescribe its by-laws and its operating policies;
2. To adopt, alter and use a corporate seal;

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3. To make contracts, to sue and be sued;
4. To borrow money; to own real or personal property and to introduce improvements thereon, and to sell mortgage or otherwise dispose of the same;
5. To employ such officers and personnel, preferably from the qualified Muslim sector, as may be necessary to carry Islamic banking business;
6. To establish branches, agencies and correspondent offices in provinces and cities in the Philippines, particularly where Muslims are predominantly located, or in other areas in the country or abroad as may be necessary to carry on its Islamic banking business, subject to the rules and regulations of the *BSP*;
7. To perform the following banking services:
 - a. Open current or checking accounts;
 - b. Open savings accounts for safekeeping or custody with no participation in profit and losses unless otherwise authorized by the account holders to be invested;
 - c. Accept investment account placements and invest the same for a term with the IB's funds in Islamically permissible transactions on participation basis;
 - d. Accept foreign currency deposits from banks, companies, organizations and individuals, including foreign governments;
 - e. Buy and sell foreign exchange;
 - f. Act as correspondent of banks and institutions to handle remittances or any fund transfers;
 - g. Accept drafts and issue letters of credit or letters of guarantee, negotiable notes and bills of exchange and other evidence of indebtedness under the universally accepted Islamic financial instruments;
 - h. Act as collection agent insofar as the payment orders, bills of exchange or other commercial documents are exclusive of *riba* or interest prohibitions;
 - i. Provide financing with or without collateral by way of *Al-Ijarah* (leasing), *Al-Bai ul Takjiri* (sale and leaseback), or *Al-Murabahah* (cost-plus profit sales arrangement);
 - j. Handle storage operations for goods or commodity financing secured by warehouse receipts presented to the Bank;
 - k. Issue shares for the account of institutions and companies assisted by the Bank in meeting subscription calls or augmenting their capital and/or fund requirements as may be allowed by law;
 - l. Undertake various investments in all transactions allowed by the Islamic *Shari'a* in such a way that shall not permit the *haram* (forbidden), nor forbid the *halal* (permissible);
8. To act as an official depository of the government or its branches, subdivisions and instrumentalities and of government-owned or controlled corporations, particularly those doing business in the Autonomous Region;
9. To issue investment participation certificates, *muquaradah* (non-interest-bearing bonds), debentures, collaterals and/or the renewal or refinancing of the same, with the approval of the Monetary Board of the *BSP*, to be used by the Bank in its financing operations for projects that will promote the economic development primarily of the Autonomous Region;
10. To carry out financing and joint investment operations by way of *mudarabah* partnership, *musharaka* joint venture or by decreasing participation, *murabaha* purchasing for others on a cost-plus

financing arrangement, and to invest funds directly in various projects or through the use of funds whose owners desire to invest jointly with other resources available to the IB on a joint *mudarabah* basis;

11. To invest in the equity of allied undertakings, financial or non-financial, as well as in the equity of enterprises engaged in non-allied activities, as the Monetary Board has declared or may declare as appropriate from time to time, subject to the limitations and conditions provided for under the Manual of Regulaions for Banks and Other Financial Intermediaries - Book I (MRBOFI) ; and

12. To exercise the powers granted under R.A. No. 6848 and such incidental powers as may be necessary to carry on its business, and to exercise further the general powers mentioned in the Corporation Law and the General Banking Act, insofar as they are not inconsistent or incompatible with the provisions of R.A. No. 6848.

Sec. 6. Authorized Capital Stock

The authorized capital stock of the IB shall be ₱1.0 billion divided into 10.0 million common shares with par value of One hundred pesos (₱100.00) each. All shares are nominative and indivisible. The subscription to and ownership of such shares, including the transfer thereof to third parties, shall be limited to persons and entities who subscribe to the concept of Islamic banking.

Sec. 7. Classification of Shares

The IB’s authorized capital stock shall have the following classifications and features in relation to its Islamic banking operations:

- 1. Series “A” shares shall comprise 5.1 million shares equivalent to ₱510.0 million to be made available for subscription by the present stockholders of the Philippine

Amanah Bank namely: the National Government, and such other financial entities as it may designate.

- 2. Series “B” shares shall comprise nine hundred thousand (900,000) shares equivalent to ₱90.0 million to be made available for subscription by the Filipino individuals and institutions.
- 3. Series “C” shares shall comprise 4.0 million shares equivalent to ₱400.0 million to be made available for subscription by Filipino and foreign individuals and/or institutions or entities:

Any shareholders may exercise his pre-emptive right to consolidate ownership of the outstanding shares as hereinafter increased: *Provided*, That the common shares of the Philippine Amanah Bank which have been issued and outstanding shall form part of the increased capitalization of the IB, subject to the concurrence of the existing shareholders of the Philippine Amanah Bank.

The IB is authorized to reacquire its common shares that are held privately: *Provided*, That it has sufficient surplus and/or accumulated earnings for the purpose.

The IB may take the necessary steps to have its Series “B” shares listed in any duly registered stock exchange.

Sec. 8. Sale or Transfer of Shares

The IB shall make a report to the BSP whenever a change is about to take place in relation to the ownership or control of the Bank. The approval of the Monetary Board shall be required in the following changes.

- 1. Any proposal for the sale or disposal of its share or business, or other matters related thereto, which will result in a change of the control of management of the IB in the following cases:
 - a. Any sale or transfer of ownership or control of more than twenty

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percent (20%) of the voting stock of the Bank to any person whether natural or juridical; and

- b. Any sale or transfer or a series of sales or transfers which will effect a change in the majority ownership or control of the voting stock of the Bank from one group of persons to another group.

2. Any scheme for reconstruction or for consolidation or merger, or otherwise, between the IB and any other company wherein the whole or any part of the undertaking of the property of the IB is to be transferred to another corporation.

3. Acquisition by foreign banking institutions, including their wholly- or majority-owned subsidiaries and their holding companies having majority holdings in such foreign banking institutions.

Sec. 9. Privatization

The IB may privatize its ownership. For this purpose, any limitation on the transfer of shares shall not be applicable with respect to the shareholdings of the National Government, SSS, GSIS, PNB and DBP. Transactions affecting the shares of stocks of the IB shall be subject to existing rules and regulations governing transfer of shares and ceilings on stockholdings, insofar as they are not in conflict with any provisions of R.A. No. 6848 and other pertinent laws, rules and regulations.

Sec. 10. Board of Arbitration

The Board of Directors of the IB, acting as an arbitrator, shall settle by the majority decision of its members any dispute between and among shareholders of the IB, whether individuals or entities, where such dispute arises from their relations as shareholders in the IB. The Board shall be bound in this respect to the procedures of laws on civil and commercial pleadings, except in regard to the basic principles of due process.

If the dispute is between the IB and any of the investors or the shareholders, a Board of Arbitration shall settle such dispute. In this case, the Board of Arbitration, consisting of three (3) members shall be formed by two (2) parties to the dispute within forty-five (45) days from receipt of written notice by either party to the dispute. The three (3) members shall be selected as follows: one (1) arbitrator from each party who shall then select a casting arbitrator as the third member of the board. The three (3) shall select one of them to preside over the Board of Arbitration. The selection by each party of its arbitrator shall be deemed as an acceptance of the arbitrator's decision and of its finality.

In the event that one of the two parties shall fail to select its arbitrator or in the case of non-agreement on the selection of the casting arbitrator or the presiding member of the Board of Arbitration within the period specified in the preceding paragraph, the matter shall be submitted to the *Shari'a* Advisory Council which shall select the arbitrator, the casting arbitrator or the presiding member, as the case may be.

The Board of Arbitration shall meet at the IB's principal office and shall set up the procedure of arbitration which it shall follow in hearing and deciding the dispute. The decision shall include the method of its execution and the party that shall incur the costs of arbitration. The final judgment shall be deposited with the Office of the Corporate Secretary of the Bank and the SEC.

The Board of Arbitration's decision shall, in all cases, be final and executory. It shall be valid for execution in the same manner as final judgments are effected under R.A. No. 876 otherwise known as the Arbitration Law.

Sec. 11. Incentives to Islamic Banking

Subject to the provisions of Section 72 of the New Central Bank Act, the

provisions of the Omnibus Investment Code on the basic rights and guarantees of investors are made applicable to the commercial operations of the IB in respect to repatriation or remittance of profits from investments, and to protection against nationalization, sequestrations, or expropriation proceedings. Any proceedings of judicial or administrative seizure may not be taken against the said property or investment except upon a final court judgment.

Sec. 12. Grants and Donations

The IB shall accept grants, donations, endowments, and subsidies, or funds and/or property offered by individuals and organization who may earmark such grants for a specific purpose or for such other purposes beneficial to the Muslim communities, without prejudice to the general objectives of the IB.

The financial statement and books of accounts of such funds shall be maintained separately but may be supplemented to the IB's balance sheet.

Under special circumstances in which the Board of Directors considers it advisable to promote or facilitate Islamic banking business and commercial operations, the IB may seek financing from governments, organizations, individuals or banks always without prejudice to the provisions of Section 43 of R.A. No. 6848.

Sec. 13. Non-Interest Bearing Placements

The IB is authorized to accept deposits from governments, banks, organizations or other entities and individuals from within the Philippines or abroad which shall form under any of the following non-interest bearing placements:

1. Savings accounts
2. Investment participation accounts
3. Current accounts and other deposit liabilities.

Any deposit received by the IB without authorization to invest shall be treated as current account and savings account, as the case may be, and may be withdrawn wholly or partly at any time, under the principle of *Al-Wadiah* (Safe Custody). The IB shall provide check books for its current account depositors and savings passbook for savings account depositors and other usual services connected therewith.

The IB, at its absolute discretion, may reward the customers for the use of their funds. The Board of Directors shall formulate rules and guidelines which should be consistent with the *Shari'a* principle, in the giving of rewards to the customers.

All deposits received with authorization to invest for a given period of time shall form part of the general pool of placements allocated for the investment portfolios of the IB and may be added to its working capital to be invested in any special projects or in general areas of investments or commercial operations of the Bank. These deposits shall be called as "Investment Participation Accounts" in which under the principle of *Al-Mudarabah*, the IB acts as the "entrepreneur" and the customers as the "Provider of Capital", and both shall agree through negotiation on the ratio of distribution of the profits generated from the investment of the funds. In the event of loss, the customers shall bear all the losses.

Sec. 14. Investment of Funds

The IB shall have the capacity of agent or attorney and shall act with full authority on behalf of the group of depositors in general in investing their commingled deposits without prejudice to the following sections and shall ensure a degree of liquidity to be determined by the Board of Directors to meet the current obligations of the IB including drawings from savings accounts and current accounts: *Provided*, That such degree of

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liquidity shall be subject to the reserve requirement as may be determined by the *BSP*. The Board of Directors shall determine the period for an investment participation account. Investment of funds shall be undertaken by the IB acting on behalf of the group of depositors or investors in selected areas of investment under such terms and conditions as the Board of Directors may determine by way of *mudarabah* or other forms of joint investment permitted by Islamic *Shari'a* principle.

Sec. 15. Return on Investment Funds

The depositors or investors in joint investment participation accounts shall be entitled to a portion of the return on investment according to the deposit balances and its period. The profits on participation account with authorization to invest in specific transaction shall be calculated on the same basis as on the capital funds invested as determined by the Board of Directors pursuant to Section 35 of R.A. No. 6848.

Sec. 16. Allocation of Resources

The IB may allocate part of its own investible funds or of the deposits on hand to finance investment projects and carry on its Islamic banking business directly or indirectly under its own supervision. For this purpose, it may create and finance investment companies or affiliates which shall manage investment projects on behalf of and under the supervision of the IB and for its own account.

The IB shall ascertain the viability and soundness of investment projects which it may directly supervise and those in which it may participate with part of its own funds, with the general pool of investors funds with authorization. The IB shall have the right to inspect and supervise the projects which it shall finance or in which it is the majority shareholder. The original capital and related profits shall be remitted in the same

currency it was originally contributed or in one of the convertible currencies, as the Board of Directors shall determine in accordance with R.A. No. 6848.

Sec. 17. Authorized Banking Services

The IB shall exercise all the powers enumerated under Section 6 of R.A. No. 6848 and perform all the services of a bank, except as otherwise prohibited by R.A. No. 6848: *Provided*, That no transactions with any customer, company, corporation or firm shall be permitted for discounts by the *BSP*.

Sec. 18. Acceptance of Government Funds

Pursuant to Sec. 6 (8) of R.A. No. 6848, the IB shall act as an official depository of the government or its branches, subdivisions and instrumentalities and of government-owned or controlled corporations, particularly those doing business in the autonomous region. Government funds placed with the IB shall be limited to working balances. All government deposits in excess of working balances shall be placed with the *BSP*.

Once privatized, acceptance by the IB of government funds or deposits shall be subject to existing laws and regulations governing the acceptance of such funds by private commercial banks which include prior Monetary Board approval.

The government deposits held by the IB shall be subject to reserve and liquidity floor requirements as the Monetary Board may prescribe.

Sec. 19. Authorized Commercial Operations

The IB may operate as an Investment House pursuant to Presidential Decree No. 129, as amended, and as a Venture Capital Corporation pursuant to Presidential Decree No. 1688, and by virtue thereof, carry on the following types of commercial operations:

1. The IB may have a direct interest as a shareholder, partner, owner or any other capacity in any commercial, industrial, agricultural, real estate or development project under *mudarabah* form of partnership or *musharaka* joint venture agreement or by decreasing participation, or otherwise invest under any of the various contemporary Islamic financing techniques or modes of investment for profit sharing.

2. The IB may carry on commercial operations for the purpose of realizing its investment banking objectives by establishing enterprises or financing existing enterprises, or otherwise by participating in any way with other companies, institutions or banks performing activities similar to its own or which may help accomplish its objectives in the Philippines or abroad, under any of the contemporary Islamic financing techniques or modes of investment for profit sharing; and

3) The IB may perform all business ventures and transactions as may be necessary to carry out the objectives of its charter within the framework of the IB's financial capabilities and technical considerations prescribed by law and convention: *Provided*, That these shall not involve any *riba* or other activities prohibited by the Islamic *Shari'a* principles.

The IB may likewise perform the functions of an investment house either directly or indirectly through a subsidiary investment house; in either case, the underwriting of equity securities and securities dealing shall be subject to pertinent laws and rules and regulations of the SEC: *Provided*, That the IB cannot perform such functions both directly and indirectly through a subsidiary: *Provided, further*, That if the investment house functions are performed directly by the IB, such functions shall be undertaken

by a separate and distinct department or other similar unit in the bank: *Provided, finally*, That if the bank avails of the option of exercising the powers of an investment house indirectly through its subsidiary investment house, it may not directly exercise the powers which are exclusively reserved to IHs.

Sec. 20. Employee Share Schemes

The Board of Directors may adopt an employee profit sharing scheme under any of the following ways:

1. Any arrangement under which the directors, officers and employees of the IB receive, in addition to their salaries and wages, a share, fixed beforehand, in the profits realized by the Bank or by its affiliate companies to which the profit sharing scheme relates; and

2. Any arrangement under which the IB facilitates the acquisition by its directors, officers and employees of common shares of stock either as share-incentives, share-bonus options, or any other share-saving schemes as the Board of Directors may determine.

No scheme shall be approved by the Board of Directors under this section unless it is satisfied that the participant in the profit sharing scheme is bound by a contract with the IB by virtue of which an appropriation of shares has been made for the purpose. The shares so purchased or appropriated shall be deposited in escrow with the Bank.

The Board of Directors of the IB shall then constitute the trustee of the approved scheme, whose functions with respect to the common shares held by them are regulated by Chapter VII of the General Banking Act and other pertinent laws. The terms of the approved scheme shall be prescribed by the Board of Directors and embodied in a deed of instrument.

The adoption of and any change in the employee profit sharing scheme shall

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be reported to the appropriate supervising and examining department of the *BSP* within thirty (30) calendar days from the date of approval.

Sec. 21. Investment Ceilings; Business Limits

The IB shall observe the following investment ceilings and business limits in its operations:

1. The aggregate credit facilities or any other liabilities of any customer of the IB shall not exceed at all times fifteen percent (15%) of the unimpaired capital and surplus of the Bank.

For purposes of determining compliance with this regulation, credit facilities shall refer to:

- a. Interbank Receivable
 - b. Financing and Investment
 - c. Trade Financing
 - d. Agrarian Reform/Other Agricultural Financing – P. D. No. 717
 - e. Bills Purchased
 - f. Customer's Liability on Bills/Drafts under Letters of Credit and/or Trust Receipts
 - g. Customer's Liability for this Bank's Acceptances Outstanding
 - h. Trading Account Securities – Financing
 - i. Underwriting Accounts – Debt Securities
 - j. Stand-by Letters of Credit
 - k. Such other facilities as may be determined by the Monetary Board
- Credit facilities granted by the IB to any other bank, as well as deposits maintained by it in any bank, shall be subject to the credit facility limit to any single borrower as herein prescribed.

2. The aggregate amount of investment portfolios for any single industry (following the major industry groupings in the 1977 Philippine Standard Industrial Classification) shall at no time exceed thirty percent (30%)

of the IB's investment capacity. Investment capacity shall mean the total unimpaired capital and surplus plus deposits and borrowings minus the investment in bank premises.

3. The IB shall not grant unsecured loans except *gardhasan* (benevolent loans). Such outstanding unsecured loans or credit accommodations which the IB may extend at any time without security or in respect of any advance, loan or credit facility made with the security wholly or partly whenever at any time it exceeds the aggregate market value of the assets constituting the security, shall be limited to fifty thousand pesos (P50,000.00) to any person, company, corporation or firm.

4. A credit facility granted to any person for the purpose of financing the acquisition of shares in any company, corporation or firm shall not exceed fifty percent (50%) of the appraised value of the shares at the time the credit facility is granted. Appraised value, in the case of listed shares, shall mean the weighted average price in the stock exchange. For unlisted shares, the appraised value shall mean the book value of the shares.

Sec. 22. Loans and Credit Facilities to Directors, Officers, Employees and Stockholders

1. *General Policy.* Except as otherwise provided in these regulations, the IB shall not directly or indirectly grant an advance, loan or credit facility to any of its directors, officers, employees or stockholders, or to any other person for whom any of them is a guarantor, or in any manner be an obligor for money granted by the IB.

2. *Direct Loans to Officers, Employees and Stockholders.* Whenever the IB is satisfied that special circumstances exist, a loan not exceeding at any one time an amount equivalent to six months remuneration, may be granted to an officer

or employee on such terms and conditions as the IB deems fit: *Provided, however,* That loans and advances to officers and employees in the form of fringe benefits granted in accordance with the rules and regulations prescribed under Section 1337 of the MRBOFI shall not be subject to the preceding limitation, nor to the ceiling on unsecured loans prescribed in Section 21.

The IB may extend credit facilities to stockholders owning two percent (2%) or more of the subscribed capital stock up to an amount equivalent to the outstanding deposits or the book value of his paid-in capital in the Bank, whichever is higher.

3. *Indirect Credit Facilities to Directors and Auditors.* No credit facility shall be granted by the IB to a company, corporation, partnership or firm wherein any member of the Board of Directors or auditors is a shareholder, partner, manager, agent or employee in any manner, except with the written approval of and by unanimous vote of not less than two-thirds of all the members of the Board of directors, excluding the director concerned: *Provided,* That the total liabilities of such company, corporation, partnership or firm to the IB shall be limited to the director's or auditor's outstanding deposits or the book value of his paid-in capital in the Bank, whichever is higher.

4. *Aggregate Ceiling.* Except with the prior approval of the Monetary Board, the total outstanding credit facilities of directors, officers, auditors and stockholders, whether direct or indirect, shall not exceed fifteen percent (15%) of the total credit facilities of the Bank or one hundred percent (100%) of combined capital accounts, net of deferred income tax and such unbooked valuation reserves and other capital

adjustments as may be required by the *BSP*, whichever is lower.

5. *Procedural Requirements.* The following provisions shall apply to direct loans to officers and indirect credit facilities to directors and auditors, allowed under these regulations.

- a. *Approval of the Board; when to obtain.* Direct loans to officers shall require the prior written approval of the majority of the directors.

Indirect loans to directors and auditors shall be allowed subject to the prior written approval, and by unanimous vote, of not less than two-thirds (2/3) of all the members of the Board of Directors, excluding the director concerned.

- b. *Approval by the Board; how manifested.* The approval as required in Item "a" above shall be manifested in a resolution passed by the Board of Directors duly assembled during a regular or special meeting for that purpose and made of record.
- c. *Determination of compliance with the required number of votes.* The determination of the majority or two-thirds (2/3) of the directors, excluding the directors concerned, shall be based on the total number of directors of the Bank as provided in its Charter and By-Laws.
- d. *Content of the resolution.* The resolution of the Board of Directors shall contain the following information:
 - (i) Name of the director, officer or auditor concerned and his relationship as regards the credit facility, such as principal, indorser, guarantor, etc.;
 - (ii) Nature of the loan or credit facility, purpose, amount, credit basis for such loan or credit facility,

security and appraisal thereof, maturity, schedule of repayment, and other terms of the loan or credit facility;

(iii) Date of the resolution;

(iv) Names of the directors who were present and who participated in the deliberations of the meeting;

(v) Names in print and signatures of the directors approving the resolution: *Provided*, That the corporate secretary may sign, under a power-of-attorney, in behalf of a director who was present in the board meeting and who approved such resolution, in instances where such signature is necessary to indicate that such resolution was approved by a majority or two-thirds of the directors; and

(vi) Such other information as may be required by the appropriate supervising and examining department of the *BSP*.

e. *Transmittal of copy of board approval; contents thereof.* A copy of the written approval of the Board of Directors, as herein required, shall be submitted to the appropriate supervising and examining department of the *BSP* within twenty (20) banking days from the date of approval. The copy may be a duplicate of the original, or a reproduction copy showing clearly the signatures of the approving directors: *Provided*, That if a reproduction copy is to be submitted, it shall contain on its face or reverse side a signed certification by the Secretary that it is a reproduction of the original written approval.

Sec. 23. Past Due Accounts

Accounts considered past due. The following shall be considered as past due:

1. Loans or receivables payable on demand – if not paid on the date indicated

on the demand letter, or within six (6) months from date of grant, whichever comes earlier;

2. Financing and investment accounts not paid at maturity/ expiry date or not paid in accordance with the terms of payment stipulated in the agreement/ contract;

3. Customers’ liability on drafts under LC/TR

a. Sight Bills – if dishonored upon presentment for payment or not paid within thirty (30) days from date of original entry, whichever comes earlier;

b. Usance Bills – if dishonored upon presentment for acceptance or not paid on due date, whichever comes earlier; and

c. Trust Receipts – if not paid on due date;

4. Bills and other negotiable instruments purchased – if dishonored upon presentment for acceptance/ payment or not paid on maturity date, whichever comes earlier: *Provided*, however, That an out-of-town check and a foreign check shall be considered as past due if outstanding for thirty (30) days and forty-five (45) days respectively, unless earlier dishonored;

5. Credit facilities or receivables payable in installments – the total outstanding balance thereof shall be considered past due in accordance with the following schedule:

<u>Mode of Payment</u>	<u>Minimum Number of Installments in Arrears</u>
Monthly	6
Quarterly	2
Semestraly	1
Annually	1

Provided, however, That when the total amount of arrearages reaches twenty percent (20%) of the total outstanding balance of the credit facility/receivable, the total outstanding balance of the credit

facility/receivable shall be considered as past due, notwithstanding the number of installments in arrears: *Provided, further,* That for modes of payment other than those listed above (e.g., daily, weekly or semi-monthly), the entire outstanding balance of the loan/receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10%) of the total receivable balance;

6. Credit card receivables – if the amount due is not paid within ten (10) days from the deadline indicated in the billing statement; and

7. All items in litigation as defined in the IB’s Manual of Accounts.

For the purpose of determining delinquency in the payment of obligations as a ground for disqualification of bank directors and officers, any due and unpaid loan/financing installment or portion thereof, from the time the obligor defaults, shall be considered as past due.

Sec. 24. Equity Investments

1. *Financial Allied Undertakings.* With prior approval of the Monetary Board, the IB may invest in the equity of the following financial allied undertakings:

- a. Leasing companies;
- b. Banks;
- c. Investment houses;
- d. Financing companies;
- e. Credit card operations;
- f. Financial institutions addressed/ catering to small and medium-scale industries;
- g. Companies engaged in stock brokerage/security dealership/ brokerage;
- h. Foreign exchange dealers/brokers; and
- i. Insurance companies

Provided, That any such undertaking is the primary purpose for which a particular enterprise was established and the volume of its business indicates that

it is principally engaged in such undertaking.

The equity investment of the IB in a single financial allied undertaking shall be, in relation to the total subscribed capital stock and in relation to the total voting stock of the allied undertaking, within the following ratios:

<u>Allied Undertaking</u>	<u>Limit</u>
KBs	- Up to 49%
TBs and RBs	- Up to 100%
Other financial allied undertakings	- Up to 100% without prejudice to the limitations prescribed in Subsec. 1378.1 (of the MRBOFI).

Provided, That the equity investment in an insurance company of the IB, any of its wholly or majority-owned subsidiaries, its directors, officers and stockholders owning two percent (2%) or more of the bank’s subscribed capital stock, shall not exceed fifty-one percent (51%) of the total subscribed capital stock and the total voting stock of such insurance company.

The equity investment of the IB in a bank pursuant to R.A. No. 7721 shall be governed by the rules and regulations implementing said law.

2. *Non-Financial Allied Undertakings.* The IB may invest in the equity of the following non-financial allied undertakings:

- a. Warehousing companies;
- b. Storage companies;
- c. Safe deposit box companies;
- d. Companies engaged in the management of mutual funds but not in the mutual funds themselves;
- e. Management corporations engaged or to be engaged in activity similar to the management of mutual funds;
- f. Companies engaged in the provision of computer services;
- g. Insurance agencies: *Provided,* That no director, officer or stockholder

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of the bank and their related interests hold/ own more than twenty percent (20%) of the subscribed capital stock or equity of the insurance company for which the affiliates insurance acts as agent;

h. Companies engaged in home building and home development;

i. Companies providing drying and/or milling facilities for agricultural crops such as rice and corn;

j. Companies engaged in insurance brokerage: *Provided*, That no director, officer, stockholder of the IB or its related interests shall have financial interests in the insurance company/companies for which the affiliate insurance brokerage company acts as broker;

k. Bank service corporations all of the capital of which is owned by one or more banks and organized to perform for and in behalf of banks the following services:

- (i) data processing systems development and maintenance;
- (ii) deposit and withdrawal recording;
- (iii) computation and recording of interests, service charges, penalties and other fees;
- (iv) check-clearing processing, such as the transmission and receipt of check-clearing items/tapes to and from the *BSP*, collection and delivery of checks not included in the Philippine Clearing House System, as well as the recording of the same; and
- (v) printing and delivery of bank statements.

l. Clearing house companies such as the PCHC and the Philippine Central Depository, Inc.

Provided, further, That any such undertaking is the primary purpose for which a particular enterprise was established and the volume of its business indicates that it is principally engaged in such undertaking.

The IB may acquire up to one hundred percent (100%) of the equity of a non-financial allied undertaking. However, prior Monetary Board approval is required if the investment is in excess of forty percent (40%) of the total subscribed capital stock or forty percent (40%) of the total voting stock of such allied undertaking.

3. *Investments in Non-Allied or Non-Related Enterprises*. The broad category of undertakings in which the IB may invest in directly or through its wholly or majority-owned subsidiary shall be subject to prior approval of the Monetary Board. Investments shall be allowed in enterprises engaged in certain activities in agriculture, mining and quarrying, manufacturing, public utilities, construction, wholesale trade and community and social services following the industrial groupings in the 1977 Philippine Standard Industrial Classification (PSIC) as enumerated in Annex I of Subsection 1380.1 of the MRBOFI, as amended. Individual equity investment in undertakings within these enumerated activities shall not require prior approval: *Provided, however*, That within thirty (30) days after the investment, the Bank shall furnish the appropriate supervising and examining department of the *BSP* such relevant information on the investments made as amount invested, name of investee company, and nature of business, accompanied by such pertinent documents as Articles of Incorporation, Articles of Partnership or Registration Certificate, whichever may be applicable, and such other information which may be required: *Provided, further*, That said investment is within the limits and restrictions set forth in the succeeding paragraphs of this Section.

The equity investment of the IB or of its wholly or majority-owned subsidiary, in any single non-allied enterprise shall

not exceed thirty-five percent (35%) of the total subscribed capital stock nor shall it exceed thirty-five percent (35%) of the voting stock in the enterprise.

For the purpose of determining compliance with the ceiling prescribed in the preceding paragraph, (i) the equity investment of the Bank; (ii) the equity investment of the Bank's wholly or majority-owned subsidiaries; and (iii) the equity investment of directors, officers and stockholders owning two percent (2%) or more of the subscribed capital stock of the Bank or of the Bank's wholly or majority-owned subsidiaries, shall be combined.

In no case shall the total equity investments in a single non-allied enterprise of the IB, together with the investments of other expanded commercial banks, non-bank financial intermediaries performing quasi-banking functions, or their wholly or majority-owned subsidiaries, whether or not the parent financial intermediaries have equity investments in the enterprise, amount to fifty percent (50%) or more of the voting stock of that enterprise.

4. *Other Limitations and Restrictions on Equity Investments.* The following limitations and restrictions shall also apply regarding equity investments of the IB:

- a. The total equity investments of IB in any single enterprise, whether allied or non-allied, shall not at any time exceed fifteen percent (15%) of the Bank's net worth.
- b. The total amount of investment in equities made by the IB in all enterprises, whether allied or non-allied, shall not exceed fifty percent (50%) of its net worth.

5. *Investments Abroad.* The ceiling provided for in the preceding paragraph shall apply to equity investments in and/or credit facilities to any enterprise abroad.

For purposes hereof, the phrase "equity investments in and/or credit facilities to" shall include any accommodation that gives rise to a creditor/debtor relationship such as deposits, money market placements, loans or any advances or any amount of funds granted or remitted by the IB to its subsidiary/affiliate abroad including letters of comfort and deposits/placements abroad of the Bank which are hypothecated.

6. *Exclusion of Underwriting Exposure from Ceiling.* The exposure of the IB arising from the firm underwriting of equity securities of enterprises shall not be counted in determining compliance with the ceiling prescribed for equity investments for a period of two (2) years from the acquisition of such equity securities.

Sec. 25. Special Cash Account

The IB shall open a special cash account with the *BSP* in which the liquid funds shall be deposited. Any transfer of funds from this account to other accounts shall be made only upon prior consultation with the IB.

The Bank's Board of Directors shall make such representations with the *BSP* as may be necessary to facilitate the opening of said account.

Sec. 26. Capital Funds Requirements

The IB shall maintain its combined capital accounts in proportion to its assets as prescribed by the General Banking Act and subject to the Rules and Regulations of the *BSP*.

Sec. 27. Investment Risk Fund

1. *Creation.* A reserve account, known as the Investment Risk Fund, shall be created in the books of the IB, by annually setting aside an amount equal to ten percent (10%) of the profits realized during the financial year from the investment of the customers' deposits in the following operations:

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- a. Financing & Investment
- b. Foreign Exchange Transactions
- c. Investment in Bonds & Other Islamic Financial Instruments
- d. Trading Account Securities
- e. Investments in Stocks
- f. Equity Investments
- g. Placements with Treasury Department
- h. Others

Should the accumulated reserves equal the authorized capital of the IB, the Board of Directors may reduce the amount of the annual deduction to a minimal percentage until the aggregate reserves become double the amount of the capital, after which the herein authorized deduction shall cease to accrue to the reserve account.

2. Determination of Profits and Losses. At the close of each financial year, the IB shall determine the results of its operation. The Board of Directors shall, after deducting the general and administrative expenses including remunerations of the Board of Directors and *Shari'a* Advisory Council, determine annually what part of the income shall be appropriated to reserves, investors and shareholders. All accounts relating to financing and joint investment operations shall be kept separate from the accounts of the other banking activities and services offered by the IB. The same rule with respect to the accounts of specific investments shall apply where such specific projects may have a separate account.

Losses incurred, if any, shall be deducted from the total profits realized for the financial year in which such losses are incurred, but any excess of losses over the profits which have been actually realized during the year may be deducted from the Investment Risk Fund opened for covering the risks of investments: *Provided*, That should the total profits realized in the year

be insufficient to cover the losses incurred, the IB shall carry out a comprehensive assessment to arrive at estimated profit and loss based on the market rates, from operations which are financed by the *mudarabah* funds and which have not reached the stage of final settlement by the end of the financial year.

3. Utilization. The Investment Risk Fund shall be invested for the benefit of the IB in safe non-interest bearing transactions only, as authorized by the Board of Directors.

The Board of Directors shall adopt policies on the creation and utilization of the Investment Risk Fund and determination of profits and losses, within one (1) year from date of this Circular.

Sec. 28. Periodic Reports

The IB shall submit to the appropriate department/office of the *BSP* the periodic reports enumerated under Annex "A" and such other reports as may be prescribed by the Monetary Board.

Sec. 29. Manual of Accounts

The IB shall adopt/implement the Manual of Accounts for Al-Amanah Islamic Investment Bank of the Philippines as approved by the Monetary Board in its Resolution No. 335 dated 15 March 1991.

Sec. 30. Board of Directors

The Board of Directors shall be composed of nine (9) members duly elected by the shareholders. The Board of Directors shall choose from among themselves the Chairman. The Board shall convene at the principal office once every three (3) months at the most upon due notice by the Chairman or, whenever the need arises, upon the request of three (3) members. The Board may convene outside the IB's principal office as the members shall determine in the by-laws of the Bank.

Sec. 31. Power of the Board

The Board of Directors shall have the broadest powers to manage the IB except such matters as are explicitly reserved for the shareholders. The Board shall adopt policy guidelines necessary to carry out effectively the provisions of R.A. No. 6848, as well as internal rules and regulations necessary for the conduct of its Islamic banking business and all matters related to:

1. credit and investment;
2. discretionary and delegated authorities
3. risk management;
4. investment risk fund;
5. *qardhasan* (benevolent loans); and
6. personnel policies

The Board of Directors shall have the power to appoint managers, authorized agents or legal representatives and shall vest them with signing authority on behalf of the Bank either severally or jointly in accordance with the operational procedures of the Bank.

The Board shall cause the preparation of the IB's balance sheet for each financial year within three (3) months at the latest from the end of each accounting period as well as the profit and loss statement according to accounting rules established and based on Islamic criteria. Copies of the audited annual balance sheet, profit and loss account, together with any note thereon, and the report of the auditor and the directors own report shall be provided to the shareholders before the date of the general meeting.

The Board shall also cause the preparation of the annual revenue and expenditures budget as well as the annual business plan.

Sec. 32. Chief Executive Officer; Other Officers and Employees

The Chairman of the Board of the IB shall be the Chief Executive Officer of the

Bank. He must have experience and training in Islamic banking. All other officers and employees of the IB shall, upon recommendation of the Chief Executive Officer, be appointed and removed by the Board which shall not be subject to Civil Service Law.

The Chief Executive Officer of the IB shall, among others, execute and administer the policies, measures, orders and resolutions approved by the Board of Directors. In particular, he shall have the power and duty to execute all contracts in behalf of the IB, to enter into all necessary obligations required or permitted under R.A. No. 6848, to report weekly to the Board of Directors the main facts concerning the operations of the Bank during the preceding week, and to suggest changes in policy or policies which will serve the best interest of the Bank.

Sec. 33. Qualifications and Disqualifications of Directors and Officers

The provisions (of the MRBOFI – Book I) regarding the qualifications and disqualifications of directors and officers shall be applicable to the directors and officers of the IB.

Sec. 34. Business Development Office

The IB shall have a Business Development Office which shall be responsible for the following:

1. To conduct periodic economic surveys and studies of the investment climate and opportunities in the IB's sphere of operations and identify the viable projects which may be sponsored by the people of the Autonomous Region;
2. To offer technical consultancy services in the preparation of project studies and in meeting other technical credit requirements of the IB, including the provision of the management consultants at rates to be determined by the Board of

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Directors to projects financially assisted by the IB; and

3. To perform such other functions as may be directed by the Board of Directors.

Sec. 35. General Shareholder's Meeting

The shareholders shall convene in a general meeting annually at the latest within six (6) months following the end of the financial year of the Bank at the place, date and time fixed in the notice. The attendance of shareholders representing at least sixty percent (60%) of the capital of the IB shall constitute a quorum to do business and voting shall be by shares of stocks.

For purposes of this section, "Capital" shall refer to the Total Subscribed Capital, whether paid or unpaid.

No delinquent stock shall be voted for or be entitled to vote or to representation at any stockholders' meeting, nor shall the holder thereof be entitled to any of the rights of a stockholder except the right to dividends until and unless he pays the amount due on his subscription, including the cost and expenses incurred thereon, if any.

Holders of subscribed shares not fully paid which are not delinquent shall have all the rights of a stockholder.

Sec. 36. Purposes of General Meeting

The general shareholders' meeting shall be convened purposely to hear the Board of Directors' report on the activities of the IB, its financial condition, the auditor's report and to approve the balance sheet for the financial year ended and the profit and loss statement, to determine the portion of dividends to be distributed to the shareholders and the method of distribution, to appoint the auditors, and to elect the members of the Board of Directors and the *Shari'a* Advisory Council.

Sec. 37. Ordinary and Extraordinary Sessions

The general shareholders' meeting shall be presided over by the Chairman of the Board of Directors. All resolutions adopted by the general meeting in ordinary session assembled shall be taken by a vote of majority of the shareholders represented therein and in case of votes being equal, the Chairman shall cast his vote to break the tie. The resolutions of the general meeting adopted in accordance therewith shall be binding on all shareholders including those not in attendance or opposing the resolution.

An extraordinary general meeting shall be required to pass resolutions related to the increase or decrease of capital of the Bank, the extension of its legal existence or matters affecting amendment of R.A. No. 6848. Resolutions of the extraordinary general meeting shall be deemed adopted when a majority vote of at least sixty-six and two-thirds plus one percent ($66 \frac{2}{3} + 1\%$) of the capital shares shall have been cast.

In no case shall the general meeting resolve to modify the object of the Bank as an Islamic investment bank.

Sec. 38. Bank Auditor; Reports

Subject to the approval by the shareholders, the IB shall appoint an external auditor, whose qualifications and remunerations shall be fixed by the Board of Directors. The external auditor shall assume his functions from the date of his appointment until the date of the next general shareholders' meeting. In case a vacancy occurs at any time during the year for any reason, the Board of Directors shall immediately appoint a replacement who shall serve until the next general shareholders' meeting.

The external auditor shall conduct an annual financial audit not later than thirty

(30) days after the close of the calendar year. Reports on such audit shall be made and submitted to the Board of Directors and the appropriate supervising and examining department of the *BSP* not later than ninety (90) days after the start of the audit.

For purpose hereof, an independent external auditor who may be engaged by the Bank shall refer to one who does not hold or own two percent (2%) or more of equity in the Bank.

The Board of Directors, in a regular or special meeting, shall consider and act on the financial audit report and shall submit, within thirty (30) days after receipt of the report, a copy of its resolution to the appropriate supervising and examining department of the *BSP*. The resolution shall show, among other things, the names of the directors present and absent, and the action(s) taken on the findings and recommendations.

In the exercise of his auditing functions, all books, accounts and documents of the Bank shall be made available to the auditor for inspection to ascertain its assets and liabilities.

Sec. 39. Confidential Information

Banking transactions of the IB relating to all deposits of whatever nature are confidential and may not be examined, inquired or looked into by any person, government official, bureau or office except as provided in Sec. 38, or upon written permission by the depositor, or in cases where the money deposited or the transaction concerned is the subject of a court order.

It shall be unlawful for any official or employee of the IB or any person as may be designated by the Board of Directors to examine or audit the books of the Bank to disclose or reveal to any person any confidential information except under the circumstances mentioned in the preceding paragraph.

Sec. 40. Accounting Period

The financial year of the IB shall be based on the Gregorian calendar, but the corresponding Islamic *Hijra* date shall be mentioned on all correspondences, contracts, printed materials, forms and records of the IB. The accounting period shall commence on the first day of January and close on the last day of December each year.

Sec. 41. Sharing between the Bank and the Investors

Not later than the 31st day of January of each financial year, the Board of Directors shall determine and publish the general percentages of profit to be allocated to the total funds participating in joint investments of the IB.

The IB as a joint venturer (*Mudarib*) shall be entitled to certain percentage after deducting the amount allocated to investors. The Bank shall likewise be entitled to a share in the profits of joint investments in proportion to its own invested funds.

For the purpose of calculating funds employed in financing operations, priority shall be given to joint investment accounts and the holders of *muquaradah* (interest free) bonds.

All *zakat* due in the shareholder's capital and reserves represented by the pecuniary value of shares and the *zakat* due on the investor's funds or profits accruing to every depositor shall be paid to the *zakat* fund, subject to their instructions.

The Board of Directors shall adopt a policy on the sharing between the Bank and its investors which should be consistent with the *Shari'a* principle.

Sec. 42. Training of Technical Personnel

The IB shall promote and sponsor the training of technical personnel in the field of Islamic banking, finance and insurance.

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Towards this end, the IB may defray the costs of study, at home or abroad, of outstanding employees of the IB, of promising university graduates or of any other qualified persons who shall be determined by proper competitive examinations. The Board of Directors shall prescribe rules and regulations to govern the training program of the IB.

Sec. 43. Definition of Terms

For purposes of these Rules and Regulations, the following definition of term shall apply:

1. Islamic banking business means banking business whose aims and operations do not involve interest (*riba*) which is prohibited by the Islamic *Shari'a* principles.

2. *Shari'a* has the meaning assigned to it by Islamic law and jurisprudence as expounded by authoritative sources; in the context of R.A. No. 6848, it is construed by reference to pertinent Quranic ordinances and applicable rules in Islamic jurisprudence on business transactions.

3. *Riba* has the meaning assigned to it by Islamic law and jurisprudence as expounded by authoritative sources; in the context of banking activities, the term includes the receipt and payment of interest in the various types of lending and borrowing and in the exchange of currencies on forward basis.

4. *Zakat* has the meaning assigned to it by Islamic law and jurisprudence as expounded by authoritative sources; in the context of R.A. No. 6848, it represents annual an "tithe" payable by the Bank on behalf of its shareholders and investors in compliance with Islamic *Shari'a* principles.

5. Depositors means a person or entity who has an account at an IB, whether the account is a current account, a savings account, an investment account or any other deposit account; unless the

context requires another meaning, a depositor corresponds to an investor in joint investment of the IB.

6. Current account liabilities in relation to Islamic banking services mean the total deposits at the Bank which are repayable on demand.

7. Savings account liabilities in relation to Islamic banking services mean the total deposits at the IB which normally require the presentation of passbooks or such other legally acceptable documents in lieu of passbooks as approved by the *BSP* for the deposit or withdrawal of money;

8. Investment account liabilities in relation to Islamic banking services mean the total deposit liabilities at the IB in respect of funds placed by a depositor with the Bank for a fixed period of time under an agreement to share the profits and losses of that bank on the investment of such funds.

9. Other deposit liabilities in relation to an IB mean the deposit liabilities at the Bank other than savings account, investment account, current account liabilities and deposit liabilities from any IB or any other licensed bank.

10. Participation in relation to Islamic banking and commercial operations means any agreement or arrangement under which the mode of joint investments or specific transactions shall not involve the element of interest charge other than as percentage share in profits and losses of business.

11. Share means share in the capital of the Bank or a corporation and includes a stock, except where a distinction between stock and share is expressed or implied.

12. *Muqaradah* Bonds represent long term non-interest bearing bonds of definite denomination issued and floated by the bank on the basis of participation under the *Mudarabah* principle to be used

in financing projects for economic development.

Sec. 44. Statement of Principles

For purposes of implementing these Rules and Regulations, the following Shari'a principles shall be observed:

1. *Al-Bai Bithaman Ajil* (Deferred Payment Sale) - principle under which one sells to another by passing the ownership and delivery immediately but collects the payment later, usually by installments. This principle is applied in financing fixed asset acquisition, such as buying of houses, properties, plant and machinery, etc.

2. *Al-Bai ul Takjiri* (Leasing ending with ownership) - principle under which the fund-owner may purchase the asset required by the fund-user with the right to use the services of the asset, but subsequently to own the asset. Thus, the fund-owner first purchased the asset required by the fund-user and subsequently lease the asset to the fund-user with the stipulation that at a point in time the fund-user will purchase from the fund-owner the asset concerned at an agreed price with all the lease rental previously paid constituting part of the purchase price.

3. *Al-Ijarah* (Leasing) - principle under which the fund-owner purchases the asset required by the fund-user who acquires the right to use the services of said asset. The transaction is covered by a contract whereby the fund-owner first purchases the asset and subsequently leases the same to the beneficiary (fund-user) for a fixed, obligatory period, subject to lease rentals and other terms and conditions as may be agreed by both parties.

4. *Al-Kafalah* (Guarantee) - principle under which one can provide guarantee to another on behalf of a third person. This principle is applied by IBs

to issue Letters of Guarantee in respect of the performance of a task, or the settlement of a loan, etc. Where a security deposit is required, it is taken under the principle of *Al-Wadiah*. This principle also enables the IBs to take guarantees from others for the credit facilities granted.

5. *Al-Mudarabah* (Trust Financing) - principle under which a fund-owner provides full financing to the fund-user who provides only entrepreneurship and labor. The fund-owner is not involved in the management of the funds at all. The return to the fund-owner and the fund-user is a share of profit at a rate or ratio agreed in advance. In case of a failure, the fund-owner bears the financial losses. This principle is applied by the IBs in both deposit taking and financing. It is mostly applied to support the investment (fixed) deposit accounts.

6. *Al-Murabahah* (Purchase and Sale or Cost-plus) - principle under which the fund-owner purchases the goods or assets required by the fund-user and sells at an agreed mark-up to the fund-user. This principle is applied in Bills Receivable financing. If full financing is not to be given, the fund-user would be requested to place a margin deposit which will be used to pay for a portion of the cost of the goods or assets.

7. *Al-Musharaka* (Partnership Profit Sharing) - principle under which a fund-owner and an entrepreneur can jointly contribute to the finance and the management of a business. Profits or losses from the joint venture are shared between them in the rate or ratio agreed in advance. This principle is applicable in both the areas of funding and financing. It is mostly applied by IBs to raise capital, to finance projects on a joint venture basis, and in Trust Receipt financing.

8. *Al-Qardhasan* (Benevolent Loan) - principle under which one provides a direct loan, free of any charges, to

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another in need. Payment of dividend for the use of the loan is at the discretion of the user of the funds. Financing economic and business activities of the poor is sometimes extended under this principle.

9. *Al-Rahan* (Security) - principle under which security can be given and taken for an outstanding obligation. Although IBs extend financing through partnership and trading assets, security is also taken as a precaution under this principle.

10. *Al-Wadiah* (Safe Custody) - principle under which a trustee will safeguard the funds entrusted without any obligation to pay any dividend to the owners of the fund (depositors) as long as a guarantee is given to ensure the full refund of the money upon request of withdrawal. The trustee can have full discretion over the use of the funds.

11. *Al-Wakalah* (Agency) - principle under which one acts as an agent for another for a fee. This principle is applied in the Letters of Credit (LCs) operations in which the IBs issue LCs on behalf of their importing costumers when only LC service is required. A 100% margin deposit is collected under the principle of *Al-Wadiah*. The deposit will be used ultimately to meet the full value of the inward bills.

Sec. 45. Sanctions

Any director, officer, employee, auditor or agent of the IB who violates or permits the violation of any provisions of these Rules and Regulation shall be subject to the criminal and administrative sanctions provided under Sections 36 and 37 of R.A. No. 7653 (The New Central Bank Act).

Sec. 46. Supervision; Applicability of Banking Laws, Rules and Regulations

The IB shall be under the supervision of the *BSP*. The provisions of other banking laws, MRBOFI, as well as the existing Rules and Regulations of the *BSP*, particularly those enumerated under Annex “B”, and other pertinent laws insofar as they are not in conflict with any provisions of R.A. No. 6848 and these Rules and Regulations shall be applicable to the IB.

Sec. 47. Transformation to Islamic Banking Business

The IB shall transform its investment portfolios, accounts or assets for the conduct of full Islamic banking business within two (2) years from 24 April 1996. The Monetary Board may allow extension of the period as circumstances may warrant. If for any reason, such portfolios, accounts or assets granted under the authority of the Philippine Amanah Bank Charter are not eligible for this purpose, the same may be transferred, swapped, sold or otherwise disposed of in any manner deemed feasible.

The Board of Directors of the IB shall formulate policies to transform the business of the Bank into an Islamic concept, and shall submit the same to the appropriate department of the *BSP* within six (6) months from 24 April 1996.

During the transformation period, the Bank may continue to perform conventional banking activities under R.A. No. 337, as amended, insofar as they are not in conflict with R.A. No. 6848, and the applicable rules and regulations of the *BSP*.

NOTES ON MICROFINANCE
(Appendix to Subsec. X361)

A. *Definition of microfinance*
Microfinance is the provision of a broad range of financial services, such as deposits, loans, payment services, money transfers and insurance products to the poor and low-income households, generally for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards.

B. *Core principles for microfinance*

1. The poor needs access to variety of appropriate financial services that are convenient, flexible and reasonably priced.

2. The poor has the capability to repay loans, pay the real cost of loans, generate savings and avail complementary financial services.

3. Microfinance institutions must subscribe to performance standards and best practices to ensure greater outreach and sustainability.

4. In line with the Philippine National Strategy for Microfinance, the government’s role is an enabler (establishing the market-oriented policy and regulatory environment) and not as a direct provider of financial services.

5. Microfinance should become an integral part of the financial sector in order to achieve its full potential of reaching a large number of the poor.

6. Microfinance is an effective tool for poverty alleviation and is a clear testament that market-based solutions are feasible to expand access to financial services toward building a truly inclusive financial system.

C. *Characteristics of a typical microfinance client*

Characteristics	Distinguishing Features
Type of client	<ul style="list-style-type: none">• Low income but with regular cash flow• Employment in informal sector; low wage bracket• Lack of physical collateral• Closely interlinked household and business activities
Other market segments	<p>(1) The landless who are engaged in agricultural work on a seasonal basis and manual and laborers in forestry,mining, household industries, construction and transport; requires credit for consumption needs and also for acquiring small productive assets, such as livestock.</p> <p>(2) Small and marginal farmers, rural artisans,weavers and those self-employed in the urban informal sector as hawkers,vendors and workers in household micro-entepriises requires credit for working capital, including a small part for consumption needs. This segment largely comprises the poor but not the poorest.</p> <p>(3) Medium farmers/small entrepreneurs who have gone into commercial crops and others who are engaged in dairy and poultry. Among non-farm activities, this segment includes those in villages and slums engaged in processing or manu-facturing activity. These persons live barely above the poverty line and also suffer from inadequate access to formal credit.</p>

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D. Definition of microfinance loans or micro-credit

Micro-credit loans are small loans granted to the basic sectors, on the basis of the borrower's cash flow and other loans granted to the poor and low-income households to enable them to raise their income levels and improve their living standards. These loans are typically unsecured but may also be secured in some cases.

E. General features of microfinance loans

1. Types of microfinance loans

a. Microenterprise loans – Small and short term loans granted to the basic sectors, in the basis of the borrower's cash flow, for their microenterprises and small businesses. The principal amount of a microenterprises loan can be generally pegged at P150,000.

b. Microenterprise Loan Plus or "Microfinance Plus"- loans granted to the basic sectors, on the basis of the borrower's cash flow, for their growing microenterprises and small businesses. These loans are from PhP150,001 to PhP300,000. The borrowers that will qualify as recipients of Microfinance Plus shall have a track record of at least two (2) microfinance loan cycles in the PhP50,000 to PhP150,000 range demonstrating the success of the business, its increasing credit demand and subsequent increased capacity to pay. The borrower must also have a savings account. The delivery of Microfinance Plus will be utilizing microfinance principles and methodologies in accordance with Sec. X361.

c. Housing microfinance loans-loans granted for home improvements, house construction, house and/or lot acquisition, utilizing microfinance principles and methodologies in accordance with

existing BSP regulations¹. The maximum principal amount of a housing microfinance loan for house construction and/or lot acquisition is generally pegged at P300,000.

d. Micro-agri loans – short term loans granted for farming activities, agri-business and agri-related fixed assets, among others, utilizing microfinance principles and methodologies in accordance with Sec. X361.

2. Collateralization of microfinance loan

Microfinance loans are typically unsecured, for relatively short periods of time (up to 365 days) with monthly (or more frequent) amortizations of interest and principal, and often featuring a joint and several guarantee of one (1) or more persons. In some cases, they can also be secured, depending on the capacity of the borrower to offer collaterals acceptable to the policies of the lending institutions.

3. Interest on microfinance loans

Global experience has demonstrated that a market-based interest rate regime permits the institution providing microfinance services become sustainable and able to cover administrative costs, provisions for loan losses and intermediation/funding costs. Global experience continues to validate the proposition that what matters most to the poor and underserved segments is access to financial services rather than their interest-rate cost – most especially because microenterprise and small business borrowers will take a microfinance loan whose repayment periods match the additional cash flows they hope to generate.

Therefore, interest on such microfinance loans shall be reasonable but shall not be lower than the prevailing market rates. This is to enable the lending

¹ Circular 678 dated 05 January 2010

institution not only to recover the financial and operational costs incidental to this type of microfinance lending but also to realize some bottom line gains.

- 4. Lending technology
 - Prompt approval and disbursement of microloans
 - Lack of extensive loan records
 - Collateral substitutes; group based guarantees
 - Conditional access to further micro-credits
 - Information intensive character-based lending linked to cash flow analysis and group-based borrower selection

F. Definition of microfinance savings deposit accounts or micro-deposits

Micro-deposits are savings accounts that cater to the needs of the basic sectors, low-income clients and those that are unserved or underserved by the financial system. They are appropriately designed and priced to fit the needs and capacity of this particular market.

G. General features of microfinance savings deposit account

1. Minimum maintaining balance not exceeding One Hundred Pesos (P100.00).
2. Not subject to dormancy charges.
3. Only for individual microfinance clients whose average daily savings account balance does not exceed Fifteen Thousand Pesos (P15,000.00).

H. Definition of microinsurance (Insurance Commission Memorandum Circular 1-2010 dated 29 January 2010)

Microinsurance is an activity providing specific insurance, insurance-like and other similar products and services that meet the needs of the low-income sector for risk protection and relief against distress, misfortune and other contingent events.

The marketing, sale and servicing of microinsurance products by thrift, rural and cooperative banks shall be governed by existing BSP regulations¹.

I. General features of a microinsurance product (Insurance Commission Memorandum Circular 1-2010 dated 29 January 2010)

1. Premiums, contributions, fees or charges are collected/deducted prior to the occurrence of a contingent event. The amount of which shall be computed on a daily basis and does not exceed five percent (5%) of the current daily minimum wage for non-agricultural workers in Metro Manila.

2. Guaranteed benefits are provided upon occurrence of a contingent event. The amount of which is not more than 500 times the daily minimum wage for non-agricultural workers in Metro Manila.

(As amended by Circular Nos. 744 dated 28 December 2011 and 694 dated 14 October 2010)

¹ Circular 683 dated 23 February 2010

**GUIDELINES TO INCORPORATE MARKET RISK IN THE
RISK-BASED CAPITAL ADEQUACY FRAMEWORK**
[Appendix to Subsec. 1115.2 (2008 - X1116.5)]

Introduction

1. These guidelines describe the approach to be used by the BSP to determine the minimum level of capital to be held by a bank against its market risk. The guidelines are broadly consistent with the recommendations of the Basel Committee on Banking Supervision in a document entitled “Amendment to the Capital Accord to Incorporate Market Risks” issued in January 1996.

2. Under these guidelines, banks shall be required to measure and apply capital charges against their market risk, in addition to their credit risk.

3. *Market risk* is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. The risks addressed by these guidelines are:

- the risks pertaining to *interest rate-related instruments* and *equities* in the trading book; and
- *Foreign exchange risk* throughout the bank.

Coverage of capital requirement for market risk

4. The capital requirement for market risk shall apply to all UBs and KBs.

5. The minimum CAR covering combined credit risk and market risk shall apply to banks which are subject to market risk capital requirement on both solo basis (i.e., head office plus branches) and consolidated basis (i.e., parent bank plus subsidiary financial allied undertakings, but excluding insurance companies).

Methods of measuring market risk

6. There are two (2) alternative methods recognized for the measurement of market risk, as follows:

(a) The *standardized approach* shall be used by all banks which are subject to market risk capital requirement, except by those which may be allowed by BSP to use the alternative method described in paragraph (b) below. The method of measuring market risk under the standardized approach is set out in the Instructions for Accomplishing the Report on Computation of the Adjusted Risk-Based Capital Adequacy Ratio Covering Combined Credit Risk and Market Risk.

(b) The *internal models approach* allows banks with the necessary system to use their own internal risk management models to calculate market risk. The use of this approach is subject to prior BSP approval. Approval shall be based on meeting certain qualitative and quantitative conditions relating to the models themselves and the controls surrounding them, as set out in *Annex “A”*. Banks may on a transitional basis be allowed to use a combination of the standardized approach and the models approach to measure their market risk, provided any such “partial” model shall cover a complete risk category (e.g., interest rate risk or foreign exchange risk). The reporting under the internal models approach is contained in the Instructions for Accomplishing the Report on Computation of the Adjusted Risk-Based Capital Adequacy Ratio Covering Combined Credit Risk and Market Risk.

Calculation of the capital adequacy ratio (CAR)

7. The adjusted CAR covering combined credit risk and market risk shall be calculated using the qualifying capital expressed as a percentage of the total risk-weighted assets (including credit risk and

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market risk-weighted assets). The components of this calculation are as follows:

- *Market risk-weighted assets* are the sum of the capital charges for all market risk categories calculated using either the standardized approach or the internal models approach [multiplied by 125% for those calculated using the standardized methodology to be consistent with the higher capital charge for credit risk, i.e., ten percent (10%) as opposed to BIS recommended eight percent (8%)] multiplied by 10. (The multiplier 10 is the reciprocal of the BSP required minimum capital adequacy ratio for credit risk of ten percent (10%). The effect is to convert the sum of the market risk capital charges into a risk-weighted assets equivalent which can then be directly added to the total credit risk-weighted assets.)

In calculating the capital charge for foreign exchange exposures, the net open position for non-deliverable forwards (NDFs) shall be multiplied by 187.5% in lieu of the 125% factor referred to above starting 01 January 2012.

- *Credit risk-weighted assets* is the total risk weighted assets calculated in accordance with Subsec. X116.3, less the part calculated for on-balance sheet debt securities and equities in the trading book. (The credit risk-weighted assets for on-balance sheet debt securities and equities are deducted because they represent an element now covered by the market risk capital charge); and

- *Qualifying capital* is the same as that calculated in accordance with Subsec. X116.2.

8. Banks shall maintain a minimum adjusted risk-based CAR covering combined credit risk and market risk of ten percent (10%) calculated in this manner on solo basis and on consolidated basis.

The trading book

9. A key feature of the market risk framework is the definition of the trading book of a bank. This is set out in the Instructions for Accomplishing the Report on Computation of the Adjusted Risk-Based Capital Adequacy Ratio Covering Combined Credit Risk and Market Risk. Banks are expected to adopt a consistent approach to allocating transactions into their trading and non-trading (i.e., banking book), and clear audit trail for this purpose should be created at the time each transaction is entered into. The BSP shall monitor banks' practices to ensure that there is no abusive switching between different books to inappropriately reduce capital charges.

Required reports

10. Banks shall submit quarterly reports of their adjusted risk-based CARs covering combined credit risk and market risk on solo basis and on consolidated basis to the appropriate supervising and examining department of the BSP in accordance with the prescribed forms within fifteen (15) banking days and thirty (30) banking days after the end of reference quarter for solo report and consolidated report, respectively. These reports shall be in addition to the reports on risk-based CAR covering credit risk required to be submitted in Subsec. X116.5.

11. One (1) of three (3) alternative report forms prescribed, shall be used depending on the complexity of the bank's operations, to wit:

(a) For UBs/KBs with expanded derivatives authority;

(b) For UBs/KBs with expanded derivatives authority but without option transactions; or

(c) For UBs/KBs without expanded derivatives authority.

12. The abovementioned reports shall be classified as Category A-2 Reports.

(As amended by M-2011-062 dated 13 December 2011 and Circular No. 740 dated 16 November 2011)

REQUIREMENTS FOR THE USE OF INTERNAL
MODELS TO MEASURE MARKET RISK

I. General Criteria

1. The use of internal models shall be conditional upon the explicit prior approval of the BSP.
2. The BSP will only give approval if at a minimum:
 - It is satisfied that the bank's risk management system is conceptually sound and is implemented with integrity;
 - The bank has in the BSP's view sufficient number of staff skilled in the use of sophisticated models not only in the trading area but also in the risk control, audit and if necessary, back office areas;
 - The bank's models have in the BSP's judgment a proven track record of reasonable accuracy in measuring risk; and
 - The bank regularly conducts stress tests along the lines discussed in Part V below.
3. The BSP may require a period of initial monitoring and live testing of a bank's internal model before it is used for supervisory capital purposes.
4. In addition to these general criteria, banks using internal models for capital purposes shall be subject to the requirements detailed in Parts II to VII below.

II. Qualitative Standards

5. Banks using internal models must have market risk management systems that are conceptually sound and implemented with integrity. Accordingly, a number of *qualitative criteria* that banks would have to meet before they are permitted to use a model-based approach are specified in paragraph 6 below. The extent to which banks meet the qualitative criteria may influence the level at which the BSP will set the multiplication factor referred to in Part IV, paragraph 8(j) below. Only those banks whose models are in full compliance with the qualitative criteria as listed in this section will be eligible for application of the minimum multiplication factor.
6. The qualitative criteria are:
 - (a) The bank should have an independent risk control unit that is responsible for the design and implementation of the bank's risk management system. The unit should produce and analyze daily reports on the output of the bank's risk measurement model, including an evaluation of the relationship between measures of risk exposure and trading limits. This unit must be independent from business trading units and should report directly to senior management of the bank.
 - (b) The unit should conduct a regular backtesting program, i.e. an ex-post

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- comparison of the risk measure generated by the model against actual daily changes in portfolio value over longer periods of time, as well as hypothetical changes based on static positions.
- (c) The board of directors (or equivalent management committee in the case of Philippine branches of foreign banks) and senior management should be actively involved in the risk control process and must regard risk control as an essential aspect of the business to which significant resources need to be devoted. In this regard, the daily reports prepared by the independent risk control unit must be reviewed by a level of management with sufficient seniority and authority to enforce both reductions of positions taken by individual traders and reductions in the bank's overall risk exposure.
 - (d) The bank's internal risk measurement model must be closely integrated into the day-to-day risk management process of the bank. Its output should accordingly be an integral part of the process of planning, monitoring and controlling the bank's market risk profile.
 - (e) The risk measurement system should be used in conjunction with internal trading and exposure limits. In this regard, trading limits should be related to the bank's risk measurement model in a manner that is consistent over time and that is well-understood by both traders and senior management.
 - (f) A routine and rigorous program of stress testing should be in place as a supplement to the risk analysis based on day-to-day output of the bank's risk measurement model. The results of stress testing exercises should be reviewed periodically by senior management and should be reflected in the policies and limits set by management and the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks). Where stress tests reveal particular vulnerability to a given set of circumstances, prompt steps should be taken to manage those risks appropriately (e.g., by hedging against that outcome or reducing the size of the bank's exposures).
 - (g) Banks should have a routine in place for ensuring compliance with a documented set of internal policies, controls and procedures concerning the operation of the risk measurement system. The bank's risk measurement system must be well documented, for example, through a risk management manual that describes the basic principles of the risk management system and that provides an explanation of the empirical techniques used to measure market risk.
 - (h) An independent review of the risk measurement system should be carried out regularly in the bank's own internal auditing process. This review should include both the activities of the business trading units and of the independent risk control unit. A review of the overall risk management process should take place at regular intervals (ideally not less than once a year) and should specifically address, at a minimum:

- the adequacy of the documentation of the risk management system and process;
- the organization of the risk control unit;
- the integration of market risk measures into daily risk management;
- the approval process for risk pricing models and valuation systems used by front and back-office personnel;
- the validation of any significant change in the risk measurement process;
- the scope of market risks captured by the risk measurement model;
- the integrity of the management information system;
- the accuracy and completeness of position data;
- the verification of the consistency, timeliness and reliability of data sources used to run internal models, including the independence of such data sources;
- the accuracy and appropriateness of volatility and correlation assumptions;
- the accuracy of valuation and risk transformation calculations; and
- the verification of the model's accuracy through frequent

backtesting as described in paragraph (b) above.

III. Specification of Market Risk Factors

7. A bank's internal market risk measurement system must specify an appropriate set of market risk factors, i.e., the market rates and prices that affect the value of the bank's trading positions. The risk factors contained in a market risk measurement system should be sufficient to capture the risks inherent in the bank's portfolio of on-and off- balance sheet trading positions. Although banks will have some discretion in specifying the risk factors for their internal models, the following guidelines should be fulfilled:
- (a) For interest rates, there must be a set of risk factors corresponding to interest rates in each currency in which the bank has interest rate-sensitive on- or off-balance sheet positions.
 - The risk measurement system should model the yield curve using one (1) of a number of generally accepted approaches, for example, by estimating forward rates of zero coupon yields. The yield curve should be divided into various maturity segments in order to capture variation in the volatility of rates along the yield curve; there will typically be one (1) risk factor corresponding to each maturity segment. For material exposures to interest rate movements in the major currencies and markets, banks must model the yield curve using a minimum of six (6) risk factors. However, the number

of risk factors used should ultimately be driven by the nature of the bank’s trading strategies. For instance, a bank with a portfolio of various types of securities across many points of the yield curve and that engages in complex arbitrage strategies would require a greater number of risk factors to capture interest rate risk accurately; and

- The risk measurement system must incorporate separate risk factors to capture spread risk (e.g., between bonds and swaps). A variety of approaches may be used to capture the spread risk arising from less than perfectly correlated movements between government and other fixed-income interest rates, such as specifying a completely separate yield curve for non-government fixed-income instruments (for instance, swaps or local government unit securities) or estimating the spread over government rates at various points along the yield curve.
- (b) For equity prices, there should be risk factors corresponding to each of the equity markets in which the bank holds significant positions.
- At a minimum, there should be a risk factor that is designed to capture market-wide movements in equity prices (e.g., a market index). Positions in individual securities or in sector indices could be expressed in “beta-equivalents” relative to this market-wide index;

- A somewhat more detailed approach would be to have risk factors corresponding to various sectors of the overall equity market (for instance, industry sectors or cyclical and non-cyclical sectors). As above, positions in individual stocks within each sector could be expressed in beta-equivalents relative to the sector index; and
- The most extensive approach would be to have risk factors corresponding to the volatility of individual equity issues.

The sophistication and nature of the modeling technique for a given market should correspond to the bank’s exposure to the overall market as well as its concentration in individual equity issues in that market.

- (c) For exchange rates, the risk measurement system should incorporate risk factors corresponding to the individual foreign currencies in which the bank’s positions are denominated. Since the value-at-risk (VaR) figure calculated by the risk measurement system will be expressed in Philippine peso, any net position denominated in a foreign currency will introduce a foreign exchange risk. Thus, there must be risk factors corresponding to the exchange rate between the Philippine peso and each foreign currency in which the bank has a significant exposure.

IV. Quantitative Standards

8. Banks will have flexibility in devising the precise nature of their models, but

the following minimum standards shall apply for the purpose of calculating their capital charge:

- (a) “*Value-at-risk*” (VaR) must be computed on a daily basis.
- (b) In calculating VaR, a 99th percentile, one-tailed *confidence interval* is to be used.
- (c) In calculating VaR, an instantaneous price shock equivalent to a 10-day movement in prices is to be used, i.e., the minimum “*holding period*” will be ten (10) trading days. Banks may use VaR numbers calculated according to shorter holding periods scaled up to ten (10) days by the square root of time. (For the treatment of options, also see paragraph (h) below.)
- (d) The choice of *historical observation period* (sample period) for calculating VaR will be constrained to a minimum length of one (1) year. For banks that use a weighting scheme or other methods for the historical observation period, the “effective” observation period must be at least one (1) year (that is, the weighted average time lag of the individual observations cannot be less than six (6) months).
- (e) Banks should update their *data sets* no less frequently than once every three (3) months and should also reassess them whenever market prices are subject to material changes. The BSP may also require a bank to calculate its VaR using a shorter observation period’ if in the BSP’s judgment, this is justified by a significant upsurge in price volatility.

- (f) No particular *type of model* is prescribed. So long as each model used captures all the material risks run by the bank, as set out in Part III, banks will be free to use models based, for example on variance-covariance matrices, historical simulations, or Monte Carlo simulations.
- (g) Banks will have discretion to recognize empirical *correlations* within broad risk categories (e.g., interest rates, exchange rates and equity prices, including related options volatilities in each risk factor category). The BSP may also recognize empirical correlations across broad risk factor categories, provided that the BSP is satisfied that the bank’s system for measuring correlations is sound and implemented with integrity.
- (h) For banks with option transactions, banks’ models must accurately capture the unique risks associated with *options* within each of the broad risk categories. The following criteria apply to the measurement of options risk:
 - Banks’ models must capture the *non-linear price characteristics* of options positions;
 - Banks are expected to ultimately move towards the application of a full 10-day price shock to options positions or positions that display option-like characteristics. In the interim, the BSP may require banks to adjust their capital measure for options risk through

other methods, e.g., periodic simulations or stress testing; and

- Each bank’s risk measurement system must have a set of risk factors that captures the *volatilities of the rates and prices* underlying option positions, i.e., vega risk. Banks with relatively large and/or complex options portfolios should have detailed specifications of the relevant volatilities. This means that banks should measure the volatilities of options positions broken down by different maturities.
- (i) Each bank must meet, on a daily basis, a *capital requirement* expressed as the higher of (i) last trading day’s VaR number or (ii) an average of the daily VaR measures on each of the preceding sixty (60) trading days (both measured according to the parameters specified in this section) multiplied by a multiplication factor.
- (j) The *multiplication factor* shall be set by the BSP on the basis of its assessment of the quality of the bank’s risk management system subject to an absolute minimum of three (3). Banks will be required to add to this factor a “plus” directly related to the ex-post performance of the model (to be determined on a quarterly basis), thereby introducing a built-in positive incentive to maintain the predictive quality of the model. The plus will range from 0 to 1 based on the number of backtesting exceptions (i.e., the number of times that actual/hypothetical loss exceeds the VaR

measure) for the past 250 trading days of the reference quarter-end as set out in Table 5 of the Instructions for Accomplishing the Report on Computation of the Adjusted Risk-Based Capital Adequacy Ratio Covering Combined Credit Risk and Market Risk. (Table 3 for banks with expanded derivatives authority but without option transactions, and banks without expanded derivatives authority.)

- (k) Banks using models will be subject to a separate capital charge to cover the *specific risk* of interest rate-related instruments and equity securities as defined in the standardized approach to the extent that this risk is not incorporated into their models. However, for banks using models, the total specific risk charge applied to interest rate-related instruments or to equities should in no case be less than half the specific risk charges calculated according to the standardized methodology.

V. Stress Testing

- 9. Banks using internal models for measuring market risk capital requirements must have in place a rigorous and comprehensive stress testing program. Stress testing to identify events or influences that could greatly impact banks is a key component of a bank’s assessment of its capital position.
- 10. Banks’ stress scenarios should cover a range of factors that can create extraordinary losses or gains in trading portfolios, or to make the control of risks in those portfolios very difficult. These factors include low-probability

events in all major types of risks, including the various components of market, credit, and operational risks. Stress scenarios should shed light on the impact of such events on positions that display both linear and non-linear price characteristics (i.e., options and instruments that have options-like characteristics).

11. Banks' stress tests should be both of a qualitative and quantitative nature, incorporating both market risk and liquidity aspects of market disturbances. Quantitative criteria should identify plausible stress scenarios to which banks could be exposed. Qualitative criteria should emphasize that two (2) major goals of stress testing are to evaluate the capacity of the bank's capital to absorb potential large losses and to identify steps the bank can take to reduce its risk and conserve capital. This assessment should be integral to setting and evaluating the bank's management strategy and the results of stress testing should be regularly reported to senior management and, periodically, to the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks).
12. Banks should combine the use of supervisory stress scenarios with stress tests developed by banks themselves to reflect their specific risk characteristics. Specifically, the BSP may ask banks to provide information on stress testing in the following three (3) broad areas:
 - (a) *Supervisory scenarios requiring no simulation by the bank.* Banks should provide the BSP information on the largest losses experienced during the reference quarter. This loss information could be compared

to the level of capital that results from a bank's internal measurement system. For example, it could provide BSP with a picture of how many days of peak day losses would have been covered by a given VaR estimate.

- (b) *Scenarios requiring a simulation by the bank.* Banks should subject their portfolios to a series of simulated stress scenarios and provide BSP with the results. These scenarios could include testing the current portfolio against past periods of significant disturbance, for example, the early 80's banking crisis or the 1997 Asian financial crisis, incorporating both the large price movements and the sharp reduction in liquidity associated with these events. A second type of scenario would evaluate the sensitivity of the bank's market risk exposure to changes in the assumptions about volatilities and correlations. Applying this test would require an evaluation of the historical range of variation for volatilities and correlations and evaluation of the bank's current positions against the extreme values of the historical range. Due consideration should be given to the sharp variation that at times has occurred in a matter of days in periods of significant market disturbance.
- (c) *Scenarios developed by the bank itself to capture the specific characteristics of its portfolio.* A bank should also develop its own stress test which it identifies as most adverse based on the characteristics of its portfolio. It should provide the BSP with a description of the

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methodology used to identify and carry out the scenarios, as well as with the description of the results derived from these scenarios.

The results should be reviewed periodically by senior management and should be reflected in the policies and limits set by management and the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks). Moreover, if a bank’s testing reveals particular vulnerability to a given set of circumstances, the BSP would expect the bank to take prompt steps to manage those risks appropriately (e.g., by hedging against that outcome or reducing the size of its exposures).

VI. External Validation

13. The validation of models’ accuracy by external auditors and the BSP should at a minimum include the following steps:
- (a) Verify that the *internal validation processes* described in Part II, paragraph 6 (h) are operating in a satisfactory manner;
 - (b) Ensure that the *formulae* used in the calculation process, as well as for the pricing of options and other complex instruments, are validated by a qualified unit, which in all cases should be independent from the trading area;
 - (c) Check that the *structure* of internal models is adequate with respect to the bank’s activities and geographical coverage;

- (d) Check the results of the bank’s *backtesting* of its internal measurement system (i.e., comparing VaR estimates with actual profits and losses) to ensure that the model provides a reliable measure of potential losses over time. This means that banks should make the results, as well as the underlying inputs to their VaR calculation, available to the BSP and/or external auditors on request; and
- (e) Make sure that data flows and processes associated with the risk measurement system are *transparent and accessible*. In particular, it is necessary that auditors or the BSP is in a position to have easy access, whenever they judge it necessary and under appropriate procedures, to the models’ specifications and parameters.

VII. Combination of Internal Models and the Standardized Methodology

14. Unless a bank’s exposure to a particular risk factor is insignificant, the internal models approach will require banks to have an integrated risk measurement system that captures the broad risk factor categories (i.e., interest rates, exchange rates and equity prices, with related option volatilities being included in each risk factor category). A bank which has developed one or more models will no longer be able to revert to measuring the risk measured by those models according to the standardized methodology (unless the BSP withdraws approval for that model).
15. The following conditions will apply to banks using such combinations:

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- (a) Each broad risk factor category must be assessed using a single approach (either internal models or the standardized approach), i.e., no combination of the two (2) methods will be permitted within a risk category or across banks' different entities for the same type of risk;
- (b) All the criteria laid down in this Annex will apply to the models being used;
- (c) Banks may not modify the combination of the two (2) approaches they use without justifying to the BSP that they have a good reason for doing so;
- (d) No element of market risk may escape measurement, i.e., the exposure for all the various risk factors, whether calculated according to the standardized approach or internal models, would have to be captured; and
- (e) The capital charges assessed under the standardized approach and under the models approach are to be aggregated according to the simple sum method.

**MARKET RISK CAPITAL TREATMENT FOR
DOLLAR-LINKED PESO NOTES**
[Appendix to Subsec. 1115.2 (2008 - 1116.5)]

1. *Treatment of interest rate risk.* Dollar-linked Peso Notes (DLPNs) booked under Trading Account Securities (TAS) or Available for Sale Securities (ASS) result in interest rate risk. These exposures shall be included in the report forms in the following manner:

 - *Under the standardized approach.* The market value of the DLPN shall be reported in Part I.1, Item I.1, and Part I.2, US dollar ladder, under the coupon and time band corresponding to the DLPN's residual maturity; and
 - *Under the internal models approach.* DLPN exposures must be included in the computation of Value-at-Risk (VaR) measure for interest rate risk. This VaR measure shall be reported in Part V, Item 1 (for banks with expanded derivatives authority), or Part IV, Item 1 (for banks with expanded derivatives authority but without option transactions and for banks without expanded derivatives authority).
2. *Treatment of foreign exchange risk.* DLPNs booked under TAS, ASS or Investment in Bonds and other Debt Instruments (IBODI) result in foreign exchange risk. These exposures shall be included in the report forms in the following manner:

 - *Under the standardized approach.* The market value of the DLPN shall be included in the computation of the net long/(short) position for US dollar to be reported in Part III; and
 - *Under the internal models approach.* DLPN exposures must be included in the computation of VaR measure for foreign exchange risk. This VaR measure shall be reported in Part V, Item 2 (for banks with expanded derivatives authority), or Part IV, Item 2 (for banks with expanded derivatives authority but without option transactions, and for banks without expanded derivatives authority).

INSTRUCTIONS FOR ACCOMPLISHING THE REPORT ON COMPUTATION OF
THE ADJUSTED RISK-BASED CAPITAL ADEQUACY RATIO COVERING
COMBINED CREDIT RISK AND MARKET RISK
(For Universal Banks and Commercial Banks
With Expanded Derivatives Authority)

General Instructions

1. All universal banks and commercial banks are required to complete this Report both on a solo basis (i.e., head office plus branches) and on a consolidated basis (i.e., parent bank plus subsidiary financial allied undertakings, but excluding insurance companies).
2. The Report should be submitted as follows:
 - (a) Solo report - within 15 banking days after the end of each reference quarter; and
 - (b) Consolidated report - within 30 banking days after the end of each reference quarter.
3. Current market value should be used for reporting. For leveraged instruments where the apparent notional amount differs from the effective notional amount, the bank should use the effective notional amount in calculating the market value for reporting, e.g., a swap contract with a stated notional amount of PHP1.0 million, the terms of which call for a quarterly settlement of the difference between 5% and PHIBOR multiplied by 10 has an effective notional amount of PHP10.0 million.
4. Securities transactions are to be reported on a “trade date” basis.

Definitions and Clarifications

5. Market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices.

The risks subject to this reporting requirement are:

- (a) the risks pertaining to interest rate-related instruments and equities in the bank’s trading book; and
- (b) foreign exchange risk throughout the bank.

The Report should include the reporting bank’s positions in on-balance sheet financial instruments and off-balance sheet derivatives, the latter being defined as financial contracts whose values depend on the values of one or more underlying assets or indices.

6. For the purpose of the Report, the trading book of a bank shall consist of:
 - (a) its proprietary positions in financial instruments which are taken on with the intention of short-term resale or benefiting in the short term from actual or expected differences between the buying and selling prices or from other price or interest rate variations;
 - (b) positions which arise from the execution of trade orders from customers and market making; and
 - (c) positions taken in order to hedge other elements of the trading book.

7. The financial instruments referred to in the preceding paragraph include:
 - (a) (i) transferable securities;
 - (ii) units in collective investment undertakings;
 - (b) certificates of deposit and other similar capital market instruments;
 - (c) financial futures contracts;
 - (d) forward contracts including forward rate agreements;

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- (e) swaps; and
- (f) options.

8. Banks are expected to have an established policy for allocating transactions (including internal deals) to the trading or non-trading (i.e., banking) book, as well as procedures to ensure compliance with such policy. There must be a clear audit trail at the time each transaction is entered into and the BSP will examine the adequacy of such policy and procedures and their consistent implementation when it is considered necessary. For this purpose, banks which engage in trading activities should submit to the BSP a policy statement covering:

- (a) the definition of trading activities;
- (b) the financial instruments which can be traded or used for hedging the trading book portfolio; and
- (c) the principles for transferring positions between the trading and the banking books.

9. In general, the BSP will have regard to the bank's intention in entering into a particular transaction when determining whether such transaction should fall into the trading book. Transactions will likely be considered to carry a trading intent on the part of the bank if:

- (a) the positions arising from the transactions are marked to market on a daily basis as part of the internal risk management process;
- (b) the positions are not (or not intended to be) held to maturity; and
- (c) the positions satisfy other criteria the bank applies to its trading portfolio on a consistent basis.

10. Debt securities include both fixed-rate and floating-rate instruments, negotiable certificates of deposit, non-convertible preference shares, and also convertible bonds (i.e., debt issues or preference shares that are convertible, at a stated price, into

common shares of the issuer) which trade like debt securities. Debt related derivatives include bond futures and bond options. Options are subject to special treatment described in detail under Part IV of Specific Instructions.

11. Interest rate derivatives include all derivatives contracts and off-balance sheet instruments which react to changes in interest rates, e.g., interest rate futures, forward rate agreements (FRAs), interest rate and cross currency swaps, interest rate options and forward foreign exchange positions. As noted above, the treatment for options is described in Part IV of Specific Instructions.

12. Detailed offsetting rules applicable to the reporting of positions are set out in the relevant parts of Specific Instructions. These offsetting rules can be applied on both the solo and consolidated basis, provided that in the latter case there are no obstacles to the quick repatriation of profits from a foreign subsidiary to the Philippines and the bank performs daily management of risks on a consolidated basis. For this purpose, offsetting means the exclusion of matched positions of a bank from reporting and hence exclusion of such positions from the calculation of the adjusted capital adequacy ratio.

13. For avoidance of doubt, items that are deductible from the qualifying capital of the bank in the calculation of the risk-based capital adequacy ratio pursuant to Subsections X116.2.a to X116.2.c of the Manual of Regulations for Banks are excluded from market risk capital requirement.

14. In general, banks are only required to complete Parts I to IV and VI of the Report. Banks which have obtained the BSP's approval to adopt their internal value-at-risk (VaR) models to calculate their market risk capital charge (in all or individual risk

categories) should complete Part V (in lieu of Parts I to IV). Where the internal model is used to calculate only selected risk categories, the capital charge for the risk categories measured under the internal models approach should be reported in Part V while that for the other risk categories measured under the standardized approach should be reported in the relevant sections of Parts I to IV. This combination of the standardized approach and the internal models approach is allowed on a transitional basis. Banks which adopt the internal models approach will not be permitted, save in exceptional circumstances, to revert to the standardized approach.

Specific Instructions

Part I Interest Rate Exposures

1. Debt securities and debt related derivatives – specific risk

15. Report in this part the long and short positions in debt securities and debt derivatives (e.g., bond futures and bond options) in the trading book by category of the issuer. Offsetting will be allowed between long and short positions in identical issues (including positions in derivatives) with exactly the same issuer, coupon, currency and maturity. For items 1.4 to 1.7 of the Report, positions should be slotted into the appropriate time bands according to the residual maturities of the debt securities (or the underlying securities in case of debt derivatives). (Refer to examples (1) and (2) in Annex A).

16. A security, which is the subject of a repurchase agreement, will be treated as if it were still owned by the seller of the security, i.e., to be reported by the seller. This principle applies also in Part 1.2 of the Report. Commitments to buy and sell

securities should be reported as long and short positions, respectively.

17. Foreign countries, foreign incorporated banks and Philippine incorporated banks/ QBs with the “highest credit quality”, as well as debt securities with the “highest credit quality” refer to ratees/debt securities given the minimum credit ratings as indicated below by any two of the following internationally accepted rating agencies:

Rating Agency	Credit Rating
(a) Moody’s	“Aa3” and above
(b) Standard and Poor’s	“AA-” and above
(c) Fitch IBCA	“AA-” and above

and such other recognized international rating agencies as may be approved by the Monetary Board.

The ratings of domestic rating agencies may likewise be used for this purpose provided that such rating agencies meet the criteria to be prescribed by the Monetary Board.

18. Multilateral development banks refer to the World Bank Group comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB); the Nordic Investment Bank (NIB); the Caribbean Development Bank (CDB), the Council of Europe Development Bank (CEDB) and such others as may be recognized by the BSP.

19. Non-central government public sector entities of a foreign country refer to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

2. Debt securities, debt related derivatives and interest rate derivatives – general market risk

20. Report in this part the long and short trading book positions in debt securities and debt derivatives described above, as well as interest rate derivatives. Report also interest rate exposures arising from futures contracts and forward positions in equities. A Maturity Method is adopted for the reporting of these positions as detailed below. Banks that possess the necessary capability to calculate the duration and price sensitivity of each position separately and wish to adopt such a duration approach for reporting in this part may seek approval from BSP.

21. Positions should be reported separately for each currency, i.e., banks should use separate sheets (Part I.2 of the Report) to report positions of different currencies. The unadjusted market risk capital charge is then calculated for each currency according to procedures set out in paragraphs 31 to 34 with no offsetting between different currencies.

22. Under the Maturity Method, positions are slotted into the time bands of the maturity ladder (as shown in Part I.2 of the Report) by remaining maturity if fixed rate and by the period to the next repricing date if floating rate. (Refer to examples (1) and (2) in Annex A). Derivatives should be treated as combinations of long and short positions. The maturity of an interest rate future or a forward rate agreement will be the period until delivery or exercise of the contract, plus – where applicable – the life of the underlying instrument. For example, a long position in a June 3-month interest rate future taken in December is to be reported at end of December as a long position in a zero coupon government security in that particular currency with a

maturity of 9 months and a short position in a zero coupon government security with a maturity of 6 months. (Refer to examples (5) and (6) in Annex A). The market values of the two positions should be reported. For forward foreign exchange positions in the trading book, they should be treated as long and as short positions in a zero coupon government security of the 2 currencies with the same maturity as the forward contract. (Refer to example (8) in Annex A).

23. For a bond future, where a range of deliverable instruments may be delivered to fulfill the contract, the bank has flexibility to elect which deliverable security goes into the maturity ladder but should take account of any conversion factor defined by the exchange. A two-leg approach will be adopted similar to the above. A long bond future will be taken as a long position in a deliverable bond and a short position in a zero coupon security maturing at the future's delivery date. For example, a long futures contract on a 5 year fixed rate security with delivery 3 months from the reporting date will be reported as a long position in say, a 5.25 year security, i.e., a specific security which is within the range of deliverables under the futures contract (as opposed to a notional/theoretical security), and a short position in a 3 months zero coupon security. (Refer to example (3) in Annex A).

The amount to be reported in the above example for both legs will be the contract face value divided by the relevant conversion factor and multiplied by the current cash price of the selected deliverable bond. A forward bond transaction (i.e., with a settlement period longer than the market norm) will be treated similarly, i.e., a long bond forward will be reported as long position in the bond and a short position in a zero coupon security up

to the forward delivery date. The current market value (at spot price) of the bond should be reported.

24. Swaps will be treated as two positions in securities with the relevant maturities. For example, an interest rate swap under which a bank is receiving floating rate interest and paying fixed will be treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument of maturity equivalent to the residual life of the swap. The market values of the 2 instruments should be reported. (Refer to example (4) in Annex A). For swaps that pay or receive a fixed or floating interest rate against some other reference price, e.g., an equity price, the interest rate component should be slotted into the appropriate maturity category, with the equity component being included in the equity framework. The separate legs of cross-currency swaps are to be reported in the relevant maturity ladders for the currencies concerned. (Refer to example (12) in Annex A).

25. As with the reporting under Part I.1 of the Report, banks can offset long and short positions in identical instruments with exactly the same issuer, coupon, currency and maturity for general market risk purposes. Similarly, a matched position in a futures or forward contract and its underlying may be fully offset. However, the leg representing the time to expiry of the futures or forward contract should be reported.

For example, a bank has a long position in a particular bond and sells forward (i.e., beyond the normal settlement period for the security) such a bond as at the reporting date. The long and short positions in the bond can be offset but a long position in a (notional) zero coupon security with maturity at the forward delivery date should be reported, at the current market value of

the bond. Similarly, if the bank has a short position in a bond future and a long position in the underlying bond, such positions can be offset. A long position up to the future's delivery date should, however, be reported.

When the futures contract comprises a range of deliverable instruments, offsetting of positions in the futures contract and its underlying is only permissible in cases where there is a readily identifiable underlying security which is most profitable for the trader with a short position to deliver, i.e., the "cheapest to deliver". This means that offsetting is only permitted between a short future and a long bond, not between a long future and a short bond; and the long bond must be the one that is "cheapest to deliver". The amount to be reported for the remaining long position up to the futures contract's delivery date will be the face value of the contract divided by the relevant conversion factor and multiplied by the current spot price of the "cheapest to deliver" bond.

26. Opposite positions in the same category of derivatives instruments (including the delta-equivalent value of options where the delta-plus approach for options is adopted – see Part IV of the Report) can in certain circumstances be regarded as matched and allowed to offset fully. The separate legs of different swaps may also be "matched" subject to the same conditions. To qualify for this treatment, the positions must relate to the same underlying instruments, be of the same nominal value and be denominated in the same currency. In addition:

(a) for futures: offsetting positions in the notional or underlying instruments to which the futures contract relates must be for identical products and mature within 7 days of each other;

(b) for swaps and forward rate agreements (FRAs): the reference rate (for

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floating rate positions) must be identical and the coupon closely matched (i.e., within 15 basis points); and

(c) for swaps, FRAs and forwards: the next interest fixing date or, for fixed coupon positions or forwards, the residual maturity must correspond within the following limits:

- if either of the instruments for offsetting has an interest fixing date or residual maturity up to 1 month, the interest fixing date or residual maturity must be the same for both instruments;
- if either of the instruments for offsetting has an interest fixing date or residual maturity greater than 1 month and up to 1 year, those dates or residual maturities must be within 7 days of each other; and
- if either of the instruments for offsetting has an interest fixing date or residual maturity over 1 year, those dates or residual maturities must be within 30 days of each other.

For example, a bought and a sold FRA in the same currency with the same face value and settlement date as well as notional deposit maturity date can be offset against each other and excluded from reporting if the contract rates are within 15 basis points of each other. Similarly, opposite swap positions in the same currency with the same face value and reference dates can be offset if, say, the floating rate in both cases is 6 months PHIBOR and the fixed rates are within 15 basis points of each other. The positions can still be offset if the reference dates (i. e., the next interest fixing date or remaining maturity) of the opposite positions are different but within the range as set out in (c) above. Opposite bond futures can, for example, be offset against each other if the deliverable bonds are of the same type and mature within 7 days of each other.

27. Banks with the necessary expertise and systems may use alternative formulae

(the so called “pre-processing” techniques) to calculate the positions to be included in the maturity ladder. This applies to all interest rate sensitive positions, arising from both physical and derivative instruments. One method is to first convert the payments required under each transaction into their present values. For that purpose, each cash flow should be discounted using zero-coupon yields. A single net figure of all of the cash flows within each time band may be reported. Banks wishing to adopt this or other methods for reporting should seek the BSP’s prior approval. The “pre-processing” models would be subject to review by the BSP.

Calculation of capital charges for interest rate exposures reported in Part I

28. The unadjusted minimum capital requirement is expressed in terms of two separately calculated charges, one applying to the “specific risk” of each trading book position in debt securities or debt derivatives, whether it is a short or long position, and the other to the overall interest rate risk in the trading book portfolio (termed “general market risk”) where long and short positions in different securities or derivatives can be offset subject to certain “disallowances”.

Specific risk

29. The unadjusted specific risk charge is graduated into five broad categories by types of issuer, as follows:

Government and multilateral development banks*	0.00%
Qualifying**	0.25% (residual maturity of 6 months or less)
	1.00% (residual maturity of over 6 months to 24 months)

* “Government and multilateral development banks” refers to the issuers as described under items 1.1 and 1.3 in Part I.1 of the Report.
** “Qualifying” refers to the issuers/issues as described under items 1.4 to 1.7 in Part I.1 of the Report.

	1.60% (residual maturity of over 24 months)
LGU bonds***	4.00%
Others	8.00%

30. Interest rate and currency swaps, FRAs, forward foreign exchange contracts and interest rate futures will not be subject to a specific risk charge. In the case of futures contracts where the underlying is a debt security, a specific risk charge will apply according to the issuer (and the remaining maturity) as set out in the above paragraph.

General market risk

31. General market risk applies to positions in all debt securities, debt derivatives and interest rate derivatives, subject only to an exemption for fully or very closely matched positions in identical instruments as described in paragraphs 25 to 26 above. The unadjusted capital charge is the sum of the following components:

- (a) the net short or long weighted position in the whole trading book;
- (b) a small proportion of the matched positions in each time band (the “vertical disallowance”); and
- (c) a larger proportion of the matched positions across different time-bands (the “horizontal disallowance”).

32. In the maturity ladder, first calculate the weighted positions by multiplying the positions reported in each time band by a risk-factor according to the following table:

Table 1
Maturity method: time bands and weights

Coupon 3% or more	Coupon less than 3%	Risk weight
1 month or less	1 month or less	0.00%
Over 1 month to 3 months	Over 1 month to 3 months	0.20%

Over 3 months to 6 months	Over 3 months to 6 months	0.40%
Over 6 months to 12 months	Over 6 months to 12 months	0.70%
Over 1 year to 2 years	Over 1.0 year to 1.9 years	1.25%
Over 2 years to 3 years	Over 1.9 years to 2.8 years	1.75%
Over 3 years to 4 years	Over 2.8 years to 3.6 years	2.25%
Over 4 years to 5 years	Over 3.6 years to 4.3 years	2.75%
Over 5 years to 7 years	Over 4.3 years to 5.7 years	3.25%
Over 7 years to 10 years	Over 5.7 years to 7.3 years	3.75%
Over 10 years to 15 years	Over 7.3 years to 9.3 years	4.50%
Over 15 years to 20 years	Over 9.3 years to 10.6 years	5.25%
Over 20 years	Over 10.6 years to 12 years	6.00%
	Over 12 years to 20 years	8.00%
	Over 20 years	12.50%

33. The weighted longs and shorts in each time band will be offset resulting in a single short or long position for each band. A 10% capital charge (“vertical disallowance”) will be levied on the smaller of the offsetting positions, be it long or short. Thus, if the sum of the weighted longs in a time band is P100.0 million and the sum of the weighted shorts is PHP90.0 million, the vertical disallowance would be 10% of PHP90.0 million (i.e., PHP9.0 million).

34. Two rounds of “horizontal offsetting” will then be conducted, first between the net positions in each of 3 zones (zero to 1 year, over 1 year to 4 years and over 4 years), and subsequently between the net positions in the 3 different zones. The offsetting will be subject to a scale of disallowances expressed as a fraction of the matched positions, as set out in Table 2 below. The weighted long and short positions in each of 3 zones may be offset,

*** "LGU bonds" refers to bonds issued by local government units (LGUs), covered by Deed of Assignment of Internal Revenue Allotment of the LGU and guaranteed by LGU Guarantee Corporation.

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subject to the matched portion attracting a disallowance factor that is part of the capital charge. The residual net position in each zone may be carried over and offset against opposite positions in other zones, subject to a second set of disallowance factors.

Table 2
Horizontal disallowances

Zones	Time-band	Within the zone	Between adjacent zones	Between zones 1 and 3	
Zone 1	1 month or less	40%	40%	100%	
	Over 1 month to 3 months				
	Over 3 months to 6 months				
	Over 6 months to 12 months				
Zone 2	Over 1 year to 2 years	30%	40%		
	Over 2 years to 3 years				
	Over 3 years to 4 years				
Zone 3	Over 4 years to 5 years	30%			
	Over 5 years to 7 years				
	Over 7 years to 10 years				
	Over 10 years to 15 years				
	Over 15 years to 20 years				
	Over 20 years				

Part II Equity Exposures

35. Report in this part the long and short positions in equities and equity derivatives in the trading book, including instruments that exhibit market behavior similar to equities. The instruments covered include common stock (whether voting or non-voting), convertible bonds (i.e., debt issues or preference shares that are convertible, at a stated price, into

common shares of the issuer) which trade like equities and commitments to buy or sell equity securities. For non-convertible preference shares and those convertible bonds which trade like debt securities, they should be reported under Part I. Equity derivatives include forwards, futures and swaps on both individual equities and or stock indices. Options should be included subject to the specific instructions set out in Part IV. Long and short positions in the same issue may be reported on a net basis.

36. The positions are to be reported on a market-by-market basis, i.e., under separate columns to indicate the exchange where the reported equities are listed/traded. For foreign markets, banks should indicate the country where the market is located. (Refer to example (9) in Annex A) Equities with listing in more than one market should be reported as positions in the market of their primary listing.

37. Equity derivatives are to be converted into positions in the relevant underlying. Futures and forward contracts relating to an individual equity should be reported at current market values. Futures relating to equity indices can be reported either as the current index value times the monetary value of one index point set by the exchange, i.e., the “tick” value, or the marked-to-market value of the notional underlying equity portfolio. (Refer to example (11) in Annex A).

38. Matched positions in each identical equity or index (same delivery months) in each market may be fully offset, resulting in a single net short or long position. A future in a given equity may be offset against an opposite cash position in the same equity but the interest rate exposure

arising out of the equity futures should be reported in Part I. For example, a short futures contract on a specific stock with delivery 3 months from the reporting date can be offset against a long position in the underlying stock. However, the interest rate exposure arising out of the equity futures should be reported as a long position in the “1 to 3 months” time band of the stock denominated currency in Part I. The position should be reported as the current market value of the stock.

39. An equity swap obligates a bank to receive an amount based on the change in value of a particular equity or equity index and also to pay an amount based on the change in value of a different equity or equity index. Accordingly, the receipt side and the payment side of an equity swap contract should be reported as a long and a short position, respectively. For an equity swap contract which involves a leg relating to a financial instrument other than equities or equity derivatives, for example, receiving/paying a fixed or floating interest rate, the exposure should be slotted into the appropriate maturity band in Part I. Where equities are part of a forward contract (equities to be received or to be delivered), any interest rate exposure from the other leg of the contract should be reported in Part I. The treatment is similar to that set out in paragraph 38. The same arrangement applies for index futures. (Refer to example (11) in Annex A).

40. As with interest rate exposures, the capital charge is levied to separately cover both the specific risk and the general market risk. Calculation is done on an individual market basis. The unadjusted capital charge for specific risk will be 8% on the gross (i.e., long plus short) positions. The unadjusted general market risk charge will be 8% on the net

position. Net long and short positions in different markets cannot be offset for the purpose of calculating general market risk charge.

Part III Foreign Exchange Exposures

41. Report in this part the amount in US dollars (USD) of net long or net short position in each currency. The net delta-based equivalent of foreign currency options should also be reported for each currency, subject to the specific instructions in Part IV. In addition, structural positions taken deliberately to hedge against the effects of exchange rate movements on the capital adequacy of the reporting bank may be excluded. This should be cleared with the BSP prior to reporting.

42. Net long/(short) position shall refer to FX assets (excluding FX items allowed under existing regulations to be excluded from FX assets in the computation of a bank’s net FX position limits) less FX liabilities (excluding FX items allowed under existing regulations to be excluded from FX liabilities in the computation of a bank’s net FX position limits), plus contingent FX assets less contingent FX liabilities, including net delta weighted long/(short) position of options (subject to a separately calculated capital charge for gamma and vega described in Part IV.2). Alternatively, if the bank engages in purchase of options only, the options shall be carved out and reported under Part IV.1. Delta-weighted long and short positions refer to potential purchases and sales of the underlying, respectively. For example, a short put option carries a potential purchase of the underlying, thus will be treated as a long delta-weighted position.

43. Banks which base their normal management accounting of forward currency positions on net present values

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shall use the net present values of each position, discounted using current interest rates, for measuring their positions. Otherwise, forward currency positions shall be measured based on notional amount.

44. The total USD amount of net long or net short position in each currency should then be converted at spot rates into Philippine peso. The overall net open position is the greater of the absolute value of the sum of net long position or sum of net short position.

45. The unadjusted capital charge will be 8% of the overall net open position.

Part IV Options

46. Report in this part the positions of option contracts which are related to the risk categories reported in Parts I to III, using either the Simplified Approach or the Delta Plus Approach.

1. For banks that purchase options only – Simplified Approach

47. Banks will be considered to be engaging only in purchase of options if at any time all their written option positions (if any) are hedged by perfectly matched long positions in exactly the same options. In this case such perfectly matched options need not be reported and only the outstanding long (purchased) options are covered by the following approach.

48. Treatments for purchased options with and without related cash positions are summarized in Table 3 below. The capital charge should be calculated separately for each individual option (together with the related cash position). Banks should then

report the sum of the capital charges calculated.

Table 3
Simplified approach: capital charge for purchased options only

Short cash and Long call or Long cash and Long put	The capital charge will be the market value of the underlying of the option multiplied by the sum of specific and general market risk charges for the underlying less the amount the option is in the money (if any), with the reduced capital charge bounded at zero*. (Refer to example (10) in Annex A).
Long call or Long put	The capital charge will be the lesser of: a. the market value of the underlying of the option multiplied by the sum of specific and general market risk charges for the underlying; and b. the market value of the option.**

49. The market risk capital charges to be applied for the purpose of the above paragraph are indicated in Table 4 below:

Table 4

Underlying	Specific risk charge	General market risk charge
Debt instruments***: Government and multi-lateral development banks Qualifying (with residual maturity) 6 months or less Over 6 months to 24 months Over 24 months	0.00% 0.25% 1.00% 1.60%	As per the risk weights in Table 1, according to the residual maturity (fixed rate) or next repricing (floating rate).

* For options with a residual maturity of more than 6 months, the strike price should be compared with the forward, not current, price. A bank unable to do this must take the in the money amount to be zero.
** Where the position does not fall within the trading book (i.e., options on certain foreign exchange position not belonging to the trading book), it is acceptable to use the book value instead.
*** Issuer/issues classifications as per Part I.1 of the Report.

LGU bonds	4.00%	
Others	8.00%	
Interest rate (non-debt related)	0.00%	
Equity	8.00%	8.00%
Foreign Exchange	0.00%	8.00%

50. In some cases such as foreign exchange where it may be unclear which currency is the “underlying” of the option, this should be taken to be the asset which would be received if the option is exercised. In addition, the nominal value should be used for items where the market value of the underlying instrument could be zero, e.g., caps and floors as well as swaptions.

2. For banks that write options – Delta Plus Approach

51. Banks that write options (apart from those described in paragraph 47) should report in Parts I to III the relevant delta-weighted positions of all their outstanding options, i.e., the market value of the underlying of the option multiplied by the option delta. The relevant negative gamma and vega sensitivities of these options should be reported in Parts IV.2(a) to IV.2(c) of the Report in order to capture the delta sensitivity and volatility risk of these options. Banks wishing to adopt alternate treatments for their options such as a scenario approach should seek prior approval from the BSP.

52. Delta-weighted option positions with *debt securities or interest rates as the underlying* will be slotted into the interest rate time bands, as set out in Part I.2 of the Report. A two-legged approach should be used as for other derivatives, requiring one entry at the time the underlying contract takes effect and a second at the time the underlying contract matures. In other words the reporting mechanism would be the same as those for the positions in the underlying instruments of the options as presented in Parts I to III, except that the market value of the

underlying instruments will be adjusted by the delta ratios of the relevant options for reporting under this approach. For instance:

(a) A bought call option on a June 3-month interest-rate future will in March be considered, on the basis of its delta-equivalent value, to be a long position with a maturity of 6 months and a short position with a maturity of 3 months. The written option will similarly be slotted as a long position with a maturity of 3 months and a short position with a maturity of 6 months.

(b) A 2-month purchased call option on a bond future where delivery of the bond takes place in September would be considered in March as being long the deliverable bond and short a 6-month government security in the same currency, both positions being delta-weighted.

(c) Floating rate instruments with caps or floors will be treated as a combination of floating rate securities and a series of European-style options, e.g., the holder of 2-year floating rate security indexed to 6 month LIBOR with a cap of 8% will treat it as:

(i) a debt security that reprices in 6 months; and

(ii) a series of 3 written call options on a FRA with a reference rate of 8%, each with a negative sign at the time the underlying FRA takes effect and a positive sign at the time the underlying FRA matures. (The rules applying to closely matched positions set out in paragraph 26 will also apply in this respect.) (Refer to example (7) in Annex A).

53. The reporting of *options with equities as the underlying* will also be based on the delta-weighted positions which will be incorporated in Part II of the Report. For purposes of this calculation, each national market is to be treated as a separate underlying. For options on foreign exchange position, the net delta-based equivalent of the foreign currency options will be incorporated into the measurement of the exposure for the respective currency position. These delta

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positions will be reported in Part III of the Report.

54. The net negative gamma positions and vega positions of all outstanding options (purchased or written) should also be reported in Part IV.2. This is in addition to the delta positions being reported in Parts I to III.

55. The net negative gamma positions should be reported in the following way:

(a) for each individual option, a “gamma impact” should be calculated by the following formula:

$$\text{Gamma impact} = \frac{1}{2} \times \text{Gamma} \times \text{VU}^2$$

where VU = Variation of the underlying of the option.

(b) VU will be calculated as follows:

- for debt and interest rate options of which the delta-equivalent position is reported in Part I, the market value of the underlying or notional underlying multiplied by the risk weights for the appropriate time bands set out in Table 1;
- for options on equities and equity indices, the market value of the underlying multiplied by 8%; and
- for options on foreign exchange, the market value of the underlying multiplied by 8%.

(c) For the purpose of this calculation the following positions should be treated as the same underlying:

- for interest rate instruments, each time band as set out in Table 1;
- for equities and equity indices, each national market; and
- for foreign currencies, each currency pair.

Banks with options relating to more underlyings than the space provided should report their positions in additional sheets.

(d) Each option on the same underlying will have a gamma impact that is either positive or negative. These individual

gamma impacts will be summed, resulting in a net gamma impact for each underlying that is either positive or negative. Only those net gamma impacts that are negative should be reported.

56. The vega charge should be reported in the following way:

(a) The vega positions should represent the risk in a proportional shift in volatility of $\pm 25\%$ for the underlying. For example, an increase in volatility carries a risk of loss for a short option of which the assumed current (implied) volatility is 20%. With a proportional shift of 25%, the vega position has to be calculated on the basis of an increase in volatility of 5 percentage points from 20% to 25%. If the vega is calculated as 1.68, i.e., a 1% increase in volatility increases the value of the option by 1.68, then the above change in volatility of 5 percentage points will increase the value of the option by 8.4 (1.68 x 5) which represents the vega position to be reported.

(b) Each option on the same underlying will have a vega position that is either positive or negative. These individual vega positions will be summed, resulting in a net vega position for each underlying that is either positive or negative. The total vega charge will be the sum of the absolute values of the net vega positions obtained for each underlying.

Part V Internal Models Approach

57. Only those banks which have obtained the BSP’s approval to adopt their internal value-at-risk (VaR) models to calculate their market risk capital charges in lieu of the standardized methodology are required to report in this part.

1. Value-at-risk results

58. Report in this part the value-at-risk (VaR) results as at the last trading day of the

reference quarter in column (a) and the average VaR over the most recent 60 trading days of the reference quarter in column (b), both for each individual market risk category using internal models approach, i.e., item 1.1 to 1.3, and for the aggregate of these risk categories, i.e., item 1.4.

59. Provided that the BSP is satisfied with the bank’s system for measuring correlations, recognition of empirical correlations across broad risk categories (e.g., interest rates, equity prices and exchange rates, including related options volatilities in each risk factor category) may be allowed. The VaR for the aggregate of all risk categories will therefore not necessarily be equal to an arithmetic sum of the VaR for the individual risk category.

60. Report also in this part the number of backtesting exceptions for the past 250 trading days (from the reference quarter-end going backwards), based on:

- actual daily changes in portfolio value, in item 1.4. column (c), and
- hypothetical changes in portfolio value that would occur were end-of-day positions to remain unchanged during the 1 day holding period, in item 1.4 column (d),

for the aggregate of the broad risk categories.

61. The multiplication factor to be reported in item 1.4 column (e) is the summation of the following 3 elements:

- (a) the minimum multiplication factor of 3;
- (b) the “plus” factor ranging from 0 to 1 based on the number of backtesting exceptions (i.e., the larger of item 1.4 column (c) or item 1.4 column (d)) for the past 250 trading days as set out in Table 5 below: and
- (c) any additional “plus” factor as may be prescribed by the BSP.

Table 5
“Plus” factor based on the number of backtesting exceptions for the past 250 trading days

Zone	Number of exceptions	“Plus” factor
Green zone	0	0.00
	1	0.00
	2	0.00
	3	0.00
	4	0.00
Yellow zone	5	0.40
	6	0.50
	7	0.65
	8	0.75
	9	0.85
Red zone	10 or more	1.00

62. Capital charge for general market risk calculated by internal models reported in item 1.6 is larger of:

- (a) Item 1.4 column (a), i.e., VaR for the aggregate of all risk categories, as at the last trading day of the reference quarter; or
- (b) Item 1.5, i.e., the average VaR for the last 60 trading days of the reference quarter [item 1.4 column (b)] times the multiplication factor [item 1.4 column (e)] set out in paragraph 61 above.

2. Specific risk

63. Capital charge for the specific risk of debt securities and other debt related derivatives, and equities and equity derivatives is to be reported using either of the following two methods:

- (a) For banks which incorporate the specific risk into their models, report the capital charge for the total specific risk calculated by the models in item 1.7 of Part V.1; or
- (b) For banks which do not incorporate the specific risk into their models, report the specific risk of debt securities and other debt related derivatives in Part I.1 according to the instructions in paragraphs 15-19 and 29-30. For equities and equity derivatives,

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report the specific risk in Part II according to the instructions in paragraphs 35 to 40.

3. Largest daily losses over the quarter

64. Report in this part in descending order (i.e., the largest loss first) the 5 largest daily losses over the reference quarter and their respective VaRs for the risk exposures which are measured by the internal models approach. If the number of daily losses during the quarter is less than 5, report only all such daily losses.

Part VI Adjusted Capital Adequacy Ratio

65. The market risk capital charges should be aggregated and converted to a market risk-weighted exposure. The total market risk capital charges is the sum of the capital charges for individual market risk categories computed using either (a) the standardized approach, or (b) the internal models approach. The total capital charges for individual market risk categories using the standardized approach should be multiplied by 125% (to be consistent with the higher capital charge

for credit risk, i.e., 10% as opposed to the BIS recommended 8%.)

66. The total market risk-weighted exposure is computed by multiplying the total market risk capital charges by 10. (The multiplier 10 is the reciprocal of the BSP required minimum capital ratio for credit risk of 10%). The qualifying capital and total credit risk-weighted exposures are extracted from Part V.A and Part V.B, respectively, of the Report on the Computation of Risk-Based Capital Adequacy Ratio covering credit risk.

67. For on-balance-sheet debt securities and equities in the trading book included in Parts I, II and V of this Report, the credit risk-weighted exposures reported in Part II of the Report on the Computation of the Risk-Based Capital Adequacy Ratio covering credit risk should be excluded in calculating the adjusted ratio covering combined credit risk and market risk. The market risk capital charges for these positions calculated in this Report cover all the capital requirements for absorbing potential losses arising from carrying such positions.

Suppose as at 31 December, 200X, ABC Bank Corporation has the following trading book positions:

- (1) Long position in US Treasury Bond (7.5% annual coupon) with face value equivalent to PHP507.000MM and residual maturity of 8 years. Market value based on quoted price: PHP518.914MM equivalent

(2) Long position in an unrated floating rate note (6.25% current annual coupon) issued by a US corporate with face value equivalent of PHP260.000MM and next repricing 9 months after. Market value based on quoted price: PHP264.758MM equivalent

(3) Long 10 futures contracts involving 5-year US Treasury Note (face value USD0.100MM per contract) for delivery 3 months after. Selected deliverable: US Treasury Note (coupon 6.375%) maturing 5.25 years, current price at 100.0625, conversion factor 0.9423.

(4) Single currency interest rate swap with face value PHP975.000MM and residual maturity of 2.5 years, bank receives annual floating rate interest and pays fixed at 8% per annum. The current floating rate is fixed at 5.5% with next repricing after 6 months.

(5) Long 10 futures contracts involving 3-month LIBOR interest rate (face value GBP6.500MM per contract) for delivery 6 months after.

(6) An FRA sold on 6-month PHIBOR with nominal amount PHP130.000MM and settlement date 9 months after.

(7) A GBP2.000MM 2 year cap written on GBP 6 month LIBOR at cap rate 8%, next repricing after 6 months and remaining maturity 2 years (i.e., the cap is written on the reporting date).

(8) Forward foreign exchange position of EUR5.000MM (long) against PHP250.000MM equivalent maturing in 3 months.
- (9) Long 1000 shares of a US listed company with current market price of PHP715.000MM equivalent.

(10) Long 50,000 shares of a Philippine listed company hedged by a long position in 25 put option contracts (each contract represents 1,000 shares) for the same share. The current market price for the share is PHP195.00 and the exercise price of all the option contracts is PHP214.50.

(11) Short one Hang Seng Index Futures for delivery 3 months after, current index at 10,000.

(12) Currency swap with residual maturity of 6 months. Bank receives USD19.500MM at 9.5% per annum and pays PHP975.000MM at 11% per annum.
- Treatments:

(1) Report market value (PHP518.914MM) of the long position in Part I.1, item I.2 and Part I.2, USD ladder, 7 to 10 years time band.

(2) Report market value (PHP264.758MM) of the long position in Part I.1, item 1.9' and Part I.2, USD ladder, 6 to 12 months time band.

(3) Report selected Treasury Note (long position) in Part I.1, item I.2 and Part I.2, USD ladder, 5 to 7 year time band. Report the same amount in short position, 1 to 3 months time band.

Assume spot exchange rate PHP50.00

Amount to be reported:

USD0.100MM x 10 x 100.0625%/0.9423

= USD1.062MM

= P53.095MM

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(4) Report the fixed rate leg as a short 2.5-year bond in Part I.2, Peso ladder, 2 to 3 years time band. Report the floating rate leg as a long 6 months security in the 3 to 6 months time band.

Assume the Peso zero coupon yields are as follows:

Period	Zero Coupon (ZC)
1M	5.31
3M	5.63
6M	5.81
1Y	6.16
2Y	6.69
3Y	7.07

(Zero coupon yields within 1 year can be taken as cash rates, i.e., PHIBOR, zero coupon yields beyond 1 year can be constructed from, say, swap rates.)

Cash flows of Peso swap: 2 legs

Pay – fixed rate bond
8% of PHP975.000MM in 6 months
8% of PHP975.000MM in 18 months
108% of PHP975.000MM in 30 months
Receive – floating rate paper
105.5% of PHP975.000MM in 6 months

Zero-coupon rates at 18 months can be obtained from the linear interpolation between the 1Y and 2Y zero coupon rates.

ZC(18 months) = (6.16% + 6.69%)/2 = 6.425%

Similarly,

ZC(30 months) = (6.69% + 7.07%)/2 = 6.88%

PV of the fixed leg (i.e., pay side)
= PHP975.000MM x $\frac{0.08}{(1 + 0.0581 \times 0.5)} + \frac{0.08 + 1.08}{(1 + 0.06425)^{1.5}} + \frac{1.08}{(1 + 0.0688)^{2.5}}$
= PHP1,038.479MM

PV of the floating leg (i.e. receive side)

= PHP975.000MM x $\frac{1.055}{(1 + 0.0581 \times 0.5)}$

= PHP999.587MM

(5) Report a long 9 months zero coupon security in Part I.2, GBP ladder, 6 to 12 months time band and a short 6 months zero coupon security in 3 to 6 months time band.

Assume the GBP 6 months zero-coupon yield is 6.74% while the interpolated 9 months zero-coupon yield is 6.87%. Assume spot exchange rate is PHP75.00.

Amount to be reported:

9 months = GBP65.000MM/(1 + 0.0687 x 0.75)
= GBP65.000MM x 0.951
= PHP4,636.124MM equivalent

6 months = GBP65.000MM/(1 + 0.0674 x 0.5)
= GBP65.000MM x 0.9674
= PHP4,716.069MM equivalent

(6) Report a long 15 months zero coupon security in Part I.2, Peso ladder, 1.0 to 1.9 years time band and a short 9 months zero coupon security in 6 to 12 months time band.

Calculations similar to (4) above,
ZC(15 months) = 6.16% + (6.69%-6.16%)x 0.25
= 6.2925%

15 months = PHP130.000MM(1 + 0.062925)^{1.25}
= PHP121.000MM

9 months = PHP130.000MM x 0.957
= PHP124.410MM

(7) Report the cap as 3 written call options on 6-month FRA, i.e., 6 against 12, 12 against 18 and 18 against 24.

(The rate for the first 6 months is already set on the reporting date, i.e., the option already expires.)

Assume the delta ratios of the options are: 6 against 12 0.055 12 against 18 0.17 18 against 24 0.225	(For simplicity, gamma and vega positions are not presented in this example.)
Assume the discounting factors are: 6 month 0.9674 12 month 0.9346 18 month 0.9009 24 month 0.8673	(8) Report a long 3 months zero coupon security in Part I.2, EUR ladder, 1 to 3 months time band and a short 3 months zero coupon security in the Peso ladder, 1 to 3 months time band.
Assume spot exchange rate is PHP75.00	Calculations similar to (4) above and assume 3 months EUR cash rate at 3.25% and spot exchange rate is PHP46.00.
Report in Part I.2 GBP ladder:	EUR = EUR5.000MM/(1 + 0.0325 x 0.25) = PHP228.146MM equivalent
For the first option – A long position in the 6 to 12 months time band = GBP2.000MM x 0.055 x 0.9346 = PHP7.710MM equivalent A short position in the 3 to 6 months time band = GBP2.000MM x 0.055 x 0.9674 = PHP7.981MM equivalent	PHP = PHP250.000MM/(1 + 0.0563 x 0.25) = PHP246.530MM (For simplicity, Part III of the report is not presented in this example.)
For the second option – A long position in the 1.0 to 1.9 years time band = GBP2.000MM x 0.17 x 0.9009 = PHP22.973MM equivalent A short position in the 6 to 12 months time band = GBP2.000MM x 0.17 x 0.9346 = PHP23.832MM equivalent	(9) Report market value in Part II, item 1 (US column). (10) Report as a long position the market value for 25,000 shares (PHP4.875MM) in Part II, Item 1 (Philippine column). Report 25,000 shares covered by put option in Part IV.1 (a), item 2 Amount to be reported = (25,000 x PHP195.00 x 16%) – {25,000 x (PHP214.50 – PHP195.00)} = PHP0.293MM
For the third option – A long position in the 1.9 to 2.8 years time band = GBP2.000MM x 0.225 x 0.8673 = PHP29.271MM equivalent A short position in the 1.0 to 1.9 years time band = GBP2.000MM x 0.225 x 0.9009 = PHP30.405MM equivalent	(11) Report as a short position the market value for futures (HKD50.00 per index point) in Part II, item 5 (HKD column) and as a long position in Part I.2, HKD ladder, 1 to 3 months time band. Assume HKD to PHP exchange rate is PHP6.50. (12) Report the USD leg as a long 6-month zero coupon security in Part I.2, USD ladder, 3 to 6 months time band. Report

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the PHP leg as a short 6-month zero coupon security in Part I.2, PHP ladder, 3 to 6 months time band.

Assume the 6-month Peso and Dollar zero coupon yields are 5.81% and 4%, respectively, and the spot exchange rate is PHP50.00.

Cash flows of currency swap: two legs

Pay – PHP
111% of PHP975.000MM in 6 months

PV of PHP leg

$$= \frac{\text{PHP}975.000\text{MM} \times (1.11)}{(1 + 0.0581 \times 0.5)}$$

= PHP1,051.700MM

Receive – USD

109.5% of USD19.500MM in 6 months

PV of USD leg

$$= \frac{\text{USD}19.500\text{MM} \times (1.095)}{(1 + 0.04 \times 0.5)}$$

= PHP1,046.700MM equivalent

**INSTRUCTIONS FOR ACCOMPLISHING THE REPORT ON COMPUTATION OF
THE ADJUSTED RISK-BASED CAPITAL ADEQUACY RATIO COVERING
COMBINED CREDIT RISK AND MARKET RISK
(For Universal Banks and Commercial Banks with Expanded Derivatives Authority
But Without Options Transactions)**

General Instructions

1. All universal banks and commercial banks are required to complete this Report both on a solo basis (i.e., head office plus branches) and on a consolidated basis (i.e., parent bank plus subsidiary financial allied undertakings, but excluding insurance companies).
2. The Report should be submitted as follows:
 - (a) Solo report - within 15 banking days after the end of each reference quarter; and
 - (b) Consolidated report - within 30 banking days after the end of each reference quarter.
3. Current market value should be used for reporting. For leveraged instruments where the apparent notional amount differs from the effective notional amount, the bank should use the effective notional amount in calculating the market value for reporting, e.g., a swap contract with a stated notional amount of PHP1.0 million, the terms of which call for a quarterly settlement of the difference between 5% and PHIBOR multiplied by 10 has an effective notional amount of PHP10.0 million.
4. Securities transactions are to be reported on a “trade date” basis.

Definitions and Clarifications

5. Market risk is defined as the risk of losses in on- and off-balance sheet positions

arising from movements in market prices. The risks subject to this reporting requirement are:

- (a) the risks pertaining to interest rate-related instruments and equities in the bank’s trading book; and
- (b) foreign exchange risk throughout the bank.

The Report should include the reporting bank’s positions in on-balance sheet financial instruments and off-balance sheet derivatives, the latter being defined as financial contracts whose values depend on the values of one or more underlying assets or indices.

6. For the purpose of the Report, the trading book of a bank shall consist of:
 - (a) its proprietary positions in financial instruments which are taken on with the intention of short-term resale or benefiting in the short term from actual or expected differences between the buying and selling prices or from other price or interest rate variations;
 - (b) positions which arise from the execution of trade orders from customers and market making; and
 - (c) positions taken in order to hedge other elements of the trading book.
7. The financial instruments referred to in the preceding paragraph include:
 - (a) (i) transferable securities;
 - (ii) units in collective investment undertakings;
 - (b) certificates of deposit and other similar capital market instruments;
 - (c) financial futures contracts;

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- (d) forward contracts including forward rate agreements; and
- (e) swaps

8. Banks are expected to have an established policy for allocating transactions (including internal deals) to the trading or non-trading (i.e., banking) book, as well as procedures to ensure compliance with such policy. There must be a clear audit trail at the time each transaction is entered into and the BSP will examine the adequacy of such policy and procedures and their consistent implementation when it is considered necessary. For this purpose, banks which engage in trading activities should submit to the BSP a policy statement covering:

- (a) the definition of trading activities;
- (b) the financial instruments which can be traded or used for hedging the trading book portfolio; and
- (c) the principles for transferring positions between the trading and the banking books.

9. In general, the BSP will have regard to the bank's intention in entering into a particular transaction when determining whether such transaction should fall into the trading book. Transactions will likely be considered to carry a trading intent on the part of the bank if:

- (a) the positions arising from the transactions are marked to market on a daily basis as part of the internal risk management process;
- (b) the positions are not (or not intended to be) held to maturity; and
- (c) the positions satisfy other criteria the bank applies to its trading portfolio on a consistent basis.

10. Debt securities include both fixed-rate and floating-rate instruments, negotiable certificates of deposit, non-convertible preference shares, and also convertible bonds (i.e., debt issues or preference shares

that are convertible, at a stated price, into common shares of the issuer) which trade like debt securities. Debt related derivatives include bond futures.

11. Interest rate derivatives include all derivatives contracts and off-balance sheet instruments which react to changes in interest rates, e.g., interest rate futures, forward rate agreements (FRAs), interest rate and cross currency swaps, and forward foreign exchange positions.

12. Detailed offsetting rules applicable to the reporting of positions are set out in the relevant parts of Specific Instructions. These offsetting rules can be applied on both the solo and consolidated basis, provided that in the latter case there are no obstacles to the quick repatriation of profits from a foreign subsidiary to the Philippines and the bank performs daily management of risks on a consolidated basis. For this purpose, offsetting means the exclusion of matched positions of a bank from reporting and hence exclusion of such positions from the calculation of the adjusted capital adequacy ratio.

13. For avoidance of doubt, items that are deductible from the qualifying capital of the bank in the calculation of the risk-based capital adequacy ratio pursuant to Subsections X116.2.a to X116.2.c are excluded from market risk capital requirement.

14. In general, banks are only required to complete Parts I to III and V of the Report. Banks which have obtained the BSP's approval to adopt their internal value-at-risk (VaR) models to calculate their market risk capital charge (in all or individual risk categories) should complete Part IV (in lieu of Parts I to III). Where the internal model is used to calculate only selected risk categories, the capital charge for the risk

categories measured under the internal models approach should be reported in Part IV while that for the other risk categories measured under the standardized approach should be reported in the relevant sections of Parts I to III. This combination of the standardized approach and the internal models approach is allowed on a transitional basis. Banks which adopt the internal models approach will not be permitted, save in exceptional circumstances, to revert to the standardized approach.

Specific Instructions

Part I Interest Rate Exposures

1. Debt securities and debt related derivatives – specific risk

15. Report in this part the long and short positions in debt securities and debt derivatives (e.g., bond futures) in the trading book by category of the issuer. Offsetting will be allowed between long and short positions in identical issues (including positions in derivatives) with exactly the same issuer, coupon, currency and maturity. For items 1.4 to 1.7 of the Report, positions should be slotted into the appropriate time bands according to the residual maturities of the debt securities (or the underlying securities in case of debt derivatives). (Refer to examples (1) and (2) in Annex A).
16. A security, which is the subject of a repurchase agreement, will be treated as if it were still owned by the seller of the security, i.e., to be reported by the seller. This principle applies also in Part 1.2 of the Report. Commitments to buy and sell securities should be reported as long and short positions, respectively.

17. Foreign countries, foreign incorporated banks and Philippine incorporated banks/ QBs with the “highest credit quality”, as well as debt securities with the “highest credit quality” refer to ratees/debt securities given the minimum credit ratings as indicated below by any two of the following internationally accepted rating agencies:

Rating Agency	Credit Rating
(a) Moody’s	“Aa3” and above
(b) Standard and Poor’s	“AA-” and above
(c) Fitch IBCA	“AA-” and above

and such other recognized international rating agencies as may be approved by the Monetary Board.

The ratings of domestic rating agencies may likewise be used for this purpose provided that such rating agencies meet the criteria to be prescribed by the Monetary Board.

18. Multilateral development banks refer to the World Bank Group comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB); the Nordic Investment Bank (NIB); the Caribbean Development Bank (CDB), the Council of Europe Development Bank (CEDB) and such others as may be recognized by the BSP.
19. Non-central government public sector entities of a foreign country refer to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

2. Debt securities, debt related derivatives and interest rate derivatives – general market risk

20. Report in this part the long and short trading book positions in debt securities and debt derivatives described above, as well as interest rate derivatives. Report also interest rate exposures arising from futures contracts and forward positions in equities. A Maturity Method is adopted for the reporting of these positions as detailed below. Banks that possess the necessary capability to calculate the duration and price sensitivity of each position separately and wish to adopt such a duration approach for reporting in this part may seek approval from BSP.

21. Positions should be reported separately for each currency, i.e., banks should use separate sheets (Part I.2 of the Report) to report positions of different currencies. The unadjusted market risk capital charge is then calculated for each currency according to procedures set out in paragraphs 31 to 34 with no offsetting between different currencies.

22. Under the Maturity Method, positions are slotted into the time bands of the maturity ladder (as shown in Part I.2 of the Report) by remaining maturity if fixed rate and by the period to the next repricing date if floating rate. (Refer to examples (1) and (2) in Annex A). Derivatives should be treated as combinations of long and short positions. The maturity of an interest rate future or a forward rate agreement will be the period until delivery or exercise of the contract, plus – where applicable – the life of the underlying instrument. For example, a long position in a June 3-month interest rate future taken in December is to be reported at end of December as a long position in a zero coupon government security in that particular currency with a maturity of 9 months and a short position in a zero

coupon government security with a maturity of 6 months. (Refer to examples (5) and (6) in Annex A). The market values of the two positions should be reported. For forward foreign exchange positions in the trading book, they should be treated as long and as short positions in a zero coupon government security of the 2 currencies with the same maturity as the forward contract. (Refer to example (7) in Annex A).

23. For a bond future, where a range of deliverable instruments may be delivered to fulfill the contract, the bank has flexibility to elect which deliverable security goes into the maturity ladder but should take account of any conversion factor defined by the exchange. A two-leg approach will be adopted similar to the above. A long bond future will be taken as a long position in a deliverable bond and a short position in a zero coupon security maturing at the future's delivery date. For example, a long futures contract on a 5 year fixed rate security with delivery 3 months from the reporting date will be reported as a long position in say, a 5.25 year security, i.e., a specific security which is within the range of deliverables under the futures contract (as opposed to a notional/theoretical security), and a short position in a 3 months zero coupon security. (Refer to example (3) in Annex A).

The amount to be reported in the above example for both legs will be the contract face value divided by the relevant conversion factor and multiplied by the current cash price of the selected deliverable bond. A forward bond transaction (i.e., with a settlement period longer than the market norm) will be treated similarly, i.e., a long bond forward will be reported as long position in the bond and a short position in a zero coupon security up to the forward delivery date. The current market value (at spot price) of the bond should be reported.

24. Swaps will be treated as two positions in securities with the relevant maturities. For example, an interest rate swap under which a bank is receiving floating rate interest and paying fixed will be treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument of maturity equivalent to the residual life of the swap. The market values of the 2 instruments should be reported. (Refer to example (4) in Annex A). For swaps that pay or receive a fixed or floating interest rate against some other reference price, e.g., an equity price, the interest rate component should be slotted into the appropriate maturity category, with the equity component being included in the equity framework. The separate legs of cross-currency swaps are to be reported in the relevant maturity ladders for the currencies concerned. (Refer to example (10) in Annex A).

25. As with the reporting under Part I.1 of the Report, banks can offset long and short positions in identical instruments with exactly the same issuer, coupon, currency and maturity for general market risk purposes. Similarly, a matched position in a futures or forward contract and its underlying may be fully offset. However, the leg representing the time to expiry of the futures or forward contract should be reported.

For example, a bank has a long position in a particular bond and sells forward (i.e., beyond the normal settlement period for the security) such a bond as at the reporting date. The long and short positions in the bond can be offset but a long position in a (notional) zero coupon security with maturity at the forward delivery date should be reported, at the current market value of the bond. Similarly, if the bank has a short position in a bond future and a long position in the underlying bond, such positions can

be offset. A long position up to the future's delivery date should, however, be reported.

When the futures contract comprises a range of deliverable instruments, offsetting of positions in the futures contract and its underlying is only permissible in cases where there is a readily identifiable underlying security which is most profitable for the trader with a short position to deliver, i.e., the "cheapest to deliver". This means that offsetting is only permitted between a short future and a long bond, not between a long future and a short bond; and the long bond must be the one that is "cheapest to deliver". The amount to be reported for the remaining long position up to the futures contract's delivery date will be the face value of the contract divided by the relevant conversion factor and multiplied by the current spot price of the "cheapest to deliver" bond.

26. Opposite positions in the same category of derivatives instruments can in certain circumstances be regarded as matched and allowed to offset fully. The separate legs of different swaps may also be "matched" subject to the same conditions. To qualify for this treatment, the positions must relate to the same underlying instruments, be of the same nominal value and be denominated in the same currency. In addition:

(a) for futures: offsetting positions in the notional or underlying instruments to which the futures contract relates must be for identical products and mature within 7 days of each other;

(b) for swaps and forward rate agreements (FRAs): the reference rate (for floating rate positions) must be identical and the coupon closely matched (i.e., within 15 basis points); and

(c) for swaps, FRAs and forwards: the next interest fixing date or, for fixed coupon positions or forwards, the residual maturity must correspond within the following limits:

- if either of the instruments for offsetting has an interest fixing date or

residual maturity up to 1 month, the interest fixing date or residual maturity must be the same for both instruments;

- if either of the instruments for offsetting has an interest fixing date or residual maturity greater than 1 month and up to 1 year, those dates or residual maturities must be within 7 days of each other; and
- if either of the instruments for offsetting has an interest fixing date or residual maturity over 1 year, those dates or residual maturities must be within 30 days of each other.

For example, a bought and a sold FRA in the same currency with the same face value and settlement date as well as notional deposit maturity date can be offset against each other and excluded from reporting if the contract rates are within 15 basis points of each other. Similarly, opposite swap positions in the same currency with the same face value and reference dates can be offset if, say, the floating rate in both cases is 6 months PHIBOR and the fixed rates are within 15 basis points of each other. The positions can still be offset if the reference dates (i. e., the next interest fixing date or remaining maturity) of the opposite positions are different but within the range as set out in (c) above. Opposite bond futures can, for example, be offset against each other if the deliverable bonds are of the same type and mature within 7 days of each other.

27. Banks with the necessary expertise and systems may use alternative formulae (the so called “pre-processing” techniques) to calculate the positions to be included in the maturity ladder. This applies to all interest rate sensitive positions, arising from both physical and derivative instruments.

One method is to first convert the payments required under each transaction into their present values. For that purpose, each cash flow should be discounted using zero-coupon yields. A single net figure of all of the cash flows within each time band may be reported. Banks wishing to adopt this or other methods for reporting should seek the BSP’s prior approval. The “pre-processing” models would be subject to review by the BSP.

Calculation of capital charges for interest rate exposures reported in Part I

28. The unadjusted minimum capital requirement is expressed in terms of two separately calculated charges, one applying to the “specific risk” of each trading book position in debt securities or debt derivatives, whether it is a short or long position, and the other to the overall interest rate risk in the trading book portfolio (termed “general market risk”) where long and short positions in different securities or derivatives can be offset subject to certain “disallowances”.

Specific risk

29. The unadjusted specific risk charge is graduated into five broad categories by types of issuer, as follows:

Government and multilateral development banks*	0.00%
Qualifying**	0.25% (residual maturity of 6 months or less)
	1.00% (residual maturity of over 6 months to 24 months)
	1.60% (residual maturity of over 24 months)
LGU bonds***	4.00%
Others	8.00%

* “Government and multilateral development banks” refers to the issuers as described under items 1.1 and 1.3 in Part I.1 of the Report.
** “Qualifying” refers to the issuers/issues as described under items 1.4 to 1.7 in Part I.1 of the Report.
*** “LGU bonds” refers to bonds issued by local government units (LGUs), covered by Deed of Assignment of Internal Revenue Allotment of the LGU and guaranteed by LGU Guarantee Corporation.

30. Interest rate and currency swaps, FRAs, forward foreign exchange contracts and interest rate futures will not be subject to a specific risk charge. In the case of futures contracts where the underlying is a debt security, a specific risk charge will apply according to the issuer (and the remaining maturity) as set out in the above paragraph.

General market risk

31. General market risk applies to positions in all debt securities, debt derivatives and interest rate derivatives, subject only to an exemption for fully or very closely matched positions in identical instruments as described in paragraphs 25 to 26 above. The unadjusted capital charge is the sum of the following components:

- (a) the net short or long weighted position in the whole trading book;
- (b) a small proportion of the matched positions in each time band (the “vertical disallowance”); and
- (c) a larger proportion of the matched positions across different time-bands (the “horizontal disallowance”).

32. In the maturity ladder, first calculate the weighted positions by multiplying the positions reported in each time band by a risk-factor according to the following table:

Table 1		
Maturity method: time bands and weights		
Coupon 3% or more	Coupon less than 3%	Risk Weight
1 month or less	1 month or less	0.00%
Over 1 month to 3 months	Over 1 month to 3 months	0.20%
Over 3 months to 6 months	Over 3 months to 6 months	0.40%
Over 6 months to 12 months	Over 6 months to 12 months	0.70%
Over 1 year to 2 years	Over 1.0 year to 1.9 years	1.25%

Over 2 years to 3 years	Over 1.9 years to 2.8 years	1.75%
Over 3 years to 4 years	Over 2.8 years to 3.6 years	2.25%
Over 4 years to 5 years	Over 3.6 years to 4.3 years	2.75%
Over 5 years to 7 years	Over 4.3 years to 5.7 years	3.25%
Over 7 years to 10 years	Over 5.7 years to 7.3 years	3.75%
Over 10 years to 15 years	Over 7.3 years to 9.3 years	4.50%
Over 15 years to 20 years	Over 9.3 years to 10.6 years	5.25%
Over 20 years	Over 10.6 years to 12 years	6.00%
	Over 12 years to 20 years	8.00%
	Over 20 years	12.50%

33. The weighted longs and shorts in each time band will be offset resulting in a single short or long position for each band. A 10% capital charge (“vertical disallowance”) will be levied on the smaller of the offsetting positions, be it long or short. Thus, if the sum of the weighted longs in a time band is P100.0 million and the sum of the weighted shorts is P90.0 million, the vertical disallowance would be 10% of P90.0 million (i.e., P9.0 million).

34. Two rounds of “horizontal offsetting” will then be conducted, first between the net positions in each of 3 zones (zero to 1 year, over 1 year to 4 years and over 4 years), and subsequently between the net positions in the 3 different zones. The offsetting will be subject to a scale of disallowances expressed as a fraction of the matched positions, as set out in Table 2 below. The weighted long and short positions in each of 3 zones may be offset, subject to the matched portion attracting a disallowance factor that is part of the capital charge. The residual net position in each zone may be carried over and offset against opposite positions in other zones, subject to a second set of disallowance factors.

Table 2					
Horizontal disallowance					
Zones	Time-band	Within the zone	Between adjacent zones	Between zones 1 and 3	
Zone 1	1 month or less	40%	40%	100%	
	Over 1 month to 3 months				
	Over 3 months to 6 months				
	Over 6 months to 12 months				
Zone 2	Over 1 year to 2 years	30%	40%		
	Over 2 years to 3 years				
	Over 3 years to 4 years				
Zone 3	Over 4 years to 5 years	30%			
	Over 5 years to 7 years				
	Over 7 years to 10 years				
	Over 10 years to 15 years				
	Over 15 years to 20 years				
	Over 20 years				

Part II Equity Exposures

35. Report in this part the long and short positions in equities and equity derivatives in the trading book, including instruments that exhibit market behavior similar to equities. The instruments covered include common stock (whether voting or non-voting), convertible bonds (i.e., debt issues or preference shares that are convertible, at a stated price, into common shares of the issuer) which trade like equities and commitments to buy or sell equity securities. For non-convertible preference shares and those convertible bonds which trade like debt securities, they should be reported under Part I. Equity derivatives include forwards, futures and swaps on both individual equities and or

stock indices. Long and short positions in the same issue may be reported on a net basis.

36. The positions are to be reported on a market-by-market basis, i.e., under separate columns to indicate the exchange where the reported equities are listed/traded. For foreign markets, banks should indicate the country where the market is located. (Refer to example (8) in Annex A) Equities with listing in more than one market should be reported as positions in the market of their primary listing.

37. Equity derivatives are to be converted into positions in the relevant underlying. Futures and forward contracts relating to an individual equity should be reported at current market values. Futures relating to equity indices can be reported either as the current index value times the monetary value of one index point set by the exchange, i.e., the “tick” value, or the marked-to-market value of the notional underlying equity portfolio. (Refer to example (9) in Annex A).

38. Matched positions in each identical equity or index (same delivery months) in each market may be fully offset, resulting in a single net short or long position. A future in a given equity may be offset against an opposite cash position in the same equity but the interest rate exposure arising out of the equity futures should be reported in Part I. For example, a short futures contract on a specific stock with delivery 3 months from the reporting date can be offset against a long position in the underlying stock. However, the interest rate exposure arising out of the equity futures should be reported as a long position in the “1 to 3 months” time band of the stock denominated currency in Part I.

The position should be reported as the current market value of the stock.

39. An equity swap obligates a bank to receive an amount based on the change in value of a particular equity or equity index and also to pay an amount based on the change in value of a different equity or equity index. Accordingly, the receipt side and the payment side of an equity swap contract should be reported as a long and a short position, respectively. For an equity swap contract which involves a leg relating to a financial instrument other than equities or equity derivatives, for example, receiving/paying a fixed or floating interest rate, the exposure should be slotted into the appropriate maturity band in Part I. Where equities are part of a forward contract (equities to be received or to be delivered), any interest rate exposure from the other leg of the contract should be reported in Part I. The treatment is similar to that set out in paragraph 38. The same arrangement applies for index futures. (Refer to example (9) in Annex A).

40. As with interest rate exposures, the capital charge is levied to separately cover both the specific risk and the general market risk. Calculation is done on an individual market basis. The unadjusted capital charge for specific risk will be 8% on the gross (i.e., long plus short) positions. The unadjusted general market risk charge will be 8% on the net position. Net long and short positions in different markets cannot be offset for the purpose of calculating general market risk charge.

Part III Foreign Exchange Exposures

41. Report in this part the amount in US dollars (USD) of net long or net short

position in each currency. In addition, structural positions taken deliberately to hedge against the effects of exchange rate movements on the capital adequacy of the reporting bank may be excluded. This should be cleared with the BSP prior to reporting.

42. Net long/(short) position shall refer to FX assets (excluding FX items allowed under existing regulations to be excluded from FX assets in the computation of a bank’s net FX position limits) less FX liabilities (excluding FX items allowed under existing regulations to be excluded from FX liabilities in the computation of a bank’s net FX position limits), plus contingent FX assets less contingent FX liabilities.

43. Banks which base their normal management accounting of forward currency positions on net present values shall use the net present values of each position, discounted using current interest rates, for measuring their positions. Otherwise, forward currency positions shall be measured based on notional amount.

44. The total USD amount of net long or net short position in each currency should then be converted at spot rates into Philippine peso. The overall net open position is the greater of the absolute value of the sum of net long position or sum of net short position.

45. The unadjusted capital charge will be 8% of the overall net open position.

Part IV Internal Models Approach

46. Only those banks which have obtained the BSP’s approval to adopt their internal value-at-risk (VaR) models to

calculate their market risk capital charges in lieu of the standardized methodology are required to report in this part.

1. Value-at-risk results

47. Report in this part the value-at-risk (VaR) results as at the last trading day of the reference quarter in column (a) and the average VaR over the most recent 60 trading days of the reference quarter in column (b), both for each individual market risk category using internal models approach, i.e., item 1.1 to 1.3, and for the aggregate of these risk categories, i.e., item 1.4.

48. Provided that the BSP is satisfied with the bank’s system for measuring correlations, recognition of empirical correlations across broad risk categories (e.g., interest rates, equity prices and exchange rates) may be allowed. The VaR for the aggregate of all risk categories will therefore not necessarily be equal to an arithmetic sum of the VaR for the individual risk category.

49. Report also in this part the number of backtesting exceptions for the past 250 trading days (from the reference quarter-end going backwards), based on:

- actual daily changes in portfolio value, in item 1.4. column (c), and
- hypothetical changes in portfolio value that would occur were end-of-day positions to remain unchanged during the 1 day holding period, in item 1.4 column (d), for the aggregate of the broad risk categories.

50. The multiplication factor to be reported in item 1.4 column (e) is the summation of the following 3 elements:

- (a) the minimum multiplication factor of 3;
- (b) the “plus” factor ranging from 0 to 1 based on the number of backtesting exceptions (i.e., the larger of item 1.4 column (c) or item

1.4 column (d)) for the past 250 trading days as set out in Table 3 below: and

- (c) any additional “plus” factor as may be prescribed by the BSP.

Table 3
“Plus” factor based on the number of backtesting exceptions for the past 250 trading days

Zone	Number of exceptions	“Plus” factor
Green zone	0	0.00
	1	0.00
	2	0.00
	3	0.00
	4	0.00
Yellow zone	5	0.40
	6	0.50
	7	0.65
	8	0.75
	9	0.85
Red zone	10 or more	1.00

51. Capital charge for general market risk calculated by internal models reported in item 1.6 is larger of:

- (a) Item 1.4 column (a), i.e., VaR for the aggregate of all risk categories, as at the last trading day of the reference quarter; or
- (b) Item 1.5, i.e., the average VaR for the last 60 trading days of the reference quarter (item 1.4 column (b)) times the multiplication factor (item 1.4 column (e)) set out in paragraph 50 above.

2. Specific risk

52. Capital charge for the specific risk of debt securities and other debt related derivatives, and equities and equity derivatives is to be reported using either of the following two methods:

- (a) For banks which incorporate the specific risk into their models, report the capital charge for the total specific risk calculated by the models in item 1.7 of Part IV.1; or
- (b) For banks which do not incorporate the specific risk into their models, report the specific risk of debt securities and other

debt related derivatives in Part I.1 according to the instructions in paragraphs 15-19 and 29-30. For equities and equity derivatives, report the specific risk in Part II according to the instructions in paragraphs 35 to 40.

3. Largest daily losses over the quarter

53. Report in this part in descending order (i.e., the largest loss first) the 5 largest daily losses over the reference quarter and their respective VaRs for the risk exposures which are measured by the internal models approach. If the number of daily losses during the quarter is less than 5, report only all such daily losses.

Part V Adjusted Capital Adequacy Ratio

54. The market risk capital charges should be aggregated and converted to a market risk-weighted exposure. The total market risk capital charges is the sum of the capital charges for individual market risk categories computed using either (a) the standardized approach, or (b) the internal models approach. The total capital charges for individual market risk categories using the

standardized approach should be multiplied by 125% (to be consistent with the higher capital charge for credit risk, i.e., 10% as opposed to the BIS recommended 8%.)

55. The total market risk-weighted exposures is computed by multiplying the total market risk capital charges by 10. (The multiplier 10 is the reciprocal of the BSP required minimum capital ratio for credit risk of 10%.) The qualifying capital and total credit risk weighted exposures are extracted from Part V.A and Part V.B, respectively, of the Report on the Computation of Risk-Based Capital Adequacy Ratio covering credit risk.

56. For on-balance-sheet debt securities and equities in the trading book included in Parts I, II and IV of this Report, the credit risk-weighted exposures reported in Part II of the Report on the Computation of the Risk-Based Capital Adequacy Ratio covering credit risk should be excluded in calculating the adjusted ratio covering combined credit risk and market risk. The market risk capital charges for these positions calculated in this Report cover all the capital requirements for absorbing potential losses arising from carrying such positions.

Suppose as at 31 December, 200X, ABC Bank Corporation has the following trading book positions:

- (1) Long position in US Treasury Bond (7.5% annual coupon) with face value equivalent to PHP507.000MM and residual maturity of 8 years.
Market value based on quoted price: PHP518.914MM equivalent
- (2) Long position in an unrated floating rate note (6.25% current annual coupon) issued by a US corporate with face value equivalent of PHP260.000MM and next repricing 9 months after.
Market value based on quoted price: PHP264.758MM equivalent
- (3) Long 10 futures contracts involving 5-year US Treasury Note (face value USD0.100MM per contract) for delivery 3 months after.
Selected deliverable: US Treasury Note (coupon 6.375%) maturing 5.25 years, current price at 100.0625, conversion factor 0.9423.
- (4) Single currency interest rate swap with face value PHP975.000MM and residual maturity of 2.5 years, bank receives annual floating rate interest and pays fixed at 8% per annum. The current floating rate is fixed at 5.5% with next repricing after 6 months.
- (5) Long 10 futures contracts involving 3-month LIBOR interest rate (face value GBP6.500MM per contract) for delivery 6 months after.
- (6) An FRA sold on 6-month PHIBOR with nominal amount PHP130.000MM and settlement date 9 months after.
- (7) Forward foreign exchange position of EUR5.000MM (long) against

- PHP250.000MM equivalent maturing in 3 months.
- (8) Long 1000 shares of a US listed company with current market price of PHP715.000MM equivalent.
- (9) Short one Hang Seng Index Futures for delivery 3 months after, current index at 10,000.
- (10) Currency swap with residual maturity of 6 months. Bank receives USD19.500MM at 9.5% per annum and pays PHP975.000MM at 11% per annum.

Treatments:

- (1) Report market value (PHP518.914MM) of the long position in Part I.1, item I.2 and Part I.2, USD ladder, 7 to 10 years time band.
- (2) Report market value (PHP264.758MM) of the long position in Part I.1, item 1.9' and Part I.2, USD ladder, 6 to 12 months time band.
- (3) Report selected Treasury Note (long position) in Part I.1, item I.2 and Part I.2, USD ladder, 5 to 7 year time band. Report the same amount in short position, 1 to 3 months time band.

Assume spot exchange rate PHP50.00

Amount to be reported:

$$\begin{aligned} & \text{USD0.100MM} \times 10 \times 100.0625\% / 0.9423 \\ & = \text{USD1.062MM} \\ & = \text{P53.095MM} \end{aligned}$$

- (4) Report the fixed rate leg as a short 2.5-year bond in Part I.2, Peso ladder, 2 to 3

years time band. Report the floating rate leg as a long 6 months security in the 3 to 6 months time band.

Assume the Peso zero coupon yields are as follows:

Period	Zero Coupon (ZC)
1M	5.31
3M	5.63
6M	5.81
1Y	6.16
2Y	6.69
3Y	7.07

(Zero coupon yields within 1 year can be taken as cash rates, i.e., PHIBOR, zero coupon yields beyond 1 year can be constructed from, say, swap rates.)

Cash flows of Peso swap: 2 legs

Pay – fixed rate bond
8% of PHP975.000MM in 6 months
8% of PHP975.000MM in 18 months
108% of PHP975.000MM in 30 months
Receive – floating rate paper
105.5% of PHP975.000MM in 6 months

Zero-coupon rates at 18 months can be obtained from the linear interpolation between the 1Y and 2Y zero coupon rates.

ZC(18 months) = (6.16% + 6.69%)/2 = 6.425%

Similarly,

ZC(30 months) = (6.69% + 7.07%)/2 = 6.88%

PV of the fixed leg (i.e., pay side)

= PhP975.000MM x $\frac{0.08}{(1 + 0.0581 \times 0.5)} + \frac{0.08}{(1 + 0.06425)^{1.5}}$
+ $\frac{1.08}{(1 + 0.0688)^{2.5}}$
= PHP1,038.479MM

PV of the floating leg (i.e. receive side)

= PhP975.000MM x $\frac{1.055}{(1 + 0.0581 \times 0.5)}$
= PHP999.587MM

(5) Report a long 9 months zero coupon security in Part I.2, GBP ladder, 6 to 12 months time band and a short 6 months zero coupon security in 3 to 6 months time band.

Assume the GBP 6 months zero-coupon yield is 6.74% while the interpolated 9 months zero-coupon yield is 6.87%. Assume spot exchange rate is PHP75.00.

Amount to be reported:

9 months = GBP65.000MM/(1 + 0.0687 x 0.75)
= GBP65.000MM x 0.951
= PHP4,636.124MM equivalent
6 months = GBP65.000MM/(1 + 0.0674 x 0.5)
= GBP65.000MM x 0.9674
= PHP4,716.069MM equivalent

(6) Report a long 15 months zero coupon security in Part I.2, Peso ladder, 1.0 to 1.9 years time band and a short 9 months zero coupon security in 6 to 12 months time band.

Calculations similar to (4) above, ZC(15 months)
= 6.16% + (6.69% - 6.16%) x 0.25 = 6.2925%
15 months = PHP130.000MM/(1 + 0.062925)^{1.25}
= PHP121.000MM
9 months = PHP130.000MM x 0.957
= PHP124.410MM

(7) Report a long 3 months zero coupon security in Part I.2, EUR ladder, 1 to 3 months time band and a short 3 months zero coupon security in the Peso ladder, 1 to 3 months time band.

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Calculations similar to (4) above and assume 3 months EUR cash rate at 3.25% and spot exchange rate is PHP46.00.

EUR = EUR5.000MM/(1 + 0.0325 x 0.25)
= PHP228.146MM equivalent
PhP = PHP250.000MM/(1 + 0.0563 x 0.25)
= PHP246.530MM

(For simplicity, Part III of the report is not presented in this example.)

(8) Report market value in Part II, item 1 (US column).

(9) Report as a short position the market value for futures (HKD50.00 per index point) in Part II, item 5 (HKD column) and as a long position in Part I.2, HKD ladder, 1 to 3 months time band. Assume HKD to PHP exchange rate is PHP6.50.

(10)Report the USD leg as a long 6-month zero coupon security in Part I.2, USD ladder, 3 to 6 months time band. Report the PHP leg as a short 6-month zero coupon security in Part I.2, PHP ladder, 3 to 6 months time band.

Assume the 6-month Peso and Dollar zero coupon yields are 5.81% and 4%, respectively, and the spot exchange rate is PHP50.00.

Cash flows of currency swap: two legs

Pay – PHP
111% of PHP975.000MM in 6 months

PV of PHP leg

$$= \frac{\text{PHP975.000MM} \times (1.11)}{(1 + 0.0581 \times 0.5)}$$

= PHP1,051.700MM

Receive – USD
109.5% of USD19.500MM in 6 months

PV of USD leg

$$= \frac{\text{USD19.500MM} \times (1.095)}{(1 + 0.04 \times 0.5)}$$

= PHP1,046.700MM equivalent

(For simplicity, Part III of the report is not presented in this example.)

INSTRUCTIONS FOR ACCOMPLISHING THE REPORT ON COMPUTATION OF
THE ADJUSTED RISK-BASED CAPITAL ADEQUACY RATIO COVERING
COMBINED CREDIT RISK AND MARKET RISK
(For Universal Banks and Commercial Banks
Without Expanded Derivatives Authority)

General Instructions

1. All universal banks and commercial banks are required to complete this Report both on a solo basis (i.e., head office plus branches) and on a consolidated basis (i.e., parent bank plus subsidiary financial allied undertakings, but excluding insurance companies).
2. The Report should be submitted as follows:
 - (a) Solo report - within 15 banking days after the end of each reference quarter; and
 - (b) Consolidated report - within 30 banking days after the end of each reference quarter.
3. Current market value should be used for reporting. For leveraged instruments where the apparent notional amount differs from the effective notional amount, the bank should use the effective notional amount in calculating the market value for reporting, e.g., a swap contract with a stated notional amount of PhP1.0 million, the terms of which call for a quarterly settlement of the difference between 5% and PHIBOR multiplied by 10 has an effective notional amount of PhP10.0 million.
4. Securities transactions are to be reported on a “trade date” basis.

Definitions and Clarifications

5. Market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices.

The risks subject to this reporting requirement are:

- (a) the risks pertaining to interest rate-related instruments and equities in the bank’s trading book; and
- (b) foreign exchange risk throughout the bank.

The Report should include the reporting bank’s positions in on-balance sheet financial instruments and off-balance sheet derivatives, the latter being defined as financial contracts whose values depend on the values of one or more underlying assets or indices.

6. For the purpose of the Report, the trading book of a bank shall consist of:
 - (a) its proprietary positions in financial instruments which are taken on with the intention of short-term resale or benefiting in the short term from actual or expected differences between the buying and selling prices or from other price or interest rate variations;
 - (b) positions which arise from the execution of trade orders from customers and market making; and
 - (c) positions taken in order to hedge other elements of the trading book.
7. The financial instruments referred to in the preceding paragraph include:
 - (a) (i) transferable securities;
 - (ii) units in collective investment undertakings;
 - (b) certificates of deposit and other similar capital market instruments;
 - (c) currency forwards with tenor of one (1) year or less; and

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(d) currency swaps with tenor of one (1) year or less and which for this purpose refer to the simultaneous buying and selling of a currency in approximately equal amounts for different maturity dates with the same party.

8. Banks are expected to have an established policy for allocating transactions (including internal deals) to the trading or non-trading (i.e., banking) book, as well as procedures to ensure compliance with such policy. There must be a clear audit trail at the time each transaction is entered into and the BSP will examine the adequacy of such policy and procedures and their consistent implementation when it is considered necessary. For this purpose, banks which engage in trading activities should submit to the BSP a policy statement covering:

- (a) the definition of trading activities;
- (b) the financial instruments which can be traded or used for hedging the trading book portfolio; and
- (c) the principles for transferring positions between the trading and the banking books.

9. In general, the BSP will have regard to the bank's intention in entering into a particular transaction when determining whether such transaction should fall into the trading book. Transactions will likely be considered to carry a trading intent on the part of the bank if:

- (a) the positions arising from the transactions are marked to market on a daily basis as part of the internal risk management process;
- (b) the positions are not (or not intended to be) held to maturity; and
- (c) the positions satisfy other criteria the bank applies to its trading portfolio on a consistent basis.

10. Debt securities include both fixed-rate and floating-rate instruments, negotiable certificates of deposit, non-convertible preference shares, and also convertible

bonds (i.e., debt issues or preference shares that are convertible, at a stated price, into common shares of the issuer) which trade like debt securities.

11. Detailed offsetting rules applicable to the reporting of positions are set out in the relevant parts of Specific Instructions. These offsetting rules can be applied on both the solo and consolidated basis, provided that in the latter case there are no obstacles to the quick repatriation of profits from a foreign subsidiary to the Philippines and the bank performs daily management of risks on a consolidated basis. For this purpose, offsetting means the exclusion of matched positions of a bank from reporting and hence exclusion of such positions from the calculation of the adjusted capital adequacy ratio.

12. For avoidance of doubt, items that are deductible from the qualifying capital of the bank in the calculation of the risk-based capital adequacy ratio pursuant to Subsections X116.2.a to X116.2.c are excluded from market risk capital requirement.

13. In general, banks are only required to complete Parts I to III and V of the Report. Banks which have obtained the BSP's approval to adopt their internal value-at-risk (VaR) models to calculate their market risk capital charge (in all or individual risk categories) should complete Part IV (in lieu of Parts I to III). Where the internal model is used to calculate only selected risk categories, the capital charge for the risk categories measured under the internal models approach should be reported in Part IV while that for the other risk categories measured under the standardized approach should be reported in the relevant sections of Parts I to III. This combination of the standardized approach and the internal models approach is allowed on a transitional basis. Banks which adopt the internal

models approach will not be permitted, save in exceptional circumstances, to revert to the standardized approach.

Specific Instructions

Part I Interest Rate Exposures

1. Debt securities – specific risk

14. Report in this part the long and short positions in debt securities in the trading book by category of the issuer. Offsetting will be allowed between long and short positions in identical issues with exactly the same issuer, coupon, currency and maturity. For items 1.4 to 1.7 of the Report, positions should be slotted into the appropriate time bands according to the residual maturities of the debt securities. (Refer to examples (1) and (2) in Annex A).

15. A security, which is the subject of a repurchase agreement, will be treated as if it were still owned by the seller of the security, i.e., to be reported by the seller. This principle applies also in Part 1.2 of the Report.

16. Foreign countries, foreign incorporated banks and Philippine incorporated banks/ QBs with the “highest credit quality”, as well as debt securities with the “highest credit quality” refer to ratees/debt securities given the minimum credit ratings as indicated below by any two of the following internationally accepted rating agencies:

Rating Agency	Credit Rating
(a) Moody’s	“Aa3” and above
(b) Standard and Poor’s	“AA-” and above
(b) Fitch IBCA	“AA-” and above

and such other recognized international rating agencies as may be approved by the Monetary Board.
The ratings of domestic rating agencies may likewise be used for this purpose provided

that such rating agencies meet the criteria to be prescribed by the Monetary Board.

17. Multilateral development banks refer to the World Bank Group comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB); the Nordic Investment Bank (NIB); the Caribbean Development Bank (CDB), the Council of Europe Development Bank (CEDB) and such others as may be recognized by the BSP.

18. Non-central government public sector entities of a foreign country refer to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

2. Debt securities – general market risk

19. Report in this part the long and short trading book positions in debt securities and forward foreign exchange positions. A Maturity Method is adopted for the reporting of these positions as detailed below. Banks that possess the necessary capability to calculate the duration and price sensitivity of each position separately and wish to adopt such a duration approach for reporting in this part may seek approval from BSP.

20. Positions should be reported separately for each currency, i.e., banks should use separate sheets (Part 1.2 of the Report) to report positions of different currencies. The unadjusted market risk capital charge is then calculated for each currency according to procedures set out in paragraphs 28 to 31 with no offsetting between different currencies.

21. Under the Maturity Method, positions are slotted into the time bands of the maturity ladder (as shown in Part I.2 of the Report) by remaining maturity if fixed rate and by the period to the next repricing date if floating rate. (Refer to examples (1) and (2) in Annex A). For forward foreign exchange positions in the trading book, they should be treated as long and as short positions in a zero coupon government security of the 2 currencies with the same maturity as the forward contract. (Refer to example (3) in Annex A).

22. As with the reporting under Part I.1 of the Report, banks can offset long and short positions in identical instruments with exactly the same issuer, coupon, currency and maturity for general market risk purposes.

23. Opposite forward foreign exchange positions can in certain circumstances be regarded as matched and allowed to offset fully. The separate legs of different currency swaps may also be “matched” subject to the same conditions. To qualify for this treatment, the positions must relate to the same underlying currency and be of the same nominal value. In addition, the residual maturity must correspond within the following limits:

- if either of the instruments for offsetting has a residual maturity up to 1 month, the residual maturity must be the same for both instruments; and
- if either of the instruments for offsetting has a residual maturity greater than 1 month and up to 1 year, those residual maturities must be within 7 days of each other.

24. Banks with the necessary expertise and systems may use alternative formulae (the so called “pre-processing” techniques) to calculate the positions to be included in the maturity ladder. This applies to all interest rate sensitive positions, arising from physical

instruments and currency forwards and swaps. One method is to first convert the payments required under each transaction into their present values. For that purpose, each cash flow should be discounted using zero-coupon yields. A single net figure of all of the cash flows within each time band may be reported. Banks wishing to adopt this or other methods for reporting should seek the BSP’s prior approval. The “pre-processing” models would be subject to review by the BSP.

Calculation of capital charges for interest rate exposures reported in Part I

25. The unadjusted minimum capital requirement is expressed in terms of two separately calculated charges, one applying to the “specific risk” of each trading book position in debt securities, whether it is a short or long position, and the other to the overall interest rate risk in the trading book portfolio (termed “general market risk”) where long and short positions in different securities and currency forwards and swaps can be offset subject to certain “disallowances”.

Specific risk

26. The unadjusted specific risk charge is graduated into five broad categories by types of issuer, as follows:

Government and multilateral development banks*	0.00% 0.25% (residual maturity of 6 months or less)
Qualifying**	1.00% (residual maturity of over 6 months to 24 months) 1.60% (residual maturity of over 24 months) 4.00%
LGU bonds***	8.00%
Others	

* “Government and multilateral development banks” refers to the issuers as described under items 1.1 and 1.3 in Part I.1 of the Report.
** “Qualifying” refers to the issuers/issues as described under items 1.4 to 1.7 in Part I.1 of the Report.
*** “LGU bonds” refers to bonds issued by local government units (LGUs), covered by Deed of Assignment of Internal Revenue Allotment of the LGU and guaranteed by LGU Guarantee Corporation.

27. Currency swaps and forward foreign exchange contracts will not be subject to a specific risk charge.

General market risk

28. General market risk applies to positions in all debt securities and currency forwards and swaps subject only to an exemption for fully or very closely matched positions in identical instruments as described in paragraphs 22 to 23 above. The unadjusted capital charge is the sum of the following components:

- (a) the net short or long weighted position in the whole trading book;
- (b) a small proportion of the matched positions in each time band (the “vertical disallowance”); and
- (c) a larger proportion of the matched positions across different time-bands (the “horizontal disallowance”).

29. In the maturity ladder, first calculate the weighted positions by multiplying the positions reported in each time band by a risk-factor according to the following table:

Table 1		
Maturity method: time bands and weights		
Coupon 3% or more	Coupon less than 3%	Risk weight
1 month or less	1 month or less	0.00%
Over 1 month to 3 months	Over 1 month to 3 months	0.20%
Over 3 months to 6 months	Over 3 months to 6 months	0.40%
Over 6 months to 12 months	Over 6 months to 12 months	0.70%
Over 1 year to 2 years	Over 1.0 year to 1.9 years	1.25%
Over 2 years to 3 years	Over 1.9 years to 2.8 years	1.75%

Over 3 years to 4 years	Over 2.8 years to 3.6 years	2.25%
Over 4 years to 5 years	Over 3.6 years to 4.3 years	2.75%
Over 5 years to 7 years	Over 4.3 years to 5.7 years	3.25%
Over 7 years to 10 years	Over 5.7 years to 7.3 years	3.75%
Over 10 years to 15 years	Over 7.3 years to 9.3 years	4.50%
Over 15 years to 20 years	Over 9.3 years to 10.6 years	5.25%
	Over 10.6 years to 12 years	6.00%
	Over 12 years to 20 years	8.00%
	Over 20 years	12.50%

30. The weighted longs and shorts in each time band will be offset resulting in a single short or long position for each band. A 10% capital charge (“vertical disallowance”) will be levied on the smaller of the offsetting positions, be it long or short. Thus, if the sum of the weighted longs in a time band is P100.0 million and the sum of the weighted shorts is PhP90.0 million, the vertical disallowance would be 10% of PhP90.0 million (i.e., PhP9.0 million).

31. Two rounds of “horizontal offsetting” will then be conducted, first between the net positions in each of 3 zones (zero to 1 year, over 1 year to 4 years and over 4 years), and subsequently between the net positions in the 3 different zones. The offsetting will be subject to a scale of disallowances expressed as a fraction of the matched positions, as set out in Table 2 below. The weighted long and short positions in each of 3 zones may be offset, subject to the matched portion attracting a disallowance factor that is part of the capital charge. The residual net position in each zone may be carried over and offset against opposite positions in other zones, subject to a second set of disallowance factors.

Table 2
Horizontal disallowances

Zones	Time-band	Within the zone	Between adjacent zones	Between zones 1 and 3	
Zone 1	1 month or less	40%	40%	100%	
	Over 1 month to 3 months				
	Over 3 months to 6 months				
	Over 6 months to 12 months				
Zone 2	Over 1 year to 2 years	30%	40%		
	Over 2 years to 3 years				
	Over 3 years to 4 years				
Zone 3	Over 4 years to 5 years	30%			40%
	Over 5 years to 7 years				
	Over 7 years to 10 years				
	Over 10 years to 15 years				
	Over 15 years to 20 years				
	Over 20 years				

Part II Equity Exposures

32. Report in this part the long and short positions in equities in the trading book, including instruments that exhibit market behavior similar to equities. The instruments covered include common stock (whether voting or non-voting), and convertible bonds (i.e., debt issues or preference shares that are convertible, at a stated price, into common shares of the issuer) which trade like equities. For non-convertible preference shares and those convertible bonds which trade like debt

securities, they should be reported under Part I. Long and short positions in the same issue may be reported on a net basis.

33. The positions are to be reported on a market-by-market basis, i.e., under separate columns to indicate the exchange where the reported equities are listed/traded. For foreign markets, banks should indicate the country where the market is located. (Refer to example (4) in Annex A) Equities with listing in more than one market should be reported as positions in the market of their primary listing.

34. Matched positions in each identical equity in each market may be fully offset, resulting in a single net short or long position.

35. As with interest rate exposures, the capital charge is levied to separately cover both the specific risk and the general market risk. Calculation is done on an individual market basis. The unadjusted capital charge for specific risk will be 8% on the gross (i.e., long plus short) positions. The unadjusted general market risk charge will be 8% on the net position. Net long and short positions in different markets cannot be offset for the purpose of calculating general market risk charge.

Part III Foreign Exchange Exposures

36. Report in this part the amount in US dollars (USD) of net long or net short position in each currency. In addition, structural positions taken deliberately to hedge against the effects of exchange rate movements on the capital adequacy of the reporting bank may be excluded. This should be cleared with the BSP prior to reporting.

37. Net long/(short) position shall refer to FX assets (excluding FX items allowed under existing regulations to be excluded from FX assets in the computation of a bank’s net FX position limits) less FX liabilities (excluding FX items allowed under existing regulations to be excluded from FX liabilities in the computation of a bank’s net FX position limits), plus contingent FX assets less contingent FX liabilities.
38. Banks which base their normal management accounting of forward currency positions on net present values shall use the net present values of each position, discounted using current interest rates, for measuring their positions. Otherwise, forward currency positions shall be measured based on notional amount.
39. The total USD amount of net long or net short position in each currency should then be converted at spot rates into Philippine peso. The overall net open position is the greater of the absolute value of the sum of net long position or sum of net short position.
40. The unadjusted capital charge will be 8% of the overall net open position.

Part IV Internal Models Approach

41. Only those banks which have obtained the BSP’s approval to adopt their internal value-at-risk (VaR) models to calculate their market risk capital charges in lieu of the standardized methodology are required to report in this part.
1. Value-at-risk results
42. Report in this part the value-at-risk (VaR) results as at the last trading day of the

- reference quarter in column (a) and the average VaR over the most recent 60 trading days of the reference quarter in column (b), both for each individual market risk category using internal models approach, i.e., items 1.1 to 1.3, and for the aggregate of these risk categories, i.e., item 1.4.
43. Provided that the BSP is satisfied with the bank’s system for measuring correlations, recognition of empirical correlations across broad risk categories (e.g., interest rates, equity prices and exchange rates) may be allowed. The VaR for the aggregate of all risk categories will therefore not necessarily be equal to an arithmetic sum of the VaR for the individual risk category.
44. Report also in this part the number of backtesting exceptions for the past 250 trading days (from the reference quarter-end going backwards), based on:
- actual daily changes in portfolio value, in item 1.4. column (c), and
 - hypothetical changes in portfolio value that would occur were end-of-day positions to remain unchanged during the 1 day holding period, in item 1.4 column (d), for the aggregate of the broad risk categories.
45. The multiplication factor to be reported in item 1.4 column (e) is the summation of the following 3 elements:
- (a) the minimum multiplication factor of 3;
 - (b) the “plus” factor ranging from 0 to 1 based on the number of backtesting exceptions (i.e., the larger of item 1.4 column (c) or item 1.4 column (d)) for the past 250 trading days as set out in Table 3 below: and
 - (c) any additional “plus” factor as may be prescribed by the BSP.

Table 3
“Plus” factor based on the number of
backtesting exceptions for the past 250 trading
days

Zone	Number of exceptions	“Plus” factor
Green zone	0	0.00
	1	0.00
	2	0.00
	3	0.00
	4	0.00
Yellow zone	5	0.40
	6	0.50
	7	0.65
	8	0.75
	9	0.85
Red zone	10 or more	1.00

46. Capital charge for general market risk calculated by internal models reported in item 1.6 is larger of:

(a) Item 1.4 column (a), i.e., VaR for the aggregate of all risk categories, as at the last trading day of the reference quarter; or

(b) Item 1.5, i.e., the average VaR for the last 60 trading days of the reference quarter [(item 1.4 column (b)) times the multiplication factor [(item 1.4 column (e)) set out in paragraph 45 above.

2. Specific risk

47. Capital charge for the specific risk of debt securities and equities is to be reported using either of the following two methods:

(a) For banks which incorporate the specific risk into their models, report the capital charge for the total specific risk calculated by the models in item 1.7 of Part IV.1; or

(b) For banks which do not incorporate the specific risk into their models, report the specific risk of debt securities in Part I.1 according to the instructions in paragraphs 14-18 and 26-27. For equities, report the

specific risk in Part II according to the instructions in paragraphs 32 to 35.

3. Largest daily losses over the quarter

48. Report in this part in descending order (i.e., the largest loss first) the 5 largest daily losses over the reference quarter and their respective VaRs for the risk exposures which are measured by the internal models approach. If the number of daily losses during the quarter is less than 5, report only all such daily losses.

Part V Adjusted Capital Adequacy Ratio

49. The market risk capital charges should be aggregated and converted to a market risk-weighted exposure. The total market risk capital charge is the sum of the capital charges for individual market risk categories computed using either (a) the standardized approach, or (b) the internal models approach. The total capital charges for individual market risk categories using the standardized approach should be multiplied by 125% (to be consistent with the higher capital charge for credit risk, i.e., 10% as opposed to the BIS recommended 8%.)

50. The total market risk-weighted exposures is computed by multiplying the total market risk capital charges by 10. (The multiplier 10 is the reciprocal of the BSP required minimum capital ratio for credit risk of 10%.) The qualifying capital and total credit risk weighted exposures are extracted from Part V.A and Part V.B, respectively, of the Report on the Computation of Risk-Based Capital Adequacy Ratio covering credit risk.

51. For on-balance-sheet debt securities and equities in the trading book included in Parts I, II and IV of this Report, the credit

risk-weighted exposures reported in Part II of the Report on the Computation of the Risk-Based Capital Adequacy Ratio covering credit risk should be excluded in calculating the adjusted ratio covering combined credit

risk and market risk. The market risk capital charges for these positions calculated in this Report cover all the capital requirements for absorbing potential losses arising from carrying such positions.

Suppose as at 31 December, 200X, ABC Bank Corporation has the following trading book positions:

- (1) Long position in US Treasury Bond (7.5% annual coupon) with face value equivalent to PHP507.000MM and residual maturity of 8 years.
Market value based on quoted price: PHP518.914MM equivalent
- (2) Long position in an unrated floating rate note (6.25% current annual coupon) issued by a US corporate with face value equivalent of PHP260.000MM and next repricing 9 months after.
Market value based on quoted price: PHP264.758MM equivalent
- (3) Forward foreign exchange position of EUR5.000MM (long) against PHP250.000MM equivalent maturing in 3 months.
- (4) Long 1000 shares of a US listed company with current market price of PHP715.000MM equivalent.

Treatments:

- (1) Report market value (PHP518.914MM) of the long position in Part I.1, item I.2 and

Part I.2, USD ladder, 7 to 10 years time band.

- (2) Report market value (PHP264.758MM) of the long position in Part I.1, item 1.9 and Part I.2, USD ladder, 6 to 12 months time band.

- (3) Report a long 3 months zero coupon security in Part I.2, EUR ladder, 1 to 3 months time band and a short 3 months zero coupon security in the Peso ladder, 1 to 3 months time band.

Assume 3 months EUR cash rate at 3.25%, 3-month Peso zero-coupon yield at 5.63% and spot exchange rate is 46.

PV of the EUR leg (i.e. receive side)

$$\begin{aligned} \text{EUR} &= \text{EUR}5.000\text{MM} / (1 + 0.0325 \times 0.25) \\ &= \text{P}228.146\text{MM equivalent} \end{aligned}$$

PV of the PHP leg (i.e. pay side)

$$\begin{aligned} \text{PHP} &= \text{P}250.000\text{MM} / (1 + 0.0563 \times 0.25) \\ &= \text{P}246.530\text{MM} \end{aligned}$$

(For simplicity Part III of the report is not presented in this example.)

- (4) Report market value in Part II, item 1 (US column).

**PROCEDURES TO BE OBSERVED BY UNIVERSAL AND
COMMERCIAL BANKS APPLYING FOR BANGKO SENTRAL
RECOGNITION OF THEIR OWN INTERNAL MODELS FOR
CALCULATING MARKET RISK CAPITAL
[Appendix to Subsec. 1115.2 (2008 - 1116.5)]**

A. Bank’s own self-assessment

A bank intending to use its own internal Value-at-Risk (VaR) models, in lieu of the standardized approach, for calculating market risk capital charge should conduct a self-assessment of its compliance with the requirements for the use of such models as prescribed in *Appendix 46*, using the attached questionnaire in Annex A.

B. Offsite assessment by BSP

If a bank believes that it is in compliance with the abovementioned requirements for the use of internal models, it should submit a written application to the appropriate supervision and examination department of the BSP, together with the following:

1. Accomplished questionnaire;
2. A listing of the products to be included in the risk models;
3. Details as of end of the preceding quarter, by each product listed above, of:
 - a. The size of positions in terms of market value; and
 - b. The currencies in which it is traded,
4. Organizational structure and personnel;

The bank should submit latest organizational chart showing the names, reporting lines, and responsibilities of key personnel in-charge of trading, and of functions supporting the trading operations such as risk control, back office, internal audit, etc., and those at board level to whom they report. For those responsible for trading, the bank should provide details of their relevant qualifications and experience in the area of trading. For those responsible for risk control, the bank should provide details of their relevant qualifications and experience, particularly on the use of bank’s models.

The bank should also provide information on the number of staff within the risk control unit¹, their internal reporting structure, responsibilities, qualifications and experience.

5. Full technical description of the model, indicating, among others, the following:
 - a. the type of VaR model used (e.g., variance-covariance matrix, historical simulation or Monte Carlo simulation);
 - b. the parameters which are integral to the VaR calculations, including assumptions regarding:
 - (1) confidence interval;
 - (2) holding period;
 - (3) length of historical data used to calculate volatility parameters;
 - (4) scaling factors applied to VaR numbers to convert shorter holding periods to longer holding periods;
 - (5) weighting scheme applied to historical data (e.g., giving recent observations more weight than less recent observations);
 - (6) probability distribution functions of input variables to the Monte Carlo simulation model;
 - (7) the frequency of input data updates (e.g., how often are historical data series updated, when are variance-covariance matrices revised, etc.);
 - (8) the other models which are used as inputs to the VaR model (e.g., option pricing models, interest rate sensitivity models, etc.) and how they interface with the model; and
 - (9) the frequency of VaR calculation;
 - c. an outline of the VaR risk measurement calculation and processes, including, where necessary, mathematical formulae. This should also include:

¹ Referring generally to the risk management group functions in the BAP Financial Markets Risk Reference Manual.

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(1) the manner in which non-linear products, like options, are incorporated in the model;

(2) the extent to which correlation is allowed both within and across risk categories (i.e., interest rates, equity prices, exchange rates); and

(3) the means by which specific risk is addressed within the VaR framework, if appropriate, and the explanation of the techniques by which this is achieved.

6. Policies and procedures for backtesting;

The bank should describe the methods of backtesting employed, including the treatment of intra-day trading profits and loss and fee income within the daily profit and loss figures. While the formal implementation of the BSP prescribed backtesting program should begin on the quarter following the date of BSP's recognition of the bank's internal model and thus implies that the formal accounting of exceptions under the BSP prescribed backtesting program would be a year later, the bank should, at initial assessment, submit at least the latest backtesting result based on its own backtesting program, including the confidence level used in calculating the VaR numbers. The confidence level used shall dictate the number of daily observations on which the backtesting will be applied (e.g., 250 number of observations for a ninety-nine percent (99%) confidence level, and a higher number of observations for a confidence level higher than ninety-nine percent (99%), subject to a minimum of 250 observations.

7. Policies and procedures for stress testing;

8. Internal validation reports which should include the following:

a. the latest review of the overall risk management process by the applicant bank's internal auditors; and

b. the latest validation of the formulae used in the calculation process, as well as for the pricing of options and other complex instruments by a qualified unit which is independent from the trading area; and

9. Validation reports of external auditor.

The bank should stand ready to make a presentation to the BSP on its compliance with the abovementioned requirements for the use of internal models.

C. On-site assessment by BSP

The BSP shall conduct an on-site assessment of the models to review both the technical details of the models and the risk management practices that govern their use.

During the on-site assessment, the bank should give a brief demonstration of how its models work. The demonstration should cover the following:

1. how model inputs are fed into the system including extent of manual inputs;
2. how VaR numbers are calculated;
3. how results are generated and interpreted;
4. accuracy in terms of back testing results;
5. stress testing capability;
6. use of model outputs in risk management; and
7. limitations of the model.

The onsite assessment shall also include interview with the concerned officers and personnel of the bank.

D. Assessment on an ongoing basis by the BSP.

After initial recognition of the models by the BSP, the bank should inform the BSP of any material change to the models, including change in the methodology or scope to cover new products and instruments. The BSP shall determine whether the models remain acceptable for calculating the market risk capital charge.

The BSP shall likewise conduct a periodic assessment of the models and the controls surrounding the models at least annually to ensure that they remain compliant with the minimum qualitative and quantitative requirements prescribed under *Appendix 46* on an ongoing basis. Non-compliance with the minimum requirements shall be ground for disallowing the use of such models.

(Name of Bank)

COMPLIANCE WITH THE REQUIREMENTS FOR THE USE OF INTERNAL MODELS

Criteria	Yes	No	Bank's Explanations ¹
I. General Criteria			
1. Is the bank’s risk management system conceptually sound and implemented with integrity?			
2. Does the bank have sufficient number of staff skilled in the use of sophisticated models not only in the trading area but also in the risk control, audit, and if necessary, back office area?			
3. Do the bank’s models have a proven track record of reasonable accuracy in measuring risk?			
4. Does the bank conduct stress tests along the lines discussed in Item V below?			
II. Qualitative Standards			
1. Does the bank have an independent risk control unit that is responsible for the design and implementation of the bank’s risk management system?			
• Does the unit produce and analyze daily reports on the output of the bank’s risk measurement model, including an evaluation of the relationship between measures of risk exposure and trading limits?			(Cite examples of reports produced by the unit and indicate what time of day these reports are calculated.)
• Is the unit independent from business trading units?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

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Criteria	Yes	No	Bank's Explanations ¹
<ul style="list-style-type: none">Does the unit report directly to senior management of the bank?			
2. Does the risk control unit conduct a regular backtesting program, i.e., an expost comparison of the risk measure generated by the model against actual daily changes in portfolio value over longer periods of time, as well as hypothetical changes based on static positions?			
3. Are the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks) and senior management actively involved in the risk control process?			
<ul style="list-style-type: none">Do the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks) and senior management regard risk control as an essential aspect of the business to which significant resources need to be devoted?			
<ul style="list-style-type: none">Are daily reports prepared by the independent risk control unit reviewed by a level of management with sufficient seniority and authority to enforce both reductions of positions taken by individual traders and reductions in the bank’s overall risk exposure?			
4. Is the bank’s internal risk measurement model closely integrated into the day-to-day risk management process of the bank?			
<ul style="list-style-type: none">Is the output of the internal risk measurement model accordingly an integral part of the process of planning, monitoring and controlling the bank’s market risk profile?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

Criteria	Yes	No	Bank's Explanations ¹
5. Is the risk measurement system used in conjunction with internal trading and exposure limits?			
· Are trading limits related to the bank's risk measurement model in a manner that is consistent over time and that is well-understood by both traders and senior management?			
6. Is a routine and rigorous program of stress testing in place as a supplement to the risk analysis based on day-to-day output of the bank's risk measurement model?			
· Are the results of stress testing exercises reviewed periodically by senior management and reflected in the policies and limits set by management and the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks)?			
· Where stress tests reveal particular vulnerability to a given set of circumstances, are prompt steps taken to manage those risks appropriately (e.g., by hedging against that outcome or reducing the size of the bank's exposures)?			
7. Does the bank have a routine in place for ensuring compliance with a documented set of internal policies, controls and procedures concerning the operation of the risk measurement system?			
· Is the bank's risk measurement system well documented, i.e. through a risk management manual that describes the basic principles of the risk management system and that provides an explanation of the empirical techniques used to measure market risk?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

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Criteria	Yes	No	Bank's Explanations ¹
8. Is an independent review of the risk measurement system carried out regularly in the bank’s own internal auditing process?			
· Does this review include both the activities of the business trading units and of the independent risk control unit?			
· Does the review of the overall risk management process take place at regular intervals (ideally not less than once a year)?			
· Does the review address the following:			
- the adequacy of the documentation of the risk management system and process?			
- the organization of the risk control unit?			
- the integration of market risk measures into daily risk management?			
- the approval process for risk pricing models and valuation systems used by front and back-office personnel?			
- the validation of any significant change in the risk measurement process?			
- the scope of market risks captured by the risk measurement model?			
- the integrity of the management information system?			
- the accuracy and completeness of position data?			
- the verification of the consistency, timeliness and reliability of data sources used to run internal models, including the independence of such data sources?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

Criteria	Yes	No	Bank's Explanations ¹
- the accuracy and appropriateness of volatility and correlation assumptions?			
- the accuracy of valuation and risk transformation calculations?			
- the verification of the model’s accuracy through frequent backtesting as discussed In Item II.2 above?			
III. Specification of Market Risk Factors			
A. Interest Rates			
Is there a set of risk factors corresponding to interest rates in each currency in which the bank has interest rate-sensitive on- or off- balance sheet positions?			
· Does the risk measurement system model the yield curve using one (1) of a number of generally accepted approaches, e.g., by estimating forward rates of zero coupon yields?			
· Is the yield curve divided into various maturity segments in order to capture variation in the volatility of rates along the yield curve, with one (1) risk factor corresponding to each maturity segment?			
· For material exposures to interest rate movements in the major currencies and markets, does the bank model the yield curve using a minimum of six (6) risk factors?			
· Does the risk measurement system incorporate separate risk factors to capture spread risk (e.g., between bonds and swaps)?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

Criteria	Yes	No	Bank's Explanations ¹
B. Equity Prices			
1. Are there risk factors corresponding to each of the equity markets in which the bank holds significant positions?			
· Is there, at a minimum, a risk factor that is designed to capture market-wide movements in equity prices (e.g., a market index)?			
2. Does the sophistication and nature of the modeling technique for a given market correspond to the bank’s exposure to the overall market as well as its concentration in individual equity issues in that market?			
C. Exchange Rates			
Does the risk measurement system incorporate risk factors corresponding to the individual foreign currencies in which the bank’s positions are denominated, i.e., are there risk factors corresponding to the exchange rate between the Philippine peso and each foreign currency in which the bank has a significant exposure?			
IV. Quantitative Standards			
1. Is “Value-at-risk” (VaR) computed on a daily basis?			
2. Is a 99 th percentile, one-tailed <i>confidence interval</i> used?			
3. Is an instantaneous price shock equivalent to a ten (10) day movement in prices used, i.e., is the minimum “ <i>holding period</i> ” ten (10) trading days?			
· If VaR numbers are calculated according to a shorter holding period, is this scaled up to ten (10) days by the square root of time?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

Criteria	Yes	No	Bank's Explanations ¹
4. Is the <i>historical observation period</i> (sample period) at least one (1) year?			
· If a weighting scheme or other methods for the historical observation period are used, is the “effective” observation period at least one (1) year (that is, the weighted average time lag of the individual observations is not less than six (6) months)?			
5. Are <i>data sets</i> updated no less frequently than once every three (3) months?			
· Are <i>data sets</i> reassessed whenever market prices are subject to material changes?			
6. For banks with option transactions			
· Does the bank’s model capture the <i>non-linear price characteristics</i> of options positions?			
· Is a ten (10)-day price shock applied to options positions or positions that display option-like characteristics?			
· Does the bank’s risk measurement system have a set of risk factors that captures the <i>volatilities of the rates and prices</i> underlying option positions, i.e., vega risk?			
· For banks with relatively large and/or complex options portfolios, does the bank have detailed specifications of the relevant options volatilities, i.e., does the bank measure the volatilities of options positions broken down by different maturities?			
V. Stress Testing			
1. Does the bank have a rigorous and comprehensive stress-testing program in place?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

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Criteria	Yes	No	Bank's Explanations ¹
2. Do the bank’s stress scenarios cover a range of factors that can create extraordinary losses or gains in trading portfolios, or to make the control of risks in those portfolios very difficult, e.g., low-probability events in all major types of risks, including the various components of market, credit, and operational risks?			
· Do the stress scenarios shed light on the impact of such events on positions that display both linear and non-linear price characteristics (i.e. options and instruments that have options-like characteristics)?			
3. Are the bank’s stress tests both of a qualitative and quantitative nature, incorporating both market risk and liquidity aspect of market disturbances?			
· Do quantitative criteria identify plausible stress scenarios to which banks could be exposed?			
4. Are the results of stress testing reviewed periodically by senior management?			
· Are the results of stress testing reflected in the policies and limits set out by management and the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks)?			
· If the bank’s testing reveals particular vulnerability to a given set of circumstances, does the bank take prompt steps to manage those risks appropriately (e.g., by hedging against the outcome or reducing the size of its exposures)?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

Criteria	Yes	No	Bank's Explanations ¹
VI. External Validation			
Is the model accuracy validated by external auditor?			
· If yes, does the validation include -			
- Verification of the internal auditors' report on their review of the bank's overall risk management process?			
- Ensuring that the formula used in the calculation process, as well as for pricing of options and other complex instruments, are validated by a qualified unit, which is independent from the trading area?			
- Checking the adequacy of the structure of the internal models with respect to the bank's activities?			
- Checking the results of the backtesting to ensure that the internal model provides a reliable measure of potential loss over time?			
- Ensuring the transparency and accessibility of the data flows and processes associated with the risk measurement system?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

**GUIDELINES FOR THE ESTABLISHMENT AND ADMINISTRATION/
MANAGEMENT OF SINKING FUND FOR THE REDEMPTION OF
REDEEMABLE PRIVATE PREFERRED SHARES
(Appendix to Subsec. X126.5)**

Sinking fund shall refer to a fund set aside in order to accumulate the amount necessary for the redemption of redeemable preferred shares.

A. Establishment and Composition

1. Documentation
 - a. A resolution by the bank’s board of directors authorizing the Chief Executive Officer/President of the bank to establish a sinking fund equal to the reserve for retirement of preferred shares for the sole purpose of redemption of redeemable preferred shares at their maturity dates.
 - b. Investment Plan. The plan shall be approved by the board of directors and should indicate the types/classes of investments for the sinking fund. The amount of initial/periodic contributions set forth in the Investment Plan shall be in accordance with Section B par. 1 below. A copy of the Plan shall be submitted to the BSP within thirty (30) calendar days from approval thereof by the bank’s board of directors.
2. Eligible Securities and Investments

The sinking fund may be invested in the following:

 - a. Evidence of indebtedness of the Republic of the Philippines and/or the BSP, or any other evidence of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;
 - b. Evidence of indebtedness or obligation of the central monetary authority of a foreign country, denominated in the national currency of the issuing country, the servicing and repayment of which are fully guaranteed by the government of such country;

- c. Deposits with private and/or government banks to the extent covered by deposit insurance; and
 - d. Such other securities as the Monetary Board may designate from time to time.
- Banks shall refrain from investing sinking fund resources in highly volatile, high-risk commercial instruments.

B. Operation

1. Amount of Annual Investment

The annual contribution to the sinking fund shall be equal to the reserve for retirement set up for the year, equivalent to the amount of redeemable shares issued divided by their respective terms, i.e., number of years from date of issue to date of maturity.
2. Accounting Entries - please refer to Annex “A”.
3. Administration
 - a. Responsible Officer. The sinking fund shall be administered by the Chief Executive Officer or his duly authorized representative, who shall be an employee of the bank with a rank not lower than manager or its equivalent, preferably with experience in treasury operations. The administrator shall be responsible for investment decisions and the maintenance of records of the sinking fund. He shall be responsible for the execution of the Investment Plan, and may deviate from the Plan only upon the approval of the board of directors.
 - In the case of RBs/Coop Banks, the bank president or the general manager or the officer-in-charge shall be designated as the administrator of the sinking fund.
 - b. Sinking Fund Manager. The board of directors shall delegate the management

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of the fund to an independent fund manager, e.g., trust company, where the amount of the fund is equivalent to five percent (5%) or more of the authorized redeemable private preferred shares, in case of UBs and KBs, or when such fund amounts to ₱1.0 million or more in the case of TBs and RBs/Coop Banks: *Provided*, That the sinking fund manager shall invest only in such securities as are prescribed in these guidelines: *Provided, further*, That a bank/financial institution acting as sinking fund manager may not designate the owner of the fund it manages as the sinking fund manager of its own sinking fund established for the same purpose.

c. Reports. The administrator shall submit to the Board a quarterly report on the status of the Fund. The report shall include the to-date balance of the fund, its composition, income earned for the period, a reasonable forecast for the various financial instruments into which the fund

has been placed, and the administrator's/fund manager's recommendations or proposals regarding the fund. In its evaluation of the report the Board shall ascertain the degree of risk that the sinking fund is exposed to and prescribe the appropriate corrective actions.

The report of the administrator/fund manager shall be under oath and made available for examination by the BSP.

d. Review of the Investment Plan. The Board shall conduct an annual evaluation of the Investment Plan and the performance of the administrator/fund manager, and may introduce amendments to or revisions of the Plan, a copy of which shall be submitted to the BSP.

4. Sanctions. Failure to comply with the guidelines shall subject the bank and its directors and officers to the sanctions prescribed in Item "c" of Subsec. X126.5 and Sections 36 and 37 of R.A. No. 7653.

Summary of Pro-Forma Journal Entries to Record Sinking Fund Transactions

- a. Setting up the sinking fund. The initial contribution to the sinking fund shall be recorded as follows:

1. To set up Reserve for Retirement of Preferred Stock

Undivided Profits/Surplus Free	xxx
Other Surplus Reserves – Reserve for Retirement of Preferred Stock	xxx

To transfer from free to restricted Surplus the amount set up as reserve for redemption of preferred shares.

2. To set up the subsidiary account – Sinking Fund (classified as Other Non-Current Assets)

IBODI/Others – Sinking Fund for Redemption of Preferred Shares	xxx
Cash/Due from Banks	xxx

To set up the Sinking Fund for the Redemption of Preferred Shares.
- b. Contributions to the sinking fund

1. To set up the periodic Reserve for Retirement

Undivided Profits/Surplus Free	xxx
Other Surplus Reserves –Reserve for Retirement of Preferred Stock	xxx

To transfer from free to restricted Surplus reserve for redemption of preferred shares.
- c. Income/loss from the sinking fund. The recognition of income/loss from the investments shall follow the existing accounting treatment/procedures prescribed in the Manual of Accounts for Banks

1. To record receipt or accrual of income due to the sinking fund

Cash/Due from Banks/ Accrued Other Income Receivable	xxx
Other Income/Accrued Other Income	xxx

To record income earned from sinking fund assets.

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d. Redemption

1. Liquidation of sinking fund. Any gain or loss realized/incurred from liquidation of the sinking fund investments shall be credited/charged to operations.

Undivided Profits/ Surplus Free		
Cash		xxx
IBODI/Others – Sinking Fund for Redemption of Preferred Shares		xxx
Other Income – Gain on Sale of Sinking Fund Securities		xxx

To record the liquidation of sinking fund assets and recognize income therefrom.

or:

Cash		xxx
Loss from Sale of Sinking Fund Securities		xxx
IBODI/Others – Sinking Fund for Redemption of Preferred Shares		xxx

To record the liquidation of sinking fund assets and loss incurred therefrom.

2. Transfer to Undivided Profits/Surplus Free of the balance of the Restricted Surplus account
- | | |
|--|-----|
| Other Surplus Reserves – Reserve for Retirement of Preferred Stock | xxx |
| Undivided Profits/ Surplus Free | xxx |

To close the restricted surplus account ‘Other Surplus Reserves – Retirement of Preferred Stock’ and to revert the balance of the same to Undivided Profits/Surplus Free.

3. Redemption of preferred shares, declaration of stock dividend equal to amount of preferred shares redeemed and payment of such dividend through the issuance of new shares of stock

- (a)
- | | |
|----------------------------------|-----|
| Capital Stock – Preferred Shares | xxx |
| Cash/Due from Banks | xxx |

To record the redemption of redeemable preferred shares.

- (b)
- | | |
|--------------------------------|-----|
| Undivided Profits/Surplus Free | xxx |
| Dividends Distributable | xxx |

- (c)
- | | |
|--|-----|
| Dividends Distributable | xxx |
| Capital Stock – Common Stock/Preferred Stock | xxx |

To record payment of stock dividend (common stock).

- e. Treatment of changes in the market of the sinking fund portfolio. Gains and losses arising from changes in market values of component securities shall be deferred (not recognized) until the securities are liquidated.

**ACTIVITIES WHICH MAY BE CONSIDERED UNSAFE
AND UNSOUND BANKING PRACTICES**
(Appendix to Secs. X149 and X408)

The following activities are considered only as guidelines and are not irrebutably presumed to be unsafe or unsound. Conversely, not all practices which might under the circumstances be termed unsafe or unsound are mentioned here. The Monetary Board may now and then consider any other acts/omissions as unsafe or unsound practices.

- a. Operating with management whose policies and practices are detrimental to the bank and jeopardize the safety of its deposits.
- b. Operating with total adjusted capital and reserves that are inadequate in relation to the kind and quality of the assets of the bank.
- c. Operating in a way that produces a deficit in net operating income without adequate measures to ensure a surplus in net operating income in the future.
- d. Operating with a serious lack of liquidity, especially in view of the asset and deposit/liability structure of the bank.
- e. Engaging in speculative and hazardous investment policies.
- f. Paying excessive cash dividends in relation to the capital position, earnings capacity and asset quality of the bank.
- g. Excessive reliance on large, high-cost or volatile deposits/borrowings to fund aggressive growth that may be unsustainable.

For this purpose, a bank is considered offering high-cost deposit/borrowings if the effective interest rate paid on said deposits/borrowings and/or non-cash incentives is fifty percent (50%) over the prevailing comparable market median rate for similar bank categories, maturities and currency denomination and accompanied by other circumstance/s such as:

- (1) Undue reliance on solicitation and acceptance of brokered deposits;
- (2) Bank incurs large sum of deposit generation expenses in the form of commissions, referral and solicitation fees and related expenses and/or payment of advance interest on deposits;
- (3) Deferral of the above deposit generation expenses incurred to delay recording of expenses and/or inaccurate amortization of advance interest paid on deposits.
- (4) Deposit packages offered include non-cash incentives disproportionate to the amount of deposits sought which give undue or unwarranted advantage or preference for the bank; and
- (5) Bank markets, solicits and accepts deposits outside the bank premises including branches, unless otherwise authorized by the BSP under Sections X213 or X701.
- h. Excessive reliance on letters of credit either issued by the bank or accepted as collateral to loans advanced.
- i. Excessive amounts of loan participations sold.
- j. Paying interest on participations without advising participating institution that the source of interest was not from the borrower.
- k. Selling participations without disclosing to the purchasers of those participations material, non-public information known to the bank.
- l. Failure to limit, control and document contingent liabilities.
- m. Engaging in hazardous lending and lax collection policies and practices, as evidenced by any of the following circumstances:
 - (1) An excessive volume of loans subject to adverse classification;

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(2) An excessive volume of loans without adequate documentation, including credit information;

(3) Excessive net loan losses;

(4) An excessive volume of loans in relation to the total assets and deposits of the bank;

(5) An excessive volume of weak and self-serving loans to persons connected with the bank, especially if a significant portion of these loans are adversely classified;

(6) Excessive concentrations of credit, especially if a substantial portion of this credit is adversely classified;

(7) Indiscriminate participation in weak and undocumented loans originated by other institutions;

(8) Failing to adopt written loan policies;

(9) An excessive volume of past due or non-performing loans;

(10) Failure to diversify the loan portfolio/asset mix of the institution;

(11) Failure to make provision for an adequate reserve for possible loan losses;

(12) High incidence of spurious and fraudulent loans due to patently inadequate risk management systems and procedures resulting in significant impairment of capital;

(13) Bank's niche mostly consists of borrowers who have impaired or limited credit history, or majority of the loans are either clean/unsecured or backed with minimum collateral values except those underwritten using microfinance technology consistent with Section X361 and other acceptable cash flow-based lending systems; and the bank does not have a robust risk management system in place leaving the bank vulnerable to losses;

(14) Loan rates are excessively higher than market rates to compensate the added or higher risks involved. Excessively higher

rates are those characterized by effective interest rates that are fifty percent (50%) over the prevailing comparable market median rate for similar loan types, maturities and collaterals; and

(15) Assignment of loans on without recourse basis with real estate properties as payment, resulting in total investment in real estate in excess of the prescribed ceiling.

n. Permitting officers to engage in lending practices beyond the scope of their positions.

o. Operating the bank with inadequate internal controls.

p. Failure to keep accurate and updated books and records.

q. Operating the institution with excessive volume of out-of-territory loans.

r. Excessive volume of non-earning assets.

s. Failure to heed warnings and admonitions of the supervisory and regulatory authorities.

t. Continued and flagrant violation of any law, rule, regulation or written agreement between the institution and the BSP.

u. Any other action likely to cause insolvency or substantial dissipation of assets or earnings of the institution or likely to seriously weaken its condition or otherwise seriously prejudice the interest of its depositors/investors/clients.

v. Non-observance of the principles and the requirements for managing and monitoring large exposures and credit risk concentrations under Subsec. X301.6a and 6b.

w. Improper or non-documentation of repurchase agreements covering government securities and commercial papers and other negotiable and non-negotiable securities or instruments.

(As amended by Circular No. 640 dated 16 January 2009)

CERTIFICATION OF COMPLIANCE WITH
SECTION 55.4 OF REPUBLIC ACT NO. 8791
(Appendix to Subsec. X262.3)

Name of Bank
Address of Head Office
Telefax/Fax Number

The Deputy Governor
Supervision and Examination Sector
Bangko Sentral ng Pilipinas
Manila, Philippines

Sir:

This is to certify that this bank, in the conduct of its business involving bank deposits, does not have in its employ any casual/non-regular personnel or employees/personnel, who are working after the probationary period of six (6) months, are still not being considered regular/permanent employees, personnel of the bank.

This certification is being submitted in compliance with the requirements of Circular No. 336 dated 02 July 2002 and Circular Letter dated 11 November 2003 implementing Section 55.4 of the General Banking Law of 2000.

Very truly yours,

Authorized Officer's Signature
Over Printed Name
Designation

**GUIDELINES ON RETENTION AND DISPOSAL OF
RECORDS OF RURAL AND COOPERATIVE BANKS**
[Appendix to Subsec. 3191.9 (2008 - 3161.9)]

The following guidelines shall govern the retention and disposal of records of RBs/Coop Banks.

A. Classification of Records and Documents	Retention Period
1. Accounting records	
(a) Books of accounts, audited financial/annual reports	10 years
(b) Tickets and supporting papers	10 years
(c) Official receipts (2nd copy)	10 years
2. Organization papers for the establishment of RBs/ Coop Banks, branches/offices (organizational file), special license/authority granted by BSP (e.g. authority to accept demand deposits, government deposits, fringe benefit plan)	Permanent
3. Updated Manual of operations, including compliance system, policies on personnel, security and other related matters	Permanent
4. Stock and transfer book and related records and documents	Permanent
5. Minutes of meeting	
(a) Stockholders/general assembly, board of directors	Permanent
(b) Other committees	10 years
6. Human resource files	
(a) Documents pertaining to members of the board of directors and stockholders	Permanent
(b) Bank officers and staff	5 years from resignation/separation retirement
(c) Officers and staff with derogatory information	Permanent
7. Correspondence (to and from)	
(a) BSP on examination findings/exceptions and directives; rediscounting, loans and advances	10 years except if there is a court case - until the case is finally resolved by the court

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(b) Other government regulatory/supervisory authorities, e.g. PDIC, BIR, DOLE, SSS	5 years or as prescribed by the government institution concerned whichever is longer
(c) All other correspondence	5 years
8. Reports to BSP (financial and non-financial reports)	5 years
9. Reports to other government and non-government	5 years or as prescribed by the institution concerned whichever is longer
10. Records and documents on court cases/complaints	Permanent
11. Documents, certificates of ownership/titles on bank assets	Permanent
12. All other records/documents of all transactions, e.g. loans and investments, disposal of assets, deposit liabilities and borrowings, expenditures and income, disbursements	10 years from dates when accounts were closed/disposed of/settled

Notwithstanding the retention periods herein, RBs/Coop Banks may preserve for a longer period those records/documents they deem necessary.

In cases where specific laws or BSP issuances require a different retention period, the longer retention period shall be observed.

B. Procedural requirements on disposal of banks records and documents

1. No RBs/Coop Banks shall dispose of any records without the prior approval of its board of directors.
2. All records and documents for disposal must be burned or shredded in the presence of a director of the bank duly designated by the board of directors, the Chief Operating Officer or equivalent rank and the Compliance Officer.
3. The designated director, the Chief Operating Officer (or its equivalent) and the Compliance Officer shall execute a joint affidavit (Annex A) attesting to the burning/shredding of the records/documents.

The original copy of the joint affidavit shall be kept permanently by the Treasurer or Cashier and must be made available for inspection by the BSP.

(As amended by Circular 720 dated 06 May 2011)

REPUBLIC OF THE PHILIPPINES)
CITY/MUNICIPALITY OF _____) S.S
PROVINCE OF _____)

JOINT AFFIDAVIT

We, namely: _____, Director; _____, Chief Operating Officer (or equivalent rank); and _____, Compliance Officer, all of legal ages, representing the Rural/ Cooperative Bank of _____, Inc. after having been sworn to in accordance with law do hereby depose and say:

1. That we are the bank officials of the Rural/Cooperative Bank of _____, Inc., duly designated under Board Resolution No. ____ dated _____, to ensure and witness the proper disposal of the following records/documents:

2. That we have witnessed the burning/shredding of the above-mentioned records/documents that took place on _____ 20__ at _____ AM/PM at the premises of the Rural/ Cooperative Bank of _____.
3. That we have executed this Affidavit to attest to the truthfulness of the foregoing and in accordance with the rules prescribed by the Bangko Sentral ng Pilipinas (BSP).

IN WITNESS WHEREOF, we have set our hands this _____ day of _____ 20__ at _____, Philippines.

SUBSCRIBED AND SWORN TO BEFORE ME, this _____ day of _____ 20__ at _____, the foregoing Affiants, exhibiting their respective valid identification document/s (ID/s), to wit:

Name	Valid ID's	Date Issued	Place Issued
_____	_____	_____	_____
_____	_____	_____	_____

NOTARY PUBLIC
My Commission expires on December 31, 20____
PTR No. _____ issued on _____ 20__ at _____

Doc. No. _____
Book No. _____
Page No. _____
Series of 20____.

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**SWORN CERTIFICATION OF FOREIGN CURRENCY DEPOSIT UNIT/EXPANDED
FOREIGN CURRENCY DEPOSIT UNIT LENDING TO REGULAR BANKING UNIT**

(Please refer to Circular No. 645 dated 13 February 2009)

Sample Computation on Foreign Currency Deposit Unit Lending to
Regular Banking Unit
(Appendix to Item 3.b.1 of Section 72, Circular No. 645 dated 13 February 2009)

FCDU LENDING to RBU
SAMPLE COMPUTATION - 30% CAP
(Amounts in Million USD)

		Average FCDU/EFCDU Deposit Liabilities ^{1/}		Average On- Balance Sheet Forex Trade Asset ^{2/}	Cap for the Week	“Borrowing-FCDU/EFCDU” Account		
		Amount	30%			Debit	Credit	Balance
August	2	140	42	30				
	9	120	36	45				
	12				30		10	10
	13						5	15
	14						5	20
	15						8	28
	16	110	33	36			2	30
	19				36		1	31
	20						2	33
	21						3	36
	22							36
	23	200	60	42				36
	26				33	3 ^{2/}		33
	27							33
	28							33
	29							33
	30	170	51	27				33
Sept	2				42		6	39
	3						2	41
	4					4		37
	5						3	40
	6	250	75	66			2	42
	9				27	15		27
	10					4		23
	11						4	27
	12							

^{1/} Computed using 2-month rolling data (i.e., for week ended 02 August, average of daily data from 03 June to 02 August; week ended 09 August, average of daily data from 10 June to 09 August, etc.).

Average daily balance for each observation period = Sum of daily balances/Total banking days

^{2/} RBU should pay off to reduce outstanding balance to within prescribed limit.

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REVISED IMPLEMENTING RULES AND REGULATIONS
R.A. NO. 9160, AS AMENDED BY R.A. NO. 9194
[Appendix to Sec. X801 (2008 - X691)]

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

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Anti-Money Laundering Council Resolution No. 292

**RULES ON SUBMISSION OF COVERED TRANSACTION REPORTS AND
SUSPICIOUS TRANSACTION REPORTS BY COVERED INSTITUTIONS¹**

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

Anti-Money Laundering Council Resolution No. 10

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

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**CUSTOMER DUE DILIGENCE FOR BANKS AND NON-BANK FINANCIAL
INTERMEDIARIES PERFORMING QUASI-BANKING FUNCTIONS**

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

GENERAL IDENTIFICATION REQUIREMENTS

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

**General Guide to Account Opening and
Customer Identification**

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

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Anti-Money Laundering Council Resolution No. 02
Series of 2005

(Deleted by Circular No. 706 dated 05 January 2011)

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**CERTIFICATION OF COMPLIANCE WITH
ANTI-MONEY LAUNDERING REGULATIONS
(Appendix to Subsec. X801.6)**

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

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**DETAILS ON THE COMPUTATION OF QUARTERLY INTEREST PAYMENTS
CREDITED TO THE DEMAND DEPOSIT ACCOUNTS OF BANKS'
LEGAL RESERVE DEPOSITS WITH BSP
(Appendix to Subsec. X254.3)**

(Deleted by Circular No. 753 dated 29 March 2012)

SMALL AND MEDIUM ENTERPRISE UNIFIED LENDING OPPORTUNITIES FOR
NATIONAL GROWTH BANK ACCREDITATION APPLICATION FOR RURAL AND
THRIFT BANKS ELIGIBILITY AND DOCUMENTARY REQUIREMENTS
(Appendix to Subsec. X342.15)

Requirements	Documents to be submitted
1. CAMELS rating should be at least “3.0”	Latest report of BSP bank examination
2. Compliance with the ten percent (10%) maximum ratio of DOSRI past due loans	Copy of quarterly report submitted to BSP
3. No loan with LBP and BSP, Quedancor, PBSP, SBGFC, PhilExim, DBP, and SSS in arrears. Rediscounting privileges with BSP and LBP not suspended	Credit investigation report by GFI credit and appraisal management unit or department
4. Past due loans and items in litigation is not in excess of the industry average plus two percent (2%) but not to exceed twenty five percent (25%) (based on latest quarterly report of BSP)	Copy of the Consolidated Statement of Condition and Income & Expense as submitted to BSP
5. Not deficient in loan loss provisions/reserves	Certification from BSP
6. Ratio of acquired assets to total assets is not more than industry average plus two percent (2%) but not to exceed fifteen percent (15%)	Copy of the latest computation of the risk-based capital adequacy ratio cover for credit risk under Sec. X116
7. Positive results of operations in the last preceding calendar year. If such is negative, the average income of the past two (2) or three (3) years should at least be positive	Copy of latest interim financial statements as submitted to BSP
8. Not deficient in bank reserves for the last six (6) months preceding the filing of application	Copy of weekly report submitted to BSP or BSP certification
9. Ratio of accrued interest receivables to surplus (free) plus undivided profits is less than 100%	Copy of latest interim financial statements as submitted to BSP
10. The bank is owned and managed by the same persons (key officers) at least for the last two (2) years	Applicant’s records
11. No derogatory information gathered on the officers and directors of the bank	GFI Credit and Appraisal Management Unit or Department
12. Compliance with corporate governance	Applicant’s reply to questionnaire on comparison of BSP mandated practices with actual practices

SMALL AND MEDIUM ENTERPRISE UNIFIED LENDING OPPORTUNITIES FOR
NATIONAL GROWTH
LENDING FEATURES OF SHORT-TERM LOANS

<u>Loan Purpose</u>	<u>Export Financing (Export Packing Credit)</u>	<u>Credit Line (Temporary Working Capital)</u>
Target Industries	All industries except trading of imported goods, of liquor and cigarettes, extractive industries	All industries except trading of imported goods, of liquor and cigarettes, in extractive industries
Eligible Enterprises	At least sixty percent (60%) Filipino-owned whose assets are not more than P100 million, excluding the value of the land	At least sixty percent (60%) Filipino-owned whose assets are not more than P100 million, excluding the value of the land
Maximum Financing	Seventy percent (70%) of the value of LC/PO; maximum of P5.0 million	Seventy percent (70%) of working capital requirement; maximum of P5.0 million
Interest Rate**	Nine percent (9.00%)	Nine percent (9.00%)
Repayment Term	Maximum of one (1) year	Maximum of one (1) year
Collateral*	Post dated check Registered/Unregistered REM/CHM Assignment of LC or PO Assignment of life insurance Guarantee cover	Post dated check Registered/Unregistered REM/CHM Assignment of life insurance Guarantee cover Corporate Guarantee (if franchisee) Assignment of lease rights (if franchisee)
Evaluation and Service Fees	P2,000 for every P1 million Plus front-end fee of one-half of one percent (½ of 1%) of approved loan	P2,000 for every P1 million Plus front-end fee of one-half of one percent (½ of 1%) of approved loan

Financial Profile of the Borrower:

Debt-Equity Ratio	At most 80:20 after the loan	At most 80:20 after the loan At most 70:30 (if franchisee)
Profitability	Positive income for last year. (If past year’s income is negative, the average income of past two (2) or three (3) years should be positive)	Positive income for last year. (If past year’s income is negative, the average income of past two (2) or three (3) years should be positive)
Other Ratios	Based on industry standards	Based on industry standards

* The Program will not decline a loan only on the basis of inadequate collateral. However, the borrower must be willing to mortgage all available business and personal collateral, including assets to be acquired from the loan to secure the borrowing.

** Applicable to all loan applications with complete requirements received up to 30 June 2003. A GFI committee shall be set up to review the pricing thereafter on a quarterly basis.

SMALL AND MEDIUM ENTERPRISE UNIFIED LENDING OPPORTUNITIES FOR
NATIONAL GROWTH
LENDING FEATURES OF LONG-TERM LOANS

Loan Purpose	a) Purchase of equipment b) Building construction c) Purchase of lot d) Purchase of inventories – permanent working capital
Target Industries	All industries except trading of imported goods, of liquor and cigarettes, in extractive industries and in housing projects
Eligible Enterprises	At least sixty percent (60%) Filipino-owned whose assets are not more than P100.0 million, excluding the value of the land
Maximum Financing	Eighty percent (80%) of the incremental project cost; maximum of P5.0 million
Interest Rate	3-year T-Bond rate + 2% (3-year loan)* 5-year T-Bond rate + 2% (5-year loan)*
Repayment Term	Maximum of five (5) years, inclusive of maximum one (1) year grace period on principal monthly amortization
Collateral**	Post dated check Registered/Unregistered REM/CHM Assignment of life insurance Corporate guarantee (if franchisee) Assignment of lease rights (if franchisee)
Evaluation and Service Fees	P2,000 for every P1.0 million Plus front-end fee of ½ of 1% of approved loan and commitment fee of 125% of unavailed balance

* Based on yield of bonds with three (3) or five (5) year remaining loan tenor as per MART 1 of Bloomberg. As of 22 January 2003, MART 1-Bloomberg, 3-year term loan has a yield of 9.25% and 5 year term loan has a yield of 10.75%. With a premium of 2%, the 3-year rate will be set at 11.25% and the 5-year rate at 12.75%.

** The Program will not decline a loan only on the basis of inadequate collateral. However, the borrower must be willing to mortgage all available business and personal collateral, including assets to be acquired from the loan to secure the borrowing.

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Financial Profile of the Borrower:

Debt-Equity Ratio	At most 80:20 after the loan At most 70:30 (if franchisee)
Profitability	Positive income for last year. (If past year's income is negative, the average income of past two (2) or three (3) years should be positive)
Other Ratios	Based on industry standards

**TRANSFER/SALE OF NON-PERFORMING ASSETS TO A
SPECIAL PURPOSE VEHICLE OR TO AN INDIVIDUAL**
(Appendix to Subsec. X394.10)

The following procedures shall govern the transfer/sale of NPAs to a SPV or to an individual that involves a single family residential unit, or transactions involving *dacion en pago* by the borrower or third party of a non-performing loan (NPL), for the purpose of obtaining the COE which is required to avail of the incentives provided under R.A. No. 9182, as amended by R.A. No. 9343.

a. Prior to the filing of any application for transfer/sale of NPAs, a bank shall coordinate with the BSP through the SDC and the appropriate department of the SES to develop a reconciled and finalized master list of its eligible NPAs.

For this purpose, banks were requested to submit a complete inventory of their NPAs in the format prescribed under Circular Letter dated 07 January 2003. Only NPAs included in the master list that meet the definition of NPA, NPL and ROPA under R.A. No. 9182 may qualify for the COE. The banks shall be provided a copy of their reconciled and finalized master list for their guidance.

Only banks which have not yet submitted their master list of NPAs and intend to avail of the incentives and fee privileges of the SPV Act 2nd Phase implementation are allowed to submit a complete inventory of their NPAs in the format prescribed under Circular Letter dated 07 January 2003. Banks which have already submitted to BSP a master list of NPAs as of 30 June 2002 in the 1st Phase implementation of the SPV Act will not be allowed to submit a new/amended master list.

b. An application for eligibility of specific NPAs shall be filed in writing (hard copy) by the selling bank with the BSP

through the appropriate department of the SES for each proposed transfer of asset/s. Although no specific form is prescribed, the applicant shall describe in sufficient detail its proposed transaction, identifying its counterparty/ies and disclosing the terms, conditions and all material commitments related to the transaction.

c. For applications involving more than ten (10) NPA accounts, the list of NPAs to be transferred/sold shall be submitted in soft copy (by electronic mail or diskette) in excel format using the prescribed data structure/format for NPLs and ROPAs to the appropriate department of the SES of the applicant bank at the following addresses:

SEDI-SPV@bsp.gov.ph
SEDII-SPV@bsp.gov.ph
SEDI-SPV@bsp.gov.ph
SEDIV-SPV@bsp.gov.ph

For applications involving ten (10) NPA accounts or less, it is preferable that the list be submitted also in soft copy. The applicant may opt to submit the list in hard copy, provided all the necessary information shown in the prescribed data structure that are relevant to each NPL or ROPA to be transferred/sold will be indicated. The list to be submitted in hard copy would be ideal for the sale/transfer of NPAs that involve one (1) promissory note and/or one (1) asset item per account.

d. The application shall be accompanied by a written certification signed by a senior officer with a rank of at least senior vice president or equivalent, who is authorized by the board of directors, or by the country head, in the case of foreign banks, that:

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(1) the assets to be sold/transferred are NPAs as defined under the SPV Act of 2002;

(2) the proposed sale/transfer of said NPAs is under a true sale;

(3) the notification requirement to the borrowers has been complied with; and

(4) the maximum ninety (90)-day period for renegotiation and restructuring has been complied with.

Items "3" and "4" above shall not apply if the NPL has become a ROPA after 30 June 2002.

e. In the case of *dacion en pago* by the borrower or a third party to a bank, the application for COE on the NPL being settled shall be accompanied by a Deed of Dacion executed by the borrower, the third party, the registered owner of the property and the bank.

f. The appropriate department of the SES may conduct an on-site review of the NPLs and ROPAs proposed to be transferred/sold. After the on-site review, the application for transfer/sale shall be submitted to the Deputy Governor, SES for approval and for the issuance of the corresponding COE.

g. Upon the issuance of the SPV Application Number by the BSP, a bank shall be charged a processing fee, as follows:

(1) 1/100 of one percent (1%) of the book value of NPAs transferred or the

transfer price, whichever is higher, but not below ₱25,000 if the transfer is made to an SPV;

(2) 1/100 of 1% of the book value of the NPL but not below ₱5,000 in case of a *dacion en pago* arrangement by an individual or corporate borrower;

(3) ₱5,000 if the transfer involves a single family residential unit to an individual.

h. An SPV that intends to transfer/sell to a third party an NPA that is covered by a COE previously issued by the BSP shall file an application for such transfer/sale with the SEC which shall issue the corresponding COE based on the data base of COEs maintained at the BSP.

An individual who intends to transfer/sell an NPA that involves a single family residential unit he had acquired that is covered by a COE shall file an application for another COE with the BSP through the bank from which the NPA was acquired. The individual shall indicate in his application the previous COE issued for the NPA he had acquired and the name, address and TIN of the transferee/buyer of the NPA. A processing fee of ₱5,000 shall be collected by BSP upon issuance of the SPV Application Number by the BSP.

(As amended by M-2006-001 dated 11 May 2006)

ACCOUNTING GUIDELINES ON THE SALE OF NON-PERFORMING ASSETS TO
SPECIAL PURPOSE VEHICLES AND TO QUALIFIED INDIVIDUALS FOR
HOUSING UNDER “THE SPECIAL PURPOSE VEHICLE ACT OF 2002”
(Appendix to Subsec. X394.10)

General Principles

These guidelines set out alternative regulatory accounting treatment of the sale of non-performing assets (NPAs) by banks and other financial institutions (FIs) under Bangko Sentral supervision to Special Purpose Vehicles (SPVs) and to qualified individuals for housing under R.A. No. 9182, otherwise known as “The Special Purpose Vehicle (SPV) Act of 2002”.

The guidelines recognize that banks/FIs may need temporary regulatory relief, in addition to tax relief under the SPV Law, particularly in the timing of recognition of losses, so that they may be encouraged to maximize the sale of their NPAs even at substantial discounts: *Provided, however,* That in the interest of upholding full transparency and sustaining market discipline, banks/FIs that avail of such regulatory relief shall fully disclose its impact in all relevant financial reports.

The guidelines cover the following areas:

- (1) Derecognition of NPAs sold/transferred to an SPV and initial recognition of financial instruments issued by the SPV to the selling bank/FI as partial or full settlement of the NPAs sold/transferred to the SPV;
- (2) Subsequent measurement of the carrying amount of financial instruments issued by the SPV to the selling bank/FI;
- (3) Capital adequacy ratio (CAR) calculation; and
- (4) Disclosure requirement on the selling bank/FI.

The sale/transfer of NPAs to SPV referred to in these guidelines shall be in the nature of a “true sale” pursuant to

Section 13 of the SPV Law and its Implementing Rules and Regulations.

I. Derecognition of NPAs Sold and Initial Recognition of Financial Instruments Received

A bank/FI should derecognize an NPA in accordance with the provisions of PAS 39 (for financial assets such as loans and securities) and PASs 16 and 40 (for non-financial assets such as land, building and equipment).

A sale of NPA qualifying as a true sale pursuant to Section 13 of the SPV Law and its Implementing Rules and Regulations but not qualifying for derecognition under PASs 39, 16 and 40 may nonetheless, be derecognized. *Provided:* That the bank/FI shall disclose such fact, in addition to all other disclosures provided in this Memorandum.

On derecognition, any excess of the carrying amount of the NPA (i.e., net of specific allowance for probable loss after booking the Bangko Sentral recommended valuation reserve) over the proceeds received in the form of cash and/or financial instruments issued by the SPV represents an actual loss that should be charged to current period’s operations.

However, a bank/FI may use any existing specific allowance for probable losses on NPA sold:

- (1) to cover any unbooked (specific/general) allowance for probable losses; and
- (2) to apply the excess, if any, as additional (specific/general) allowance for probable losses, on remaining assets, in which case the carrying amount of the NPA (which is compared with the proceeds

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received for purposes of determining the actual loss) shall be the gross amount of the NPA: *Provided*, That the use of such existing specific allowance for probable losses on the NPA sold as provisions against remaining assets shall be properly disclosed

The loss may, moreover, be booked under "Deferred Charges" account which should be written down over the next ten (10) years based on the following schedule:

<u>End of Period From Date of Transaction</u>	<u>Cumulative Write-down of Deferred Charges</u>
Year 1	5%
Year 2	10%
Year 3	15%
Year 4	25%
Year 5	35%
Year 6	45%
Year 7	55%
Year 8	70%
Year 9	85%
Year 10	100%

Provided, That the staggered booking of actual loss on sale/transfer of the NPA shall be properly disclosed.

In case the face amounts of the financial instruments exceed the excess of the carrying amount of the NPA over the cash proceeds, the same shall be adjusted by setting up specific allowance for probable losses so that no gain shall be recognized from the transaction.

The carrying amount of the NPA shall be initially assumed to be the NPA's fair value. The excess of the carrying amount of the NPA over the cash proceeds or the face amounts of the financial instruments, whichever is lower, shall then be the initial cost of financial instruments received.

Banks/FIs shall book such financial instruments under the general ledger account "Unquoted Debt Securities Classified as Loans" for debt instruments or "Investments in Non-Marketable Equity

Securities (INMES)" for equity instruments.

Consolidation of SPV with Bank/FI Even if the sale of NPAs to SPV qualifies for derecognition, a bank/FI shall consolidate the SPV in the audited consolidated financial statements when the relationship between the bank/FI and the SPV indicates that the SPV is controlled by the bank/FI in accordance with the provisions of SIC (Standing Interpretations Committee) - 12 Consolidation - Special Purpose Entities."

However, banks which booked their losses from sale/transfer of NPAs to SPV as "deferred charges" are allowed to accelerate in full the remaining unamortized losses to be charged directly to Retained Earnings instead of Profit or Loss, subject to the conditions that this shall be recognized and booked as transaction for the year 2012 or for fiscal year ending 2013, as may be applicable, and that appropriate disclosures shall be made in the audited financial statements, annual reports and published statement of condition.

II. Subsequent Measurement of Financial Instruments Received

(a) A bank/FI should assess at end of each fiscal year or more frequently whether there is any objective evidence or indication based on analysis of expected net cash inflows that the carrying amount of financial instruments issued by an SPV may be impaired. A financial instrument is impaired if its carrying amount (i.e., net of specific allowance for probable loss) is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on the net present value of expected future cash flows discounted at the current market rate of interest for a similar financial instrument.

In applying discounted cash flow analysis, a bank/FI should use the discount rate(s) equal to the prevailing rate of return for financial instruments having substantially the

same terms and characteristics, including the creditworthiness of the issuer.

(b) Alternatively, the estimated recoverable amount of the financial instruments may be determined based on an updated estimate of residual net present value (NPV) of the issuing SPV.

The estimated recoverable amount of the financial instrument shall be the present value of the excess of expected cash inflows (e.g., proceeds from the sale of collaterals and/or ROPAs, which in no case shall exceed the contract price of the NPAs sold/ transferred, interest on the reinvestment of proceeds) over expected cash outflows (e.g., direct costs to sell, administrative expenses, principal and interest payments on senior obligations, interest payments on the financial instruments).

The fair market value of the collateral and/or ROPAs should under this method be considered only under the following conditions:

(1) The appraisal was performed by an independent appraiser acceptable to the Bangko Sentral; and

(2) The valuation of the independent appraiser is based on current market valuation of similar assets in the same locality as underlying collateral rather than other valuation methods such as replacement cost, etc.

The assumptions regarding the timing of sale, the direct cost to sell, administrative expenses, reinvestments rate and current market rate should be disclosed in sufficient detail in the audited financial statements. The applicable discount rate should be based on the implied stripped yield of the Treasury note or bond for the tenor plus an appropriate risk premium.

(c) In case of impairment, the carrying amount of the financial instrument should be reduced to its estimated recoverable amount, through the use of specific allowance for probable losses account that should be charged to current period’s operations.

However, at the end of the fiscal year the sale/ transfer of NPA occurred, such setting up of specific allowance for probable losses account may be booked on a staggered basis over the next ten (10) years based on the following schedule:

End of Period From Date of Transaction	Cumulative Booking of Allowance for Probable Losses
Year 1	5%
Year 2	10%
Year 3	15%
Year 4	25%
Year 5	35%
Year 6	45%
Year 7	55%
Year 8	70%
Year 9	85%
Year 10	100%

Provided, That the staggered booking of impairment, if any, upon remeasurement of financial instruments at end of the fiscal year the sale/transfer of the NPA occurred shall be properly disclosed.

After initially recognizing an impairment loss, the bank/FI should review the financial instruments for future impairment in subsequent financial reporting date.

If in a subsequent period, the estimated recoverable amount of the financial instrument decreases, the bank/FI should immediately book additional allowance for probable losses corresponding to the decrease. However, a bank/FI may stagger the booking of such additional allowance for probable losses in such a way that it catches up and keeps pace with the original deferral schedule (e.g., if the impairment occurred in Year 8, a bank/FI should immediately book seventy percent (70%) at end of Year 8, and thereafter, additional fifteen percent (15%) each at end of Year 9 and Year 10, respectively): *Provided*, That the staggered booking of impairment, if any, upon remeasurement of financial

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instruments shall be properly disclosed.

If in a subsequent period, the estimated recoverable amount of the financial instrument increases exceeding its carrying amount, and the increase can be objectively related to an event occurring after the write-down, the write-down of the financial instruments should be reversed by adjusting the specific allowance for probable losses account. The reversal should not result in a carrying amount of the financial instrument that exceeds what the cost would have been had the impairment not been recognized at the date the write-down of the financial instrument is reversed. The amount of the reversal should be included in the profit for the period.

Illustrative accounting entries for derecognition of NPAs, initial recognition of financial instruments issued by the SPV, and subsequent measurement of the carrying amount of the financial instrument are in Annex A.

III. Capital Adequacy Ratio (CAR) Calculation

Banks/FIs may, for purposes of calculating capital adequacy ratio (CAR), likewise stagger over a period of seven (7) years the recognition of:

(1) actual loss on sale/transfer of NPAs; and

(2) impairment, if any, upon re-measurement of financial instruments, in accordance with the following schedule:

<u>End of Period From Date of Transaction</u>	<u>Cumulative Recognition of Losses/Impairment</u>
Year 1	5 %
Year 2	10 %
Year 3	15 %
Year 4	25 %
Year 5	35 %
Year 6	45 %

Year 7	55%
Year 8	70%
Year 9	85%
Year 10	100%

The financial instruments received by the selling bank/FI shall be risk weighted in accordance with Sec. X116.

A bank/FI may declare cash dividend on common and/or preferred stock notwithstanding deferred recognition of loss duly authorized by the Bangko Sentral.

IV. Disclosure

Banks/FIs should disclose as "Additional Information" in periodic reports submitted to the Bangko Sentral, as well as in published reports and audited financial statements and all relevant financial reports the specific allowance for probable losses on NPAs sold used as provisions against remaining assets, the staggered recognition of actual loss on sale/transfer of NPAs" and/or impairment, if any, on the remeasurement of financial instruments.

In addition, banks/FIs which receive financial instruments issued by the SPVs as partial or full settlement of the NPAs transferred to the SPVs should disclose in the audited financial statements the method used and the significant assumptions applied in estimating the recoverable amount of the financial instruments, including the timing of the sale, the direct cost to sell, administrative expenses, reinvestment rate, current market rate, etc. (The pro-forma disclosure requirements on the staggered recognition of actual loss on sale/transfer of NPAs and/or impairment, if any, on the remeasurement of financial instruments are shown in Annex B.)

(As amended by M-2012-036 dated 24 July 2012)

ILLUSTRATIVE ACCOUNTING ENTRIES TO RECORD SALE OF NPAs TO SPV UNDER THE SPV LAW OF 2002
UNDER DEFERRED RECOGNITION OF LOSS/IMPAIRMENT OF FINANCIAL INSTRUMENTS

Mode of Payment (Cash, Financial Instruments)					
	Cash Only (30, 0)	Financial Instruments Only (0, 120)	Part Cash, Part Financial Instruments ¹ (30, 100)	Part Cash, Part Financial Instruments ² (30, 90)	Part Cash, Part Financial Instruments (30, 70)
Assumptions:					
Loans/ROPAs, gross	120	120	120	120	120
Allowance for probable losses	20	20	20	20	20
Loans/ROPAs, net	100	100	100	100	100
Cash payment received	30	0	30	30	30
Financial instruments received	0	120	100	90	70
Unbooked valuation reserves on remaining assets	15	15	15	15	15

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Annex A

¹ Face amounts of financial instruments exceed the excess of the gross amount of the NPAs over the cash proceeds.
² Face amounts of financial instruments do not exceed the excess of the gross amount of the NPAs over the cash proceeds.

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Accounting Entries		Cash Only (30, 0)		Financial Instruments Only (0, 120)		Part Cash, Part Financial Instruments ¹ (30, 100)		Part Cash, Part Financial Instruments ² (30, 70)		Part Cash, Part Financial Instruments (30, 90)	
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
1	Allowance for Probable Losses – NPAs sold Allowance For Probable Losses-Remaining Assets <i>(For unbooked provisions)</i> <i>(As additional provisions)</i> To record the reclassification of existing specific allowance for credit losses on NPAs sold as provisions against remaining assets.	20		20		20		20		20	
			15 5		15 5		15 5		15 5		15 5
2	Cash Unquoted Debt Securities Classified as Loans/INMES Deferred Charges Loans/ROPAs Allowance for Credit Losses - Unquoted Debt Securities Classified as Loans/INMES To record the sale of NPAs, receipt of cash and/or financial instruments, and deferred recognition of loss, if any.	30 0 90		0 120 0		30 100 0		30 90 0		30 70 20	
			120		120		120		120		120
			0		0		10		0		0
3	Amortization – Deferred Charges Deferred Charges To record annual write down of deferred charges based on schedule of staggered booking of losses.	xxx		0		0		0		xxx	
			xxx		0		0		0		xxx

¹ Face amounts of financial instruments exceed the excess of the gross amount of the NPAs over the cash proceeds.
² Face amounts of financial instruments do not exceed the excess of the gross amount of the NPAs over the cash proceeds.

Accounting Entries		Cash Only (30, 0)		Financial Instruments Only (0, 120)		Part Cash, Part Financial Instruments ¹ (30, 100)		Part Cash, Part Financial Instruments ² (30, 70)		Part Cash, Part Financial Instruments (30, 90)	
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
4	Provision for Credit Losses Unquoted Debt Securities Classified as Loans/INMES	0		xxx		xxx		xxx		xxx	
	Allowance for Credit Losses – Unquoted Debt Securities Classified as Loans/INMES		0		xxx		xxx		xxx		xxx
To record annual build up of allowance for credit losses on financial instruments based on schedule of staggered booking of allowance for credit losses.											

¹ Face amounts of financial instruments exceed the excess of the gross amount of the NPAs over the cash proceeds.
² Face amounts of financial instruments do not exceed the excess of the gross amount of the NPAs over the cash proceeds.

PRO-FORMA DISCLOSURE REQUIREMENT

A. Statement of Condition

Particulars	Amount		
	Qualified for Derecognition Under PFRS/PAS	Not Qualified for Derecognition Under PFRS/PAS	Total
Additional Information:			
NPAs sold, gross	xxx	xxx	xxx
Allowance for credit losses (specific) on NPAs sold	xxx	xxx	xxx
Allowance for credit losses (specific) on NPAs sold applied to:			
Unbooked allowance for credit losses:			
Specific	xxx	xxx	xxx
General	xxx	xxx	xxx
Additional allowance for credit losses			
Specific	xxx	xxx	xxx
General	xxx	xxx	xxx
Cash received			
Financial instruments received, gross	xxx	xxx	xxx
Less: Allowance for credit losses (specific)	xxx	xxx	xxx
Carrying amount of financial instruments received	xxx	xxx	xxx
Less: Unbooked allowance for credit losses (specific)	xxx	xxx	xxx
Adj. carrying amount of financial instruments received	xxx	xxx	xxx
Deferred charges, gross	xxx	xxx	xxx
Less: Deferred charges written down	xxx	xxx	xxx
Carrying amount of deferred charges	xxx	xxx	xxx

B. Statement of Income and Expenses

Particulars	Amount		
	Qualified for Derecognition Under PFRS/PAS	Not Qualified for Derecognition Under PFRS/PAS	Total
Additional Information:			
Net income after income tax (with regulatory relief)			xxx
Less: Deferred charges not yet written down	xxx	xxx	xxx
Unbooked allowance for credit losses (specific) on financial instruments received	xxx	xxx	xxx
Total deduction	xxx	xxx	xxx
less: Deferred tax liability, if applicable	xxx	xxx	xxx
Net deductions	xxx	xxx	xxx
Net income/loss after income tax (without regulatory relief)			

SIGNIFICANT TIMELINES RELATIVE TO THE IMPLEMENTATION OF
R.A. NO. 9182, ALSO KNOWN AS THE “SPECIAL PURPOSE VEHICLE ACT”,
AS AMENDED BY R.A. NO. 9343
(Appendix to Subsec. X394.10)

A. Filing of Applications with the SEC for Establishing an SPV

Under Section 6 of R.A. No. 9182, as amended by R.A. No. 9343, applications for the establishment and registration of an SPV shall be filed with the SEC within eighteen (18) months from the effectivity of the amendatory Act (i.e., up to 14 November 2007).

B. Sale/Transfer of NPAs Entitled to Tax Exemptions and Fee Privileges

The following transactions enumerated as Items “1” to “6” of Section 15 of the IRR of the SPV Law are entitled to the tax exemptions and fee privileges under the same Section only if such transactions occur within two (2) years from the effectivity of the amendatory Act or from 14 May 2006 to 14 May 2008¹:

1. The transfer of the NPL by the bank to an SPV;

2. The transfer of the ROPA by the bank to an SPV;

3. The dation in payment (*dacion en pago*) of the NPL by the borrower to the bank;

4. The dation in payment (*dacion en pago*) of the NPL by a third party, on behalf of the borrower, to the bank;

5. The transfer of the NPL (secured by a real estate mortgage on a residential unit) by the bank to an individual; and

6. The transfer of the ROPA (single family residential unit) by the bank to an individual.

For purposes of determining whether a transaction occurred within the two (2)-year period or from 14 May 2006 to 14 May 2008; relevant documents to support the application (e.g., Asset Sale and Purchase Agreement, Deed of Assignment, Deed of Dation, etc.) should be notarized within the said two (2)-year period.

(M-2007-013 dated 11 May 2007 as amended by M-2008-014 dated 17 March 2008)

¹ The Monetary Board authorized the SES to accept applications for Certificate of Eligibility (COE) until 13 June 2008, or up to 30 days after the 14 May 2008 deadline.

**GUIDELINES ON REQUESTS FOR MONETARY BOARD OPINION ON THE
MONETARY AND BALANCE OF PAYMENTS IMPLICATIONS OF PROPOSED
DOMESTIC BORROWINGS BY LOCAL GOVERNMENT UNITS (LGUs)
PURSUANT TO SECTION 123 OF R.A. NO. 7653
(Appendix to Sec. X398)**

Pursuant to Monetary Board Resolution No. 1444 dated 06 September 2012, the following guidelines shall govern the domestic borrowing of local government units (LGUs) in line with Republic Act No. 7653 (The New Central Bank Act), as well as other pertinent laws/regulations.

I. Coverage

This shall govern borrowings of LGUs within the Philippines, the procedures to be observed, as well as documentary requirements, for requests for Monetary Board opinion on the probable effects of the proposed credit operation on monetary aggregates, the price level and the balance of payments, pursuant to Section 123 of Republic Act No. 7653.

II. Procedures

1. The LGUs directly or through the lending bank, shall submit a written request to the Bangko Sentral for Monetary Board opinion on the monetary and balance of payments (BOP) implications of its proposed borrowing prior to the loan release. The request shall include the required supporting documents/information listed in Appendix 57 Annex 1.

2. The Bangko Sentral shall acknowledge receipt of the request, with an initial evaluation of the documents/information submitted. In case of incomplete submission of documents/information, the Bangko Sentral shall require that the deficiency or lacking documents/information be complied with or submitted.

3. Once the LGU or lending bank has submitted the required documents/information, the matter shall be elevated to the Monetary Board for an opinion on the probable monetary and BOP implications of the proposed LGU loans.

4. The Monetary Board opinion shall contain the following conditions:

a. The loan proceeds shall only be released by the lending bank to a proponent LGU subject to the requirements stipulated in relevant laws.

b. The Monetary Board opinion on the proposed LGU borrowings is being issued pursuant to Section 123 of R.A. No. 7653 (The New Central Bank Act). The opinion of the Monetary Board is limited to the assessment of the monetary and BOP implications of the proposed borrowings. The said opinion is based on: (i) the information contained in the documents submitted; and (ii) the assumption that the proceeds of the borrowing will be used for the intended purpose described in the documents submitted.

c. The Monetary Board opinion is valid only for six (6) months from the date of issue.

5. No opinion will be issued by the Monetary Board in cases where the LGU borrowing/loan has already been partially or fully disbursed.

6. Extension of the six (6)-month validity period of the Monetary Board opinion may be granted based on meritorious reasons and subject to submission of supporting documents as may be prescribed by the Bangko Sentral.

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III. Post Borrowing Reports

The borrowing LGU, or its duly authorized representative or through the lending bank, shall submit to the Bangko Sentral a post-borrowing report that will indicate the actual amount of the

domestic borrowing as well as the final terms and conditions thereof within thirty (30) calendar days from the date of the full release of loan proceeds and other reports as may be required by the Bangko Sentral.

(Circular No. 402 dated 04 September 2003, as amended by Circular No. 769 dated 26 September 2012)

Required Supporting Documents and Information
for LGU Borrowings

A. To support the request for Monetary Board opinion (to be submitted by the LGU or by the lending bank on behalf of the LGUs, to Bangko Sentral

- 1. Letter by the LGU, or the lending bank on behalf of its client LGUs, requesting for the Monetary Board opinion on the proposed loan, and providing information on the terms and conditions of the proposed loan (i.e. loan amount, purpose of loan [whether for infrastructure or importation of equipment, etc.], interest rate, maturity fees and other charges).
- 2. Certification on the debt service and borrowing capacity of the LGU obtained from the Department of Finance – Bureau of Local Government Finance (DOF-BLGF).
- 3. Designation of a contact person/s responsible for coordinating with the Bangko Sentral along with contact information, and a Sanggunian Resolution on the specific acts/services he/she has been authorized to perform.
- 4. Indication of the lending bank on the source of the funds to be lent to the LGU.

B. Release of Loan Proceeds (to be submitted by LGU to the lending bank)

- 1. Ordinance approving proposed loan’s terms and conditions as well as the specific purpose/s and corresponding amount/s of project/s to be funded¹ (sample copy attached as Annex 2)
- 2. Other applicable requirements under R.A. No. 7160, such as the provincial validation of the municipality/city ordinance, if applicable, or municipal/city validation of barangay ordinance.
- 3. A waiver on the confidentiality of investment and bank deposits, whether in peso or foreign currency. Such waiver should be duly executed by the mayor or governor or barangay chairman as the case may be, and supported by a duly-executed “waiver resolution” (sample copy attached as Annex 3).

C. Request for Monetary Board Opinion on LGU Borrowings to be Obtained from Other Financial Institutions not under the Supervision of the Bangko Sentral.

All documentary requirements and information enumerated above shall be submitted to the Bangko Sentral by the borrowing LGU, together with its request for Monetary Board opinion, in case the loan will be obtained from other lending institutions not under the supervision of the Bangko Sentral.

D. Post-Borrowing Reports

The borrowing LGU, or its duly authorized representative or through the lending bank, shall submit to the Bangko Sentral a post-borrowing report that will indicate the actual amount of the domestic borrowing as well as the final terms and conditions thereof within thirty (30) calendar days from the full release of loan proceeds and other reports as may be required by the Bangko Sentral (sample copy attached as Annex 4)

¹ The ordinance requirement is based on one of the fundamental principles governing the operations of LGUs (Sec. 305 of the Local Government Code) that: “(a) No money shall be paid out of the local treasury except in pursuance of an appropriations ordinance or law.” The requirement is also referred in Section 55 (b) of the LGC that there is a need for “an ordinance directing the *payment of money or creating a liability*.”

Sample LGU Ordinance for
Proposed borrowing (loan)

Republic of the Philippines
Province of _____
Municipality/City of _____

OFFICE OF THE SANGGUNIANG BAYAN/PANLUNGSOD/PANLALAWIGAN

ORDINANCE¹ NO. _____
Series of _____

ORDINANCE AUTHORIZING THE PROPOSED BORROWING OF THE CITY/
MUNICIPALITY/PROVINCE OF _____, IN THE AMOUNT OF
_____(P _____)TO FUND THE _____.

BE IT ENACTED, as it is hereby ENACTED, by the Sangguniang Bayan/Panlungsod/
Panlalawigan of _____, in session assembled that:

SECTION 1. The Municipal/City Mayor/Provincial Governor, in representation of the
Municipality/City/ Province, hereinafter referred to as the "Municipality"/"City"/
"Province", is hereby authorized to enter into Name of loan agreement/credit facility with
name of lender in accordance with Section 297 of Republic Act No. 7160 or
the Local Government Code, in the amount of _____ (P _____) under the terms
and conditions herein set forth and such other terms and conditions as may be agreed upon
with any person, corporation or entity for the purpose of funding priority project/s, and
subject to the requirements under Section 123 of Republic Act No. 7653 as implemented by
the Bangko Sentral ng Pilipinas Circular No. 402. In this connection, the Municipal/City
Mayor/Provincial Govenor shall have full power and authority to represent the Municipality/
City/ Province in negotiating the terms and conditions for the said borrowing and in signing,
executing and delivering such agreements, contract, deeds, papers, and documents as may
be necessary and proper for the full and total implementation of the authority herein granted;

SECTION 2. The said priority project/s herein specified as the _____
is/are hereby certified to be a local infrastructure and/or other socio-economic development
projects in accordance with² the approved local development plan and public investment
program for the period _____ or for the current year _____ of the Municipality/City/Province
of _____ and is supported by a final feasibility study prepared by _____ which is
also hereby approved/has been approved under the Sanggunian Bayan/Panlungsod/
Panlalawigan Resolution No. _____ dated _____.

¹ Based on the Local Government Code (e.g. Sections 305 (a) and 55(b)).
² Sections 296 and 297 of the Local Government Code

SECTION 3. Consistent with the covering _____ contract, deeds and assignment, mortgage contracts, and such other agreements as maybe entered into by the Municipality/ City/Province in connection with the borrowing, the features, terms and conditions shall be as follows and are hereby approved:

3.1 Project Name

- Borrower
- Amount
- Purpose/s³
 - Item 1 or Project A – (description, amount)
 - Sub-item a- (description, sub-amount)
 - Sub-item b- (description, sub-amount)
 - Sub-item c- (description, sub-amount)
 -
 - Item 2 or Project B – (description, amount)
 - Sub-item a- (description, sub-amount)
 - Sub-item b- (description, sub-amount)
 - Sub-item c- (description, sub-amount)
 -
- Term
- Manner of Payment
- Interest
- Principal
- Interest rate
- Collateral/Guarantee/Security:
- Front-end Fee
- Commitment Fee
- Guarantor
- Guarantee Fee
- Sinking Fund (if applicable) or other Funding Arrangements

SECTION 4. The Municipality/City/Province hereby appropriates the entire proceeds of the borrowing exclusively to finance the _____ and other financial obligations relative thereto.

SECTION 5. Any Ordinance or parts thereof, inconsistent with this enactment is hereby repealed or amended accordingly.

SECTION 6. This Ordinance shall take effect upon its publication and compliance with all procedures required under Republic Act. No. 7160 for an ordinance to be valid, including the affixation of signatures of the Sanggunian Bayan/Panlungsod/Panlalawigan members, in concurrence thereto, composing at least a majority thereof, out of the total of _____ members, on all pages of this Ordinance.⁴

³ Please indicate the specific project/s and a basic/simple breakdown into the cost/components of each project, if there is more than one project. Include borrowing cost items, if any will be included in the loan.
⁴ In particular, but not limited to Sections 54-56, 58-59. This includes the mayor’s/governor’s/local chief executive’s signature on all pages.

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SO ORDAINED/ENACTED.

RESOLVED FURTHER, that copies of this Ordinance be furnished the Honorable Governor/Mayor (as the case may be), the Municipal/City/Provincial Accountant, and the Municipal/City/Provincial Auditor, all of this Municipality/City/Province of _____ the _____ and the Bangko Sentral ng Pilipinas for their information and appropriate action.

ADOPTED this ____ day of ____ 201__.

SANGGUNIAN MEMBERS:

Hon. _____	Hon. _____
Hon. _____	Hon. _____
Hon. _____	Hon. _____
Hon. _____	Hon. _____

CERTIFIED TRUE AND CORRECT:

SB/SP Secretary

ATTESTED:

Municipal/City Vice Mayor, or
Vice Governor or Presiding Officer

APPROVED: _____	Date Approved: _____
_____ Municipal/City Mayor/Provincial Governor	

VALIDATED AS CONSISTENT WITH LAW:⁵

Sangguniang Panlalawigan Secretary

Provincial Governor

Date Validated: _____

⁵ An ordinance passed by a municipality or component city has to be validated as consistent with law thru a review by the Sangguniang Panlalawigan (Sec. 56 of LGC). For such case, the ordinance should likewise be signed by the appropriate officers of the Sangguniang Panlalawigan on all pages, or otherwise validated through a separate document. Similarly, Sec. 57 provides for the review of Barangay Ordinances by the Sangguniang Panlungsod or Sangguniang Bayan. Other provinces issue a separate certification or resolution on said provincial review, if applicable.

(Name of local Government Unit)
(Complete Address)
(Tel. Nos./Fax/E-mail)

Hon. Amando M. Tetangco, Jr.
Governor
Bangko Sentral ng Pilipinas

Dear Gov. Tetangco:

This has reference to our request for the opinion of the Monetary Board (MB) on the probable effects on monetary aggregates, price level and balance of payments of the proposed borrowing amounting to _____ by the Province/City/Municipality of _____.

Pursuant to the provisions of Sections 2 and 3 of Republic Act No. 1405 and other laws relating to the secrecy of bank deposits, Resolution No. ____ dated _____ (certified true copy attached) was passed by the Province/City/Municipality of _____ waiving our rights to confidentiality of information by authorizing _____, our lending/trustee bank and all banks or financial institutions with which we have transactions to disclose to the Bangko Sentral ng Pilipinas (BSP) all information pertaining to the deposits, investments, loans or other transactions including the history or status of our dealings with said banks or financial institutions and for the BSP to make all inquiries as may be necessary regarding the same. The BSP is likewise authorized to disclose and share any such information furnished or obtained from said banks or financial institutions to the Department of Finance in relation to the performance by said Department of its functions.

Thank you.

Very truly yours,

Chairman/Mayor/Governor

_____ 20 ____

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For submission to the Department of Economic Research:
30 days after the final disbursement of the loan proceeds

Annex 4

POST BORROWING REPORT	
Name of Borrower	
Monetary Board Resolution No.	
Date of Monetary Board Opinion	
Amount of Proposed Loan	
Final Terms and Conditions	
Name of Facility	
Actual Amount of Loan*	
Purpose	
Interest Rate (Actual)	
If floating, please indicate base and spread	
Availment/Drawdown date*	
Term (In Years)	
Maturity Date	
Grace Period	
Interest Payment (Frequency/Date)	
Principal Payment (Frequency/Date)	
National Government Guarantee	
Collateral Guarantee/Security	
Breakdown of fees and other related costs	
Other relevant terms and conditions	

*Please indicate if on a staggered basis

**GUIDELINES AND MINIMUM DOCUMENTARY REQUIREMENTS FOR
FOREIGN EXCHANGE FORWARD AND SWAP TRANSACTIONS**
[Appendix to Subsecs. X625.3, X625.4 and X625.6 (2008 - X602.16 – X602.18)]

The following is a list of minimum documentary requirements for FX forward and swap transactions. Unless otherwise indicated, original documents* shall be presented on or before deal date to banks.

A. FORWARD SALE OF FX TO COVER OBLIGATIONS – DELIVERABLE AND NON-DELIVERABLE

1. FORWARD SALE OF FX – TRADE

1.1 Trade transactions

1.1.1 Under Letters of Credit (LC)

- a. Copy of LC opened; and
- b. Accepted draft, or commercial invoice/Bill of Lading

1.1.2 Under Documents against Acceptances (DA)/Open Account (OA) arrangements

- a. Certification of reporting bank on the details of DA/OA under Schedule 10 (Import Letters of Credits Opened and DA/OA Import Availments and Extensions) of FX Form 1 (Consolidated Report on Foreign Exchange Assets and Liabilities); and
- b. Copy of commercial invoice;

In addition to the above requirements, the bank shall require the customer to submit a Letter of Undertaking that:

- (i) Before or at maturity date of the forward contract, it (the importer) shall comply with the documentation requirements on sale of FX for trade transactions under existing regulations; and

- (ii) No double hedging has been obtained by the customer for the covered transactions.

1.1.3 Direct Remittance

Original shipping documents indicated in Item "II.a" of Circular Letter dated 24 January 2002.

2. NON-TRADE TRANSACTIONS

Only non-trade transactions with specific due dates shall be eligible for forward contracts, and shall be subject to the same documentation requirements under Circular No. 388 dated 26 May 2003 with the following additional guidelines for foreign currency loans and investments.

2.1 Foreign Currency Loans owed to non-residents or AABs

2.1.1 Deliverable Forwards

The maturing portion of the outstanding eligible obligation, i.e., those that are registered with the BSP registration letter, may be covered by a deliverable forward subject to the documentary requirements under Circular No. 388. A copy of the creditor's billing statement may be submitted only on or before the maturity date of the contract.

2.1.2 NDFs

The outstanding eligible obligation, i.e., those that are registered with the BSP, including interests and fees thereon as indicated in the BSP registration letter may be covered by a NDF, subject to the documentary requirements under Circular No. 388, except for the creditor's billing statement which need not be submitted.

The amount of the forward contract shall not exceed the outstanding amount of the underlying obligation during the term of the contract.

2.2 Inward Foreign Investments

The unremitted amount of sales/maturity proceeds due for repatriation to non-resident investors pertaining to BSP - registered investments in the following instruments issued by a Philippine resident:

- a. shares of stock listed in the PSE;
- b. government securities;

* If copy is indicated, it shall mean photocopy, electronic copy or facsimile of original.

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c. money market instruments; and
d. peso time deposits with a minimum tenor of ninety (90) days may be covered by FX forward contracts subject to the presentation of the original BSRD on or before deal date. However, for Item "2.2.a" above, original BSRD or BSRD Letter-Advice, together with the broker's sales invoice, shall be presented on or before maturity date of the FX forward contract, which date coincides with the settlement date of the PSE transaction.

Sales proceeds of BSP-registered investments in shares of stock that are not listed in the PSE may be covered by a deliverable FX forward contract only if determined to be outstanding as of the deal date for the contract and payable on a specific future date as may be indicated in the Contract To Sell/Deed of Absolute Sale and subject to the same documentary requirements under Circular No. 388.

B. FORWARD SALE OF FX TO COVER EXPOSURES– DELIVERABLE AND NON-DELIVERABLE

1. TRADE (DELIVERABLE AND NON-DELIVERABLE)

1.1 Under LC

- a. Copy of LC opened; and
- b. Proforma Invoice, or Sales Contract/Purchase Order

1.2 Under DA/OA, Documents Against Payment (DP) or Direct Remittance (DR)

Any of the following where delivery or shipment shall be made not later than one (1) year from deal date:

- a. Sales Contract
- b. Confirmed Purchase Order
- c. Accepted Proforma Invoice
- d. Shipment/Import Advice of the Supplier

In addition to the above requirements, the bank shall require the customer to submit a Letter of Undertaking that:

(i) At maturity of the forward contract, it shall comply with the documentation requirements on the sale of FX for trade transactions under Circular-Letter dated 24 January 2002, as amended; and

(ii) No double hedging has been obtained by the customer for the covered transactions.

2. NON-TRADE (NON-DELIVERABLE)

The outstanding balance of BSP-registered foreign investments without specific repatriation date, appearing in the covering BSRD may only be covered by an NDF contract, based on its market/book value on deal date, subject to prior BSP approval and if already with BSRD presentation of the covering BSRD and the proof that the investment still exists (e.g., stock certificate, or broker's buy invoice, or confirmation of sale, or certificate of investment in money market instruments, or certificate of peso time deposits). Hedging for permanently assigned capital of Philippine branches of foreign banks/firms is not allowed.

C. FORWARD PURCHASE OF FX

Such FX forward contracts shall be subject to the bank's "Know Your Customer" policy and existing regulations on anti-money laundering. In addition, counterparties must be limited to those that are manifestly eligible to engage in FX forwards as part of the normal course of their operations and which satisfy the bank's suitability and eligibility rules for such transactions.

D. FX SWAP TRANSACTIONS

1. FX SALE (first leg)/FORWARD FX PURCHASE (second leg)

The same minimum documentary requirements for sale of FX under BSP

Circular No. 388 for non-trade transactions, and Circular-Letter dated 24 January 2002, as amended, for trade transactions, shall be presented on or before deal date.

2. *FX PURCHASE (first leg)/FORWARD FX SALE (second leg)*

The first leg of the swap will be subject to the bank’s “Know Your Customer”

policy and existing regulations on anti-money laundering. The second leg of the swap transaction will be subject to the swap contract between the counterparties.

Swap contracts of this type intended to fund peso loans to be extended by non-residents in favor of residents shall require prior BSP approval.

(As amended by Circular No. 591 dated 15 October 2007)

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**CONVERSION/TRANSFER OF FOREIGN CURRENCY DEPOSIT UNIT
LOANS TO REGULAR BANKING UNIT**

(Please refer to Circular No. 645 dated 13 February 2009)

RULES AND REGULATIONS ON COMMON TRUST FUNDS¹
(Appendix to Sec. X410)

1. The administration of CTFs shall be subject to the provisions of Subsecs. X409.1 up to X409.6 and to the following regulations.

As an alternative compliance with the required prior authority and disclosure under Subsecs. X409.2 and X409.3, a list which shall be updated quarterly of prospective and/or outstanding investment outlets may be made available by the trustee for the review of all CTF clients. (Sec. X410).

2. Establishment of common trust funds. A bank authorized to engage in trust business may establish, administer and maintain one (1) or more CTFs. (Subsec. X410.1).

3. Minimum documentary requirements for common trust funds. In addition to the trust agreement or indenture required under Subsec. X409.1, each CTF shall be established, administered and maintained in accordance with a written declaration of trust referred to as the *plan*, which shall be approved by the board of directors of the trustee and a copy submitted to the appropriate supervising and examining department of the BSP within thirty (30) banking days prior to its implementation.

The plan shall make provisions on the following matters:

- a. Title of the plan;
- b. Manner in which the plan is to be operated;
- c. Investment powers of the trustee with respect to the plan, including the character and kind of investments which may be purchased;

d. Allocation, apportionment, distribution dates of income, profit and losses;

e. Terms and conditions governing the admission or withdrawal as well as expansion or contraction of participation in the plan including the minimum initial placement and account balance to be maintained by the trustor;

f. Auditing and settlement of accounts of the trustee with respect to the plan;

g. Detailed information on the basis, frequency, and method of valuing and accounting of CTF assets and each participation in the fund;

h. Basis upon which the plan may be terminated;

i. Liability clause of the trustee;

j. Schedule of fees and commissions which shall be uniformly applied to all participants in a fund and which shall not be changed between valuation dates; and

k. Such other matters as may be necessary or proper to define clearly the rights of participants under the plan.

The legal capacity of the bank administering a CTF shall be indicated in the plan and other related agreements or contracts as trustee of the fund and not in any other capacity such as *fund manager*, *financial manager*, or like terms.

The provisions of the plan shall control all participations in the fund and the rights and benefits of all parties in interest.

The plan may be amended by resolution of the board of directors of the trustee: *Provided, however,* That participants in the fund shall be immediately notified of such amendments and shall be allowed to withdraw their participation if they are not in conformity with the amendments made: *Provided, further,* That amendments to the

¹ The rules and regulations on common trust funds (CTFs) were previously under Sec. X410 and the Subsections enclosed in parentheses. The UIT Funds regulations which are now in said section/subsections took effect on 01 October 2004 (effectivity of Circular 447 dated 03 September 2004).

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plan shall be submitted to the appropriate supervising and examining department of the BSP within ten (10) banking days from approval of the amendments by the board of directors.

A copy of the plan shall be available at the principal office of the trustee during regular office hours for inspection by any person having an interest in a trust whose funds are invested in the plan or by his authorized representative. Upon request, a copy of the plan shall be furnished such person. (*Subsec. X410.2*)

4. Management of common trust funds. The trustee shall have the exclusive management and control of each CTF administered by it, and the sole right at any time to sell, convert, reinvest, exchange, transfer or otherwise change or dispose of the assets comprising the fund.

The trustee shall designate clearly in its records the trust accounts owning participation in the CTF and the extent of the interests of such account. The trustee shall not negotiate nor assign the trustor's beneficial interest in the CTF without prior written consent of the trustor or beneficiary. No trust account holding a participation in a CTF shall have or be deemed to have any ownership or interest in any particular asset or investment in the CTF but shall have only its proportionate beneficial interest in the fund as a whole. (*Subsec. X410.3*)

5. Trustee as participant in common trust funds. A trustee administering a CTF shall not have any interest in such fund other than in its capacity as trustee of the CTF nor grant any loan on the security of a participation in such fund: That a trustee which administers funds representing employee benefit plans under trust or investment management may invest funds in the CTF: *Provided, further,* That in the case of employee benefit plans under trust

belonging to employees of entities other than that of the trustee, the trustee may invest such funds in its own CTF only on a temporary basis in accordance with Subsec. X409.5. (*Subsec. X410.4*)

6. Exposure limit of common trust fund to a single person or entity. No investment for a CTF shall be made in stocks, bonds, bank deposits or other obligations of any one (1) person, firm or corporation, if as a result of such investment the total amount invested in stocks, bonds, bank deposits or other obligations issued or guaranteed by such person, firm or corporation shall aggregate to an amount in excess of fifteen percent (15%) of the market value of the CTF: *Provided,* That this limitation shall not apply to investments in government securities or other evidences of indebtedness of the Republic of the Philippines and of the BSP, and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines. (*Subsec. X410.5*)

7. Operating and accounting methodology. By its inherent nature, a CTF shall be operated and accounted for in accordance with the following:

a. The trustee shall have exclusive management and control of each CTF administered by it and the sole right at any time to sell, convert, reinvest, exchange, transfer or otherwise change or dispose of the assets comprising the fund;

b. The total assets and accountabilities of each fund shall be accounted for as a single account referred to as *pooled-fund accounting*;

c. Contributions to each fund by clients shall always be through participation in the fund;

d. All such participations shall be pooled and invested as one (1) account (referred to as collective investments); and

e. The interest of each participant shall be determined by a formal method of participation valuation established in the written plan of the CTF, and no participation shall be admitted to, or withdrawn from, the fund except on the basis of such valuation. (Subsec. X410.6)

8. Tax-exempt common trust funds

The following shall be the features/requirements of CTFs which may qualify for exemption from the twenty percent (20%) final tax under Section 24(B)(1) of R.A. No. 8424 (The Tax Reform Act of 1997):

a. The tax exemption shall apply to CTFs established on or after January 3, 2000;

b. The CTF indenture or plan as well as evidences of participation shall clearly indicate that the participants shall be limited to individual trustors/investors who are Filipino citizens or resident aliens and that participation is non-negotiable and non-transferable;

c. The date of contributions to the CTF shall be clearly indicated in the evidence of participation to serve as basis for the trustee-bank to determine the period of participation for tax exemption purposes;

d. The CTF indenture/plan as well as the evidence of participation shall indicate that pursuant to Section 24(B)(1) of R.A. No. 8424, interest income of the CTF derived from investments in interest-bearing instruments (e.g., time deposits, government securities, loans and other debt instruments) which are otherwise subject to

the twenty percent (20%) final tax, shall be exempt from said final tax provided participation in the CTF is for a period of at least five (5) years. If participation is for a period less than five (5) years, interest income shall be subject to a final tax which shall be deducted and withheld based on the following schedule –

<u>Participation Period</u>	<u>Rate of Tax</u>
Four (4) years to less than five (5) years	5%
Three (3) years to less than four (4) years	12%
Less than three (3) years	20%

Necessarily, the date of contribution shall be clearly indicated in the evidence of participation which shall serve as basis for determining the participation period of each participant; and

e. Tax-exempt CTFs established under this Subsection shall be subject to the provisions of Subsecs. X409.1(c), X409.2 up to X409.7, and Items “2 to 7” of this Appendix.

Regarding the required prior authority and disclosure under Subsecs. X409.2 and X409.3, a list of prospective and/or outstanding investment outlets that is made available by the trustee for the review of all CTF clients may serve as an alternative compliance, which list shall be updated quarterly. (Subsec. X410.7)

9. Custody of securities. Investments in securities of all existing CTFs shall be delivered to a BSP-accredited third party custodian not later than 31 October 2004.

**CHECKLIST OF BANGKO SENTRAL REQUIREMENTS IN THE SUBMISSION OF
FINANCIAL AUDIT REPORT, ANNUAL AUDIT REPORT AND REPORTS
REQUIRED UNDER APPENDIX 43
*[Appendix to Subsec. X190.1 (2008 - X166.1)]***

The external auditor (Included in the List of BSP Selected External Auditors) shall start the audit not later than thirty (30) calendar days after the close of the calendar/fiscal year adopted by the bank. AFS of banks with subsidiaries shall be presented side by side on a solo basis and on a consolidated basis (banks and subsidiaries). The FAR shall be submitted by the bank to the appropriate department of the SES not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank, together with the following:

<u>Information/Data required</u>	<u>Deadline for submission</u>
A. Financial Audit Report	
1. Certification by the external auditor on the following:	For submission together with the FAR not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.
a. The dates of commencement and termination of audit.	
b. The date when the FAR and certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank were submitted to the bank's board of directors or country head, in the case of foreign bank branches; and	
c. That the external auditor, partners, associates, auditor-in-charge of the engagement and the members of their immediate family do not have any direct or indirect financial interest with the bank, its subsidiaries and affiliates and that their independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for CPA.	
2. Reconciliation statement for the differences in amounts between the audited and the submitted Balance Sheet and Income Statement for bank proper	For submission together with the FAR not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.

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<u>Information/Data required</u>	<u>Deadline for submission</u>
(regular and FCDU) and trust department, including copies of adjusting entries on the reconciling items.	
Note: Please see pro-forma comparative analysis (Annex A).	
3. LOC indicating the external auditor's findings and comments on the material weakness noted in the internal control and risk management systems and other aspects of operations.	Within thirty (30) calendar days after the submission of the FAR.
In case no material weakness is noted to warrant the issuance of an LOC, a certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank shall be submitted by the external auditor.	For submission together with the FAR not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.
4. Copies of the board resolutions showing the:	
a. Action taken on the FAR and, where applicable, on the certification under oath including the names of the directors present and absent, among other things; and	Within thirty (30) banking days after the receipts of the financial audit report and certification under oath by the board of directors.
b. Action taken on the findings and recommendations in the LOC, and the names of the directors present and absent, among other things.	Within thirty (30) banking days after the receipt of the LOC by the board of directors.
5. In case of foreign banks with branches in the Philippines, in lieu of the board resolution:	
a. A report by the country head on the action taken by management (head office, regional or country) on the FAR and, where applicable, on the certification under oath stating that no	Within thirty (30) calendar days after the receipt of the FAR and certification under oath by the country head.

<u>Information/Data required</u>	<u>Deadline for submission</u>
material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank.	
b. A report by the country head on the action taken by management (head office, regional or country) on the LOC.	Within thirty (30) banking days after the receipt of the LOC by the country head.
6. Certification of the external auditor on the date when the LOC was submitted to the board of directors or country head.	Within thirty (30) banking days after the receipt of the LOC by the board of directors or country head.
7. All the required disclosures in the AFS provided under Subsec. X190.4.	For submission together with the FAR not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.
8. Reports required to be submitted by the external auditor under <i>Appendix 43</i> :	
a. To enable the BSP to take timely and appropriate remedial action, the external auditor must report to the BSP, the following cases: (1) Any material finding involving fraud or dishonesty (including cases that were resolved during the period of audit); and (2) Any potential losses the aggregate of which amounts to at least one percent (1%) of the capital.	Within thirty (30) calendar days after the discovery.
b. The external auditor shall report directly to the BSP the following: (1) Termination or resignation as external auditor and stating the reason therefore; (2) Discovery of a material breach of laws or BSP rules and regulations such as, but not limited to:	Within fifteen (15) calendar days after the occurrence/discovery.

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Information/Data required	<u>Deadline for submission</u>
<div>a. CAR; and</div> <div>b. Loans and other risk assets review and classification.</div> <div>(3) Findings on matters of corporate governance that may require urgent action by the BSP.</div> <div>c. In case there are no matters to report (e.g., fraud, dishonesty, breach of laws, etc.) a notarized certification that there is none to report.</div>	Within fifteen (15) calendar days after the closing of the audit engagement.
<div>B. Annual Audit Report (AAR)– For banks and other financial institutions under the concurrent jurisdiction of the BSP and COA.</div> <div>1. Copy of the AAR accompanied by the:</div> <div>a. Certification by the institution concerned on the date of receipt of the AAR by the board of directors;</div> <div>b. Reconciliation statement between the AFS in the AAR and the balance sheet and income statement of bank proper (Regular and FCDU) and trust department submitted to the BSP, including copies of adjusting entries on the reconciling items; and</div> <div>c. Other information that may be required by the BSP.</div>	Within thirty (30) banking days after receipt of the AAR by the board of directors.
<div>2. Copy of the board resolution showing the action taken on the AAR, as well as on the comments and observations, including the names of the directors present and absent, among other things.</div>	Within thirty (30) banking days after receipt of the AAR by the board of directors.

(As amended by Circular Nos. 554 dated 22 December 2006 and 540 dated 09 August 2006)

Annex A

Name of Bank				
Comparison of Submitted Consolidated Balance Sheet and Income Statement and Audited Financial Statements (Parent and Subsidiaries) As of (end of calendar or fiscal year) (In Thousand Pesos)				
	Submitted Report	Audited Report	Variance/ Discrepancy	Reasons for Discrepancy
Cash and Other Cash Items				
Due from BSP				
Due from Other Banks				
Financial Assets Held for Trading (HFT)				
Held-to-Maturity (HTM) Financial Assets				
Available-for-Sale Financial Assets				
Loans and Receivables, net				
Interbank Loans Receivable				
Equity Investments in Subsidiaries, Associates & Joint Ventures				
Bank Premises, Furniture, Fixtures and Equipment, net				
Real and Other Properties Acquired (ROPA), net				
Other Assets				
Due from Head Office/Branches/Agencies Abroad				
Total Assets				
	=====	=====	=====	=====
Deposit Liabilities				
Bills Payable				
Bonds Payable				
Unsecured Subordinated Debt (UnSD)				
Redeemable Preferred Shares				
Accrued Interest, Taxes and Other Expenses				
Other Liabilities				
Due to Head Office/Branches/Agencies Abroad				
Total Liabilities				
	=====	=====	=====	=====
Paid-in Capital Stock				
Additional Paid-In Capital				
Retained Earnings				
Assigned Capital				
Total Capital				
	=====	=====	=====	=====
Total Liabilities and Capital				
	=====	=====	=====	=====
Total Income				
Total Expenses				
Net Income before Income Tax				
	=====	=====	=====	=====
(As amended by Circular Nos. 554 dated 22 December 2006 and 540 dated 09 August 2006)				

QUARTERLY INVESTMENT DISCLOSURE STATEMENT
(Appendix to Subsec. X410.7)

Name of Unit Investment Trust Fund:
For the quarter ended:
Net Asset Value, end of quarter:
Net Asset Value Per Unit (NAVPu):

Short Description:
(e.g., The Fund is a peso denominated _____ (fund classification, e.g., money market fund, bond fund, balanced fund and equity fund) suited for clients who _____. The investment objective of the Fund is to generate a steady stream of income by investing in a diversified portfolio of high-grade marketable securities)

Administrative Details:

Trust Fee¹: Pxxx/xx%
Minimum Investment:
Holding Period:
Participation/Redemption Conditions:
Special Reimbursable Expenses, if any: [Art V, Sec.3(b)]

Nature of Expense	Name of Third Party	Amount/Expense Ratio ²
Custodianship Fees	xxx	P xxx/xx%
External Audit Fees	xxx	xxx/xx%
Others (specify)	xxx	xxx/xx%

Outstanding Investments:

The Fund has investments in the following:

(may be in graph format showing weightings per investment type or class of security)

Prospective Investments:

The following names/securities are among the fund’s approved investment outlets where the Trustee intends to invest in depending on its availability or other market driven circumstances:

¹ Indicate either the (a) amount of trust fees charged to the UIT Fund or (b) the ratio/percentage of such amount to average daily net asset value of the UIT Fund, for the quarter.
² Indicate either the (a) amount of special reimbursable expense charged to the UIT Fund or (b) ratio/percentage of such expense to the average daily net asset value of the UIT Fund, for the quarter.
Average daily net asset value of the UIT Fund for the quarter ended _____: P_____.

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The UIT Fund is not a deposit and not insured by PDIC. Due to the nature of the investments yield and potential yields cannot be guaranteed. Any income or loss arising from market fluctuations and price volatility of the securities held by the UIT Fund, even if invested in government securities, is for the account of the investor. As such, the units of participation of the investor in the UIT Fund, when redeemed, may be worth more or be worth less than his/her initial investment/contributions. Historical performance, when presented, is purely for reference purposes and is not a guarantee of future results. The trustee is not liable for losses, unless upon willful default, bad faith or gross negligence.

(As amended by Circular No. 593 dated 08 January 2008)

(NAME OF TRUST ENTITY)-(TRUST BANKING GROUP/TRUST DEPARTMENT)
Unit Investment Trust Funds
RISK DISCLOSURE STATEMENT

Prior to making an investment in any of the (Name of Trust Entity) Unit Investment Trust Funds (UITFs), (Name of Trust Entity) is hereby informing you of the nature of the UITFs and the risks involved in investing therein. As investments in UITFs carry different degrees of risk, it is necessary that before you participate/invest in these funds, you should have: 1. Fully understood the nature of the investment in UITFs and the extent of your exposure to risks; 2. Read this Risk disclosure Statement completely; and 3. Independently determined that the investment in the UITFs is appropriate for you.

There are risks involved in investing in the UITFs because the value of your investment is based on the Net Asset Value per unit (NAVpu) of the Fund which uses a marked-to-market valuation and therefore may fluctuate daily. The NAVpu is computed by dividing the Net Asset Value (NAV) of the Fund by the number of outstanding units. The NAV is derived from the summation of the market value of the underlying securities of the Fund plus accrued interest income less liabilities and qualified expenses.

Investment in the UITF does not provide guaranteed returns even if invested in government securities and high-grade prime investment outlets. Your principal and earnings from investment in the Fund can be lost in whole or in part when the NAVpu at the time of redemption is lower than the NAVpu at the time of participation. Gains from investment is realized when the NAVpu at the time of redemption is higher than the NAVpu at the time of participation.

Your investment in any of the (Name of Trust Entity) UITFs exposes you to the various types of risks enumerated and defined hereunder:

Interest Rate Risk. This is the possibility for an investor to experience losses due to changes in interest rates. The purchase and sale of a debt instrument may result in profit or loss because the value of a debt instrument changes inversely with prevailing interest rates.

The UITF portfolio, being market-to-market, is affected by changes in interest rates thereby affecting the value of fixed income investments such as bonds. Interest rate changes may affect the prices of fixed income securities inversely, i.e., as interest rates rise, bond prices fall and when interest rates decline, bond prices rise. As the prices of bonds in a Fund adjust to a rise in interest rates, the Fund’s unit price may decline.

Market/Price Risk. This is the possibility for an investor to experience losses due to changes in market prices of securities (e.g., bonds and equities). It is the exposure to the uncertain market value of a portfolio due to price fluctuations.

It is the risk of the UITF to lose value due to a decline in securities prices, which may sometimes happen rapidly or unpredictably. The value of investments fluctuates over a given time period because of general market conditions, economic changes or other events that impact large portions of the market such as political events, natural calamities, etc. As a result, the NAVpu may increase to make profit or decrease to incur loss.

Liquidity Risk. This is the possibility for an investor to experience losses due to the inability to sell or convert assets into cash immediately or in instances where conversion to

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cash is possible but at a loss. These may be caused by different reasons such as trading in securities with small or few outstanding issues, absence of buyers, limited buy/sell activity or underdeveloped capital market.

Liquidity risk occurs when certain securities in the UITF portfolio may be difficult or impossible to sell at a particular time which may prevent the redemption of investment in UITF until its assets can be converted to cash. Even government securities which are the most liquid of fixed income securities may be subjected to liquidity risk particularly if a sizeable volume is involved.

Credit Risk/Default Risk. This is the possibility for an investor to experience losses due to a borrower's failure to pay principal and/or interest in a timely manner on instruments such as bonds, loans, or other forms of security which the borrower issued. This inability of the borrower to make good on its financial obligations may have resulted from adverse changes in its financial condition thus, lowering credit quality of the security, and consequently lowering the price (market/price risk) which contributes to the difficulty in selling such security. It also includes risk on a counterparty (a party the UITF Manager trades with) defaulting on a contract to deliver its obligation either in cash or securities.

This is the risk of losing value in the UITF portfolio in the event the borrower defaults on his obligation or in the case of a counterparty, when it fails to deliver on the agreed trade. This decline in the value of the UITF happens because the default/failure would make the price of the security go down and may make the security difficult to sell. As these happen, the UITFs NAVpu will be affected by a decline in value.

Reinvestment Risks. This is the risk associated with the possibility of having lower returns or earnings when maturing funds or the interest earnings of funds are reinvested.

Investors in the UITF who redeem and realize their gains run the risk of reinvesting their funds in an alternative investment outlet with lower yields. Similarly, the UITF manager is faced with the risk of not being able to find good or better alternative investment outlets as some of the securities in the fund matures.

In case of a foreign-currency denominated UITF or a peso denominated UITF allowed to invest in securities denominated in currencies other than its base currency, the UITF is also exposed to the following risks:

Foreign Exchange Risk. This is the possibility for an investor to experience losses due to fluctuations in foreign exchange rates. The exchange rates depend upon a variety of global and local factors, e.g., interest rates, economic performance, and political developments.

It is the risk of the UITF to currency fluctuations when the value of investments in securities denominated in currencies other than the base currency of the UITF depreciates. Conversely, it is the risk of the UITF to lose value when the base currency of the UITF appreciates. The NAVpu of a peso-denominated UITF invested in foreign currency-denominated securities may decrease to incur loss when the peso appreciates.

Country Risk. This is the possibility for an investor to experience losses arising from investments in securities issued by/in foreign countries due to the political, economic and social structures of such countries. There are risks in foreign investments due to the possible internal and external conflicts, currency devaluations, foreign ownership limitations and tax increases of the foreign country involved which are difficult to predict but must be taken into account in making such investments.

Likewise, brokerage commissions and other fees may be higher in foreign securities. Government supervision and regulation of foreign stock exchanges, currency markets, trading systems and brokers may be less than those in the Philippines. The procedures and rules governing foreign transactions and custody of securities may also involve delays in payment, delivery or recovery of investments.

Other Risks. Your participation in the UITFs may be further exposed to the risk of any actual or potential conflicts of interest in the handling of in-house or related party transactions by (Name of Trust Entity). These transactions may include own-bank deposits; purchase of own-institution or affiliate obligations (stock, mortgages); purchase of assets from or sales to own institution, directors, officers, subsidiaries, affiliates or other related interests/parties; or purchases or sales between fiduciary/managed accounts.

I/we have completely read and fully understood this risk disclosure statement and the same was clearly explained to me/us by a (Name of Trust Entity) UIT marketing personnel before I/we affixed my/our signature/s herein. I/we hereby voluntarily and willingly agree to comply with any and all laws, regulations, the plan rules, terms and conditions governing my/our investment in the (Name of Trust Entity) UITFs.

Signature over Printed Name

Date

I acknowledge that I have (1) advised the client to read this Risk Disclosure Statement, (2) encouraged the client to ask questions on matters contained in this Risk Disclosure Statement, and (3) fully explained the same to the client.

Signature over Printed Name/
Position of UIT Marketing Personnel

Date

(Circular No. 593 dated 08 January 2008)

**IMPLEMENTATION PLANS UNDER THE NEW INTERNATIONAL CAPITAL
STANDARDS AS CONTAINED IN THE BASEL COMMITTEE ON BANKING
SUPERVISION DOCUMENT INTERNATIONAL CONVERGENCE OF CAPITAL
MEASUREMENT AND CAPITAL STANDARDS**
(Appendix to Sec. X115)

A. General approach

UBs/KBs are expected to comply with the standardized approach for credit risk, and the basic indicator or standardized approaches for operational risk by 2007. By 2010, these banks may move to the foundation internal ratings based (IRB) or advanced IRB approaches for credit risk, and advanced measurement approaches for operational risk.

TBs, on the other hand, are classified into two (2). TBs are generally expected to be subject to an enhanced Basel 1-type approach by 2007. However, TBs affiliated with UBs/KBs should use the same approach used by the UBs/KBs.

RBs/Coop banks, meanwhile, are expected to be subject to an enhanced Basel 1-type approach also by 2007.

An enhanced Basel 1-type approach is basically the same as the current framework (Sec. X116) but with certain elements of Basel 2 already incorporated such as higher risk weight for past due accounts, and expanded disclosures.

B. Timetable

Between 2004 and 2007, certain provisions of Basel 2 will be gradually incorporated into the current risk-based capital adequacy framework. These would include:

- (1) Giving lower risk weights for highly-rated corporate exposures;
- (2) Giving higher risk weights for past due claims (net of specific provisions);
- (3) Adopting the standardized approach for investments in securitization structures (i.e., risk weights would depend on external ratings);

(4) Implementing a standard computation of liquidity risk and interest rate risk in the banking book; and

(5) Issuing broad guidelines on operational risk management.

The rest of the provisions of Basel 2 standardized approach for credit risk, and basic indicator and standardized approaches for operational risk will be implemented by 2007. Under the standardized approach for credit risk, risk weights would mainly depend on the external rating of the counterparty. Under the basic indicator approach for operational risk, capital charge is fifteen percent (15%) of the 3-year average of a bank's gross income. Under the standardized approach for operational risk, on the other hand, banks will compute capital charge separately for each business line. Business line operational risk charge is a fraction (between 12%-18%) of the 3-year average of a business line's gross income. Total operational risk charge is the sum of the operational risk charges for all business lines.

The expanded disclosure requirements prescribed under Basel 2, as may be appropriate, will also be implemented by 2007.

The draft implementation guidelines containing all these provisions will be exposed for comment by the BSP in the first quarter of 2005. The final implementation guidelines are expected to be issued by end-December 2005.

By 2010, banks may already be allowed to use the advanced approaches prescribed under Basel 2. For credit risk, banks may use the internal ratings based (IRB) approach, where the credit risk capital charge would

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depend on banks’ internal rating of the counterparty, including estimates of probability of default, loss given default, and other risk parameters. For operational risk, banks may use statistical modeling and other advanced measurement tools in determining the capital charge.

To facilitate a successful implementation of Basel 2, the BSP will continue to engage the banking community, particularly through the BAP’s Risk Management Committee, in

its preparations especially those involving the eventual implementation of the advanced approaches by 2010. The BSP likewise strongly encourages banks to assess the likely impact of this shift in risk-based capital framework on their capital adequacy ratio. Banks needing assistance in performing this self-analysis may contact the Office of the Assistant Governor, Supervision and Examination Sector at email address srso@bsp.gov.ph.

QUALIFYING CAPITAL UNDER THE RISK BASED CAPITAL ADEQUACY
FRAMEWORK
[Appendix to Subsec. X116.2 and X119.4]

Qualifying Capital. The qualifying capital shall be the sum of :

- a. Tier 1 capital -
 - (1) Core Tier 1 capital
 - (a) Paid-up common stock;
 - (b) Paid-up perpetual and non-cumulative preferred stock;
 - (c) Common stock dividends distributable;
 - (d) Perpetual and non-cumulative preferred stock dividends distributable;
 - (e) Surplus;
 - (f) Surplus reserves;
 - (g) Undivided profits (for domestic banks only); and
 - (h) Minority interest in the equity of subsidiary financial allied undertakings which are less than wholly-owned: *Provided*, That a bank shall not use minority interests in the equity accounts of consolidated subsidiaries as avenue for introducing into its capital structure elements that might not otherwise qualify as Tier 1 capital or that would, in effect, result in an excessive reliance on preferred stock within Tier 1:

Provided, further, that the following items shall be deducted from the total of Tier 1 capital:

- (i) Common stock treasury shares;
- (ii) Perpetual and non-cumulative preferred stock treasury shares;
- (iii) Net unrealized losses on underwritten listed equity securities purchased (for domestic banks and Philippine branches of foreign banks);
- (iv) Unbooked valuation reserves and other capital adjustments based on the latest report of examination as approved by the Monetary Board;
- (v) Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI;

(vi) Unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates;

- (vii) Deferred income tax; and
- (viii) Goodwill; and
- (2) Hybrid Tier 1 (HT1)
 - (a) With prior BSP approval, perpetual preferred stock and perpetual UnSD, subject to the following conditions:

(i) The HT1 must be issued and fully paid-up. Only the net proceeds received from the issuance of HT1 shall be included as capital;

(ii) The dividends/coupons on the HT1 must be non-cumulative. It is acceptable to pay dividends/coupons in scrip or shares of stock if a cash dividend/coupon is withheld: *Provided*, That this does not result on issuing lower quality capital: *Provided, further*, That where such dividend/coupon stock settlement feature is included, the bank should ensure that it has an appropriate buffer of authorized capital stock and appropriate stockholders and board authorization, if necessary, to fulfill their potential obligations under such issues;

(iii) The HT1 must be available to absorb losses of the bank without it being obliged to cease carrying on business. The agreement governing the issuance of the HT1 should specifically provide for the dividend/coupon and principal to absorb losses where the bank would otherwise be insolvent, or for the holders of the HT1 to be treated as if they were holders of a specified class of share capital in any proceedings commenced for the winding up of the bank. Issue documentation must disclose to prospective investors the manner by which the instrument is to be treated in loss situation.

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Alternatively, the agreement governing the issuance of the HT1 can provide for automatic conversion into common shares or perpetual and non-cumulative preferred shares upon occurrence of certain trigger events, as follows:

- (aa) Breach of minimum capital ratio;
- (bb) Commencement of proceedings for winding up of the bank; or
- (cc) Upon appointment of receiver for the bank.

The rate of conversion must be fixed at the time of subscription to the instrument. The bank must also ensure that it has appropriate buffer of authorized capital stock and appropriate stockholders and board authorization for conversion/issue to take place anytime;

- (iv) The holders of the HT1 must not have a priority claim, in respect of principal and dividend/coupon payments of the HT1 in the event of winding up of the bank, which is higher than or equal with that of depositors, other creditors of the bank and holders of LT2 and UT2 capital instruments. The holder of the HT1 must waive his right to set-off any amount he owes the bank against any subordinated amount owed to him due to the HT1;

- (v) The HT1 must be perpetual;

- (vi) The HT1 must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of any holder of the HT1 as against depositors, other creditors of the bank and holders of LT2 and UT2 capital instruments;

- (vii) The HT1 must not be redeemable at the initiative of the holder. It must not be repayable prior to maturity without the prior approval of the BSP: *Provided*, That repayment may be allowed only in connection with call option after a minimum of five (5) years from issue date: *Provided*, however, That a call option may

be exercised within the first five (5) years from issue date when –

- (aa) The HT1 was issued for the purpose of a merger with or acquisition by the bank and the merger or acquisition is aborted;

- (bb) There is a change in tax status of the HT1 due to changes in the tax laws and/or regulations; or

- (cc) The HT1 does not qualify as Hybrid Tier 1 capital as determined by the BSP:

Provided, further, That such repayment prior to maturity shall be approved by the BSP only if the preferred share/debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption.

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency. The agreement governing the issuance of the HT1 must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option which may be exercised by the bank;

- (viii) The main features of the HT1 must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

- (ix) The proceeds of the HT1 must be immediately available without limitation to the bank;

- (x) The bank must have full discretion over the amount and timing of dividends/coupons under the HT1 where the bank –

- (aa) Has not paid or declared a dividend on its common shares in the preceding financial year; or

- (bb) Determines that no dividend is to

be paid on such shares in the current financial year.

The bank must have full control and access to waived payments;

(xi) Any dividend/coupon to be paid under the HT1 must be paid only to the extent that the bank has profits distributable determined in accordance with existing BSP regulations. The dividend/coupon rate, or the formulation for calculating dividend/coupon payments must be fixed at the time of issuance of the HT1 and must not be linked to the credit standing of the bank;

(xii) The HT1 may allow only one (1) moderate step-up in the dividend/coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of ten (10) years after the issue date and if it results in an increase over the initial rate that is not more than –

(aa) 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or

(bb) Fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference security or rate (Refer to Annex A for computation of dividend/coupon rate step-up);

(xiii) The HT1 must be underwritten or purchased by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

(xiv) The HT1 must be issued in minimum denominations of at least P500,000.00 or its equivalent;

(xv) The HT1 must clearly state on its face that it is not a deposit and is not insured by the PDIC; and

(xvi) The bank must submit a written external legal opinion that the above mentioned requirements, including the

subordination and loss absorption features, have been met:

Provided, That for purposes of reserve requirement regulation, the HT1 shall not be treated as time deposit liability, deposit substitute liability or other forms of borrowings: *Provided, further*, That the total amount of HT1 that may be included in the Tier 1 capital shall be limited to a maximum of fifteen percent (15%) of total Tier 1 capital (net of deductions therefrom): *Provided, furthermore*, That the amount of HT1 capital in excess of the maximum allowable limit shall be eligible for inclusion in the Upper Tier 2 capital, subject to the limit on total Tier 2 capital. To determine the allowable amount of HT1, the amount of total Tier 1 capital (net of deductions therefrom) excluding the HT1 should be multiplied by seventeen and sixty five percent (17.65%), the number derived from the proportion of fifteen percent (15%) to eighty five percent (85%) (i.e., $15\%/85\% = 17.65\%$);

b. Tier 2 (supplementary) capital which shall be the sum of –

(1) *Upper Tier 2 capital* -

(a) Paid-up perpetual and cumulative preferred stock;

(b) Paid-up limited life redeemable preferred stock issued with the condition that redemption thereof shall be allowed only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level prior to redemption;

(c) Perpetual and cumulative preferred stock dividends distributable;

(d) Limited life redeemable preferred stock with the replacement requirement upon redemption dividends distributable;

(e) Appraisal increment reserve - bank premises, as authorized by the Monetary Board;

(f) Net unrealized gains on underwritten listed equity securities purchased: *Provided*, That the amount

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thereof that may be included in upper Tier 2 capital shall be subject to a fifty five percent (55%) discount (for domestic banks and Philippine branches of foreign banks);

(g) General loan loss provision: *Provided*, That the amount thereof that may be included in upper Tier 2 capital shall be limited to a maximum of one and one-fourth percent (1-1/4%) of gross risk-weighted assets, and any amount in excess thereof shall be deducted from the total risk-weighted assets in computing the denominator of the risk-based capital ratio;

(h) With prior BSP approval, unsecured subordinated debt with a minimum original maturity of at least ten (10) years, hereinafter referred to as “UT2”, subject to the following conditions:

(i) The UT2 must be issued and fully paid-up. Only the net proceeds received from the issuance of UT2 shall be included as capital;

(ii) The UT2 must be available to absorb losses of the bank without it being obliged to cease carrying on business. The agreement governing the issuance of the UT2 should specifically provide for the coupon and principal to absorb losses where the bank would otherwise be insolvent, or for the holders of the UT2 to be treated as if they were holder of a specified class of share capital in any proceedings commenced for the winding up of the bank. Issue documentation must disclose to prospective investors the manner by which the instrument is to be treated in loss situation.

Alternatively, the agreement governing the issuance of the UT2 can provide for automatic conversion into common shares or perpetual and non-cumulative shares or perpetual and cumulative preferred shares upon occurrence of certain trigger events, as follows:

(aa) Breach of minimum capital ratio;

(bb) Commencement of proceedings for winding up of the bank or

(cc) Upon appointment of receiver for the bank.

The rate of conversion must be fixed at the time of subscription to the instrument. The bank must also ensure that it has appropriate buffer of authorized capital stock and appropriate stockholders and board authorization for conversion/issue to take place anytime;

(iii) The holders of the UT2 must not have a priority claim, in respect of principal and coupon payments of the UT2 in the event of winding up of the bank, which is higher than or equal with that of depositors, other creditors of the bank, and holders of LT2 capital instruments. The holder of the UT2 must waive his right to set-off any amount he owes the bank against any subordinated amount owed to him due to the UT2;

(iv) The UT2 must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of any holder of the UT2 as against depositors, other creditors of the bank and holders of LT2 capital instruments;

(v) The UT2 must not be redeemable at the initiative of the holder. It must not be repayable prior to maturity without the prior approval of the BSP: *Provided*, That repayment may be allowed only in connection with call option after a minimum of five (5) years from issue date: *Provided, however*, That a call option may be exercised within the first five (5) years from issue date when –

(aa) The UT2 was issued for the purpose of a merger with or acquisition by the bank and the merger or acquisition is aborted;

(bb) There is a change in tax status of the UT2 due to changes in the tax laws and/or regulations; or

(cc) The UT2 does not qualify as Upper Tier 2 capital as determined by the BSP:

Provided, further, That such repayment prior to maturity shall be approved by the BSP only if the debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption,

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency. The agreement governing the issuance of the UT2 must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option which may be exercised by the bank;

(vi) The main features of the UT2 must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

(vii) The proceeds of the UT2 must be immediately available without limitation to the bank;

(viii) The bank must have the option to defer any coupon payment on the UT2 where the bank –

(aa) Has not paid or declared a dividend on its common shares in the preceding financial year; or

(bb) Determines that no dividend is to be paid on such shares in the current financial year;

It is acceptable for the deferred coupon to bear interest but the interest rate payable must not exceed market rates;

(ix) The coupon rate, or the formulation for calculating coupon payments must be fixed at the time of issuance of the UT2 and must not be linked to the credit standing of the bank;

(x) The UT2 may allow only one (1) moderate step-up in the coupon rate in conjunction with a call option, only if the

step-up occurs at a minimum of ten (10) years after the issue date and if it results in an increase over the initial rate that is not more than–

(aa) 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or

(bb) fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference or rate (Refer to Annex A for computation of coupon rate step-up);

(xi) The UT2 must be underwritten or purchased by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

(xii) The UT2 must be issued in minimum denominations of at least P500,000.00 or its equivalent;

(xiii) The UT2 must clearly state on its face that it is not a deposit and is not insured by the PDIC; and

(xiv) The bank must submit a written external legal opinion that the above-mentioned requirements, including the subordination and loss absorption features, have been met:

Provided, That the UT2 shall be subject to a cumulative discount factor of twenty percent (20%) per year during the last five (5) years to maturity [i.e., twenty percent (20%) if the remaining life is four (4) years to less than five (5) years, forty percent (40%) if the remaining life is three (3) years to less than four (4) years, etc.]: *Provided, further,* That where it is denominated in a foreign currency, it shall be revalued in accordance with PAS 21: *Provided, furthermore,* That for purposes of reserve requirement regulation, it shall not be treated as time deposit liability, deposit

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substitute liability or other forms of borrowings;

(i) Deposit for common stock subscription; and

(j) Deposit for perpetual and non-cumulative preferred stock subscription:

Provided, That the following items shall be deducted from the total of Upper Tier 2 capital:

1. Perpetual and cumulative preferred stock treasury shares;

2. Limited life redeemable preferred stock treasury shares with the replacement requirement upon redemption; and

3. Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption; and

(k) Hybrid Tier 1 capital instruments in excess of the maximum allowable limit of fifteen percent (15%) of total Tier 1 capital (net of deductions therefrom) referred to in Item “a(2)(a)” above on Hybrid Tier 1 (HT1) capital.

(2) *Lower Tier 2 capital –*

(a) Paid-up limited life redeemable preferred stock without the replacement requirement upon redemption: *Provided*, That it shall be subject to a cumulative discount factor of twenty percent (20%) per year during the last five (5) years to maturity [i.e., twenty percent (20%) if the remaining life is four (4) years to less than five (5) years, forty percent (40%) if the remaining life is three (3) years to less than four (4) years, etc.];

(b) Limited life redeemable preferred stock without the replacement requirement upon redemption dividends distributable;

(c) UnSD with a minimum original maturity of at least five (5) years, hereinafter referred to as “LT2”, subject to the following conditions:

(i) The LT2 must be issued and fully paid-up. Only the net proceeds received from the issuance of LT2 shall be included as capital;

(ii) The holders of the LT2 must not have a priority claim, in respect of principal and coupon payments of the LT2 in the event of winding up of the bank, which is higher than or equal with that of depositors and other creditors of the bank. The holder of the LT2 must waive his right to set-off any amount he owes the bank against any subordinated amount owed to him due to the LT2;

(iii) The LT2 must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of any holder of the LT2 as against depositors and other creditors of the bank;

(iv) The LT2 must not be redeemable at the initiative of the holder. It must not be repayable prior to maturity without the prior approval of the BSP: *Provided*, That repayment may be allowed only in connection with call option after a minimum of five (5) years from issue date: *Provided, however*, That a call option may be exercised within the first five (5) years from issue date when –

(aa) The LT2 was issued for the purpose of a merger with or acquisition by the bank and the merger or acquisition is aborted;

(bb) There is a change in tax status of the LT2 due to changes in the tax laws and/or regulations; or

(cc) The LT2 does not qualify as Lower Tier 2 capital as determined by the BSP:

Provided, further, That such repayment prior to maturity shall be approved by the BSP only if the debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank’s capital ratio remains more than adequate after redemption.

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency. The agreement governing the issuance of

the LT2 must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant other than a call option which may be exercised by the bank;

(v) The main features of the LT2 must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

(vi) The proceeds of the LT2 must be immediately available without limitation to the bank;

(vii) The coupon rate, or the formulation for calculating coupon payments must be fixed at the time of issuance of the LT2 and must not be linked to the credit standing of the bank;

(viii) The LT2 may allow only one (1) moderate step-up in the coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of five (5) years after the issue date and if it results in an increase over the initial rate that is not more than-

(aa) 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or

(bb) fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis;

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference security or rate (Refer to Annex A for computation of coupon rate step-up);

(ix) The LT2 must be underwritten or purchased by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

(x) The LT2 must be issued in minimum denominations of at least P500,000.00 or its equivalent;

(xi) The LT2 must clearly state on its face that it is not a deposit and is not insured by the PDIC; and

(xii) The bank must submit a written external legal opinion that the abovementioned requirements, including the subordination feature have been met:

Provided, That the LT2 shall be subject to a cumulative discount factor of twenty percent (20%) per year during the last five (5) years to maturity [i.e., twenty percent (20%) if the remaining life is four (4) years to less than five (5) years, forty percent (40%) if the remaining life is three (3) years to less than four (4) years, etc.]: *Provided, further*, That where it is denominated in a foreign currency, it shall be revalued in accordance with PAS 21: *Provided, furthermore*, That, for purposes of reserve requirement regulation, it shall not be treated as time deposit liability, deposit substitute liability or other forms of borrowings;

(d) Deposit for perpetual and cumulative preferred stock subscription; and

(e) Deposit for limited life redeemable preferred stock subscription with the replacement requirement upon redemption:

Provided, That the following items shall be deducted from the total of Lower Tier 2 capital:

(i) Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption;

(ii) Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption: *Provided*, That the amount to be deducted shall be limited to the balance of redeemable preferred stock after applying the cumulative discount factor:

Provided, That the total amount of Lower Tier 2 capital that may be included in the Tier 2 capital shall be limited to a maximum of fifty percent (50%) of total Tier 1 capital (net of deductions therefrom): *Provided, further*, That the total amount of Upper and

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Lower Tier 2 capital that may be included in the qualifying capital shall be limited to a maximum of 100% of total Tier 1 capital (net of deductions therefrom);

c. Less deductions from the total of Tier 1 and Tier 2 capital, as follows:

(1) Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;

(2) Investments in debt capital instruments of unconsolidated subsidiary banks;

(3) Investments in equity of subsidiary insurance companies and non-financial allied undertakings; and

(4) Reciprocal investments in equity of other banks/enterprises:

(5) Reciprocal investments in unsecured subordinated term debt instruments of other banks/QBs qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of five percent (5%) of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) ten percent (10%) of the total outstanding unsecured subordinated term debt issuance of the other bank/QBs.

Provided, That any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio

shall not be included in the risk-weighted assets in computing the denominator of the ratio.

For foreign bank branches, Tier 1 capital elements shall consist of -

1. Assigned capital; and

2. Net due “to” head office, branches, subsidiaries and other offices outside the Philippines as defined under Subsec. X105.5.d (inclusive of earnings not remitted to head office per Subsec. X105.5.c): *Provided*, That the amount of “Net due to account” shall be limited to an amount prescribed under Subsec. X105.6: *Provided, further*, That should there be any “Net due from account”, the same shall be deducted from the Tier 1 capital.

All outstanding issues of unsecured subordinated term debt instruments qualifying as UT2 and LT2 capital shall continue to be governed by the provisions of regulations existing at the time of their issuance, except that premiums thereon may now be counted as part of capital.

Capital instruments issued by banks starting 01 January 2011 should comply with the minimum conditions specified in *Appendix 63d* in order to be eligible as Hybrid Tier 1 or Lower Tier 2 capital.

(As amended by Circular Nos. 716 dated 25 March 2011, 709 dated 10 January 2011, 560 dated 31 January 2007 and 528 dated 03 May 2006)

Step-up Calculation

Case I. Change in Index Basis
(e.g., from 10-year US Treasury Notes to 10-year US Swap Rate)

Step 1. Determining the swap spread

A. Breakdown of Coupon Rate Based on Initial Index			
Index basis (10-year US Treasury Notes)	4.49%		
Credit spread	<u>5.00%</u>		
Coupon rate	<u>9.49%</u>	}	Swap
spread of			
B. Breakdown of Coupon Rate Based on Stepped-up Index			
Index basis (10-year US swap rate at issuance)	5.05%	}	0.56%
Adjusted credit spread to achieve initial coupon rate of 9.49%	<u>4.44%</u>		
Coupon rate	<u>9.49%</u>		

Step 2. Calculating Stepped-Up Coupon Rate

A. Assuming a ceiling of not more than 100 b.p., less the swap spread between the initial index basis and the stepped-up index basis

Index basis (10-year US swap rate)	5.05%
Initial credit spread	<u>5.00%</u>
Total before step-up	10.05%
Step-up (100 b.p)	<u>1.00%</u>
Total after step-up but before swap spread	11.05%
Less: Swap spread	<u>0.56%</u>
Stepped-up coupon rate	<u>10.49%</u>

B. Assuming a ceiling of not more than 50% of the initial credit spread, less the swap spread between the initial index basis and the stepped-up index basis

Index basis (10-year US swap rate)	5.05%
Initial Credit spread	<u>5.00%</u>
Total before step-up	10.05%
Step-up (50% of the initial credit spread)	<u>2.50%</u>
Total after step-up but before swap spread	12.55%
Less: Swap spread	<u>0.56%</u>
Stepped-up coupon rate	<u>11.99%</u>

**RISK-BASED CAPITAL ADEQUACY FRAMEWORK
FOR THE PHILIPPINE BANKING SYSTEM
(Appendix to Sec. X115)**

Introduction

This Appendix outlines the Bangko Sentral implementing guidelines of the revised *International Convergence of Capital Measurement and Capital Standards*, or popularly known as Basel II. Basel II is the new international capital standards set by the Basel Committee on Banking Supervision (BCBS)¹. It aims to replace Basel I, which was issued in 1988 with an amendment in 1996, to make the risk-based capital framework more risk-sensitive. Banks are enjoined to submit their group-wide (including subsidiary banks and QBs) Basel II implementation plans from 2007-2010, not later than 31 December 2006.

The guidelines contained in this Appendix shall take effect on 1 July 2007.
(As amended by M-2006-022 dated 24 November 2006)

Part I. Risk-based capital adequacy ratio

1. The risk-based CAR of UBs and KBs and their subsidiary banks and QBs, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than ten percent (10%).
2. Qualifying capital is computed in accordance with the provisions of Part II. Risk-weighted assets is the sum of (1) credit risk-weighted assets (Parts III, IV, and V), (2) market risk-weighted assets (Parts IV and VI), and (3) operational risk-weighted assets (Part VII).
3. The CAR requirement will be applied to all UBs and KBs and their subsidiary banks, and QBs on both solo and consolidated bases. The application of

the requirement on a consolidated basis is the best means to preserve the integrity of capital in banks with subsidiaries by eliminating double gearing. However, as one of the principal objectives of supervision is the protection of depositors, it is essential to ensure that capital recognized in capital adequacy measures is readily available for those depositors. Accordingly, individual banks should likewise be adequately capitalized on a stand-alone basis.

4. To the greatest extent possible, all banking and other relevant financial activities (both regulated and unregulated) conducted by a bank and its subsidiaries will be captured through consolidation. Thus, majority-owned or-controlled financial allied undertakings should be fully consolidated on a line by line basis. Exemptions from consolidation shall only be made in cases where such holdings are acquired through debt previously contracted and held on a temporary basis, are subject to different regulation, or where non-consolidation for regulatory capital purposes is otherwise required by law. All cases of exemption from consolidation must be made with prior clearance from the Bangko Sentral.

5. Banks shall comply with the minimum CAR at all times notwithstanding that supervisory reporting shall only be on quarterly basis. Any breach, even if only temporary, shall be reported to the bank's Board of Directors and to Bangko Sentral, SES within three (3) banking days. For this purpose, banks shall develop an appropriate system to properly monitor their compliance.

¹ The Basel Committee on Banking Supervision is a committee of banking supervisory authorities that was established by the central bank governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom, and the United States. It usually meets at the Bank for International Settlements in Basel, Switzerland where its permanent Secretariat is located.

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6. The Bangko Sentral reserves the right, upon authority of the Deputy Governor, SES, to conduct on-site inspection outside of regular or special examination, for the purpose of ascertaining the accuracy of CAR calculations as well as the integrity of CAR monitoring and reporting systems.

Part II. Qualifying capital

1. Qualifying capital consists of Tier 1 (core plus hybrid) capital and Tier 2 (supplementary) capital elements, net of required deductions from capital.

A. Tier 1 Capital

2. Tier 1 capital is the sum of core Tier 1 capital and allowable amount of hybrid Tier 1 capital, as set in paragraph 12.

3. Core Tier 1 capital consists of:
- a) Paid-up common stock;
 - b) Deposit for common stock subscription;
 - c) Paid-up perpetual and non-cumulative preferred stock;
 - d) Deposit for perpetual and non-cumulative preferred stock subscription;
 - e) Additional paid-in capital;
 - f) Retained earnings;
 - g) Undivided profits (for domestic banks only);
 - h) Net gains on fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities;
 - i) Cumulative foreign currency translation; and
 - j) Minority interest in subsidiary financial allied undertakings which are less than wholly-owned: Provided, That a bank shall not use minority interests in the equity accounts of consolidated subsidiaries as avenue for introducing into its capital structure elements that might not otherwise qualify as Tier 1 capital or that would, in effect, result in an excessive reliance on preferred stock within Tier 1:

Less:

- i. Common stock treasury shares;
 - ii. Perpetual and non-cumulative preferred stock treasury shares;
 - iii. Net unrealized losses on available for sale equity securities purchased;
 - iv. Gains (Losses) resulting from designating financial liabilities at fair value through profit or loss that are due to own credit worthiness;
 - v. Unbooked valuation reserves and other capital adjustments based on the latest report of examination as approved by the Monetary Board;
 - vi. Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates;
 - vii. Deferred income tax;
 - viii. Goodwill, including that relating to unconsolidated subsidiary banks, financial allied undertakings, excluding subsidiary securities dealers/brokers and insurance companies, (on solo basis) and unconsolidated subsidiary securities dealers/brokers, insurance companies and non-financial allied undertakings (on solo and consolidated bases); and
 - ix. Gain on sale resulting from a securitization transaction.
4. Hybrid Tier 1 capital in the form of perpetual preferred stock and perpetual UnSD may be issued subject to prior Bangko Sentral approval and to the conditions in paragraph 12.
5. In the case of foreign banks, Tier 1 capital is equivalent to:
- a) Assigned capital including earnings not remitted to the head office which the bank elects to consider as part of assigned capital (in which case it can no longer be remitted to the head office); and
 - b) "Net due to" head office, branches, subsidiaries and other offices outside the Philippines as defined under Subsec. X105.5.d

(inclusive of earnings not remitted to head office per Subsec. X105.5.c, unless considered as part of the assigned capital by the bank), subject to the limit prescribed under Subsec. X105.6,

Less:

i. Any balance in the "Net due from" account.

(As amended by Circular Nos. 762 dated 25 July 2012 and 560 dated 31 January 2007)

B. Tier 2 Capital

6. Tier 2 capital is the sum of upper Tier 2 capital and lower Tier 2 capital.
7. The total amount of lower Tier 2 (LT2) capital before deductions enumerated in paragraph 10 that may be included in total Tier 2 capital shall be limited to a maximum of fifty percent (50%) of total Tier 1 capital (net of deductions enumerated in paragraph 3). The total amount of upper and lower Tier 2 capital both before deductions enumerated in paragraph 10 that may be included in total qualifying capital shall be limited to a maximum of 100% of total Tier 1 capital (net of deductions enumerated in paragraph 3).
8. Upper Tier 2 capital consists of:
- a) Paid-up perpetual and cumulative preferred stock;
 - b) Deposit for perpetual and cumulative preferred stock subscription;
 - c) Paid-up limited life redeemable preferred stock issued with the condition that redemption thereof shall be allowed only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level prior to redemption;
 - d) Deposit for limited life redeemable preferred stock subscription with the replacement requirement upon redemption;
 - e) Appraisal increment reserve – bank premises, as authorized by the Monetary Board;

- f) Net unrealized gains on available for sale equity securities purchased subject to a fifty five percent (55%) discount;
- g) General loan loss provision, limited to a maximum of one percent (1%) of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk weighted assets in computing the denominator of the risk-based capital ratio;
- h) With prior BSP approval, UnSD with a minimum original maturity of at least ten (10) years issued subject to the conditions in paragraph 13, in an amount equivalent to its carrying amount discounted by the following rates:

Remaining maturity	Discount factor
5 years & above	0%
4 years to < 5 years	20%
3 years to < 4 years	40%
2 years to < 3 years	60%
1 year to < 2 years	80%
< 1 year	100%

- and
- i) Hybrid Tier 1 capital as defined in paragraph 4 in excess of the maximum allowable limit of fifteen percent (15%) of total Tier 1 capital (net of deductions enumerated in paragraph 3):
- Less:
- i. Perpetual and cumulative preferred stock treasury shares;
 - ii. Limited life redeemable preferred stock treasury shares with the replacement requirement upon redemption;
 - iii. Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption; and
 - iv. Net losses in fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities.
9. LT2 capital consists of:
- a) Paid-up limited life redeemable

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preferred stock without the replacement requirement upon redemption in an amount equivalent to its carrying amount discounted by the following rates:

Remaining maturity	Discount factor
5 years & above	0%
4 years to < 5 years	20%
3 years to < 4 years	40%
2 years to < 3 years	60%
1 year to < 2 years	80%
< 1 year	100%

b) Deposit for limited life redeemable preferred stock subscription without the replacement requirement upon redemption; and

c) With prior BSP approval, UnSD with a minimum original maturity of at least five (5) years, issued subject to the conditions in paragraph 14, in an amount equivalent to its carrying amount discounted by the following rates:

Remaining maturity	Discount factor
5 years & above	0%
4 years to < 5 years	20%
3 years to < 4 years	40%
2 years to < 3 years	60%
1 year to < 2 years	80%
< 1 year	100%

Less:

- i. Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption; and
- ii. Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption up to the extent of the balance of redeemable preferred stock after applying the cumulative discount factor.

C. Deductions from the total of Tier 1 and Tier 2 capital

10. The following items should be deducted fifty percent (50%) from

Tier 1 and fifty percent (50%) from Tier 2 capital:

- a) Investments in equity of unconsolidated subsidiary banks and QBs, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis);
- b) Investments in other regulatory capital instruments of unconsolidated subsidiary banks and QBs (for solo basis);
- c) Investments in equity of unconsolidated subsidiary securities dealers/brokers, insurance companies, and non-financial allied undertakings, after deducting related goodwill, if any (for both solo and consolidated bases);
- d) Capital shortfalls of unconsolidated subsidiary securities dealers/brokers and insurance companies (for both solo and consolidated bases);
- e) Significant minority investments (20%-50% of voting stock) in banks and QBs, and other financial allied undertakings (for both solo and consolidated bases);
- f) Reciprocal investments in equity of other banks/enterprises;
- g) Reciprocal investments in other regulatory capital instruments of other banks and QBs;
- h) Materiality thresholds in credit derivative contracts purchased;
- i) Securitization tranches which are rated below investment grade or are unrated; and
- j) Credit enhancing interest only strips in relation to a securitization structure, net of the amount of "gain-on-sale" that must be deducted from core Tier 1 capital referred to in paragraph 3.

11. Any asset deducted from qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing

the denominator of the ratio. Available for sale debt securities shall be risk-weighted net of specific provisions as provided in paragraph 1 of Part III.A, but without considering accumulated market gains/losses.

D. Eligible instruments under hybrid Tier 1 capital

12. Perpetual preferred stock and perpetual UnSD issuances of banks should comply with the following minimum conditions in order to be eligible as hybrid Tier 1 (HT1) capital:

- a) It must be issued and fully paid-up. Only the net proceeds received from the issuance shall be included as capital;
- b) The dividends/coupons must be non-cumulative. It is acceptable to pay dividends/coupons in scrip or shares of stock if a cash dividend/coupon is withheld: *Provided*, That this does not result on issuing lower quality capital: *Provided, further*, That where such dividend/coupon stock settlement feature is included, the bank should ensure that it has an appropriate buffer of authorized capital stock and appropriate stockholders and board authorization, if necessary, to fulfill their potential obligations under such issues;
- c) It must be available to absorb losses of the bank without it being obliged to cease carrying on business. The agreement governing its issuance should specifically provide for the dividend/coupon and principal to absorb losses where the bank would otherwise be insolvent, or for its holders to be treated as if they were holders of a specified class of share capital in any proceedings commenced for the winding up of the bank. Issue documentation must disclose to prospective investors the manner by which the instrument is to be treated in loss situation. Alternatively, the agreement

governing its issuance can provide for automatic conversion into common shares or perpetual and non-cumulative preferred shares upon occurrence of certain trigger events, as follows:

- i. Breach of minimum capital ratio;
- ii. Commencement of proceedings for winding up of the bank; or
- iii. Upon appointment of receiver for the bank.

The rate of conversion must be fixed at the time of subscription to the instrument. The bank must also ensure that it has appropriate buffer of authorized capital stock and appropriate stockholders and board authorization for conversion/issue to take place anytime;

d) Its holders must not have a priority claim, in respect of principal and dividend/coupon payments in the event of winding up of the bank, which is higher than or equal with that of depositors, other creditors of the bank and holders of LT2 and UT2 capital instruments. Its holder must waive his right to set-off any amount he owes the bank against any subordinated amount owed to him due to the HT1 capital instrument;

e) It must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of any holder as against depositors, other creditors of the bank and holders of LT2 and UT2 capital instruments;

f) It must not be redeemable at the initiative of the holder. It must not be repayable without the prior approval of the BSP: *Provided*, That repayment may be allowed only in connection with call option after a minimum of five (5) years from issue date: *Provided, however*, That a call option may be exercised within the first five (5) years from issue date when –

- i. It was issued for the purpose of a merger with or acquisition by the bank and

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the merger or acquisition is aborted;

ii. There is a change in tax status of the HT1 capital instrument due to changes in the tax laws and/or regulations; or

iii. It does not qualify as HT1 capital as determined by the BSP:

Provided, further, That such repayment shall be approved by the BSP only if the preferred share/debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption.

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency. The agreement governing its issuance must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option which may be exercised by the bank;

g) Its main features must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

h) The proceeds of the issuance must be immediately available without limitation to the bank;

i) The bank must have full discretion over the amount and timing of dividends/coupons where the bank –

i. Has not paid or declared a dividend on its common shares in the preceding financial year; or

ii. Determines that no dividend is to be paid on such shares in the current financial year.

The bank must have full control and access to waived payments;

j) Any dividend/coupon to be paid must be paid only to the extent that the bank has profits distributable determined in accordance with existing BSP

regulations. The dividend/coupon rate, or the formulation for calculating dividend/coupon payments must be fixed at the time of issuance and must not be linked to the credit standing of the bank;

k) It may allow only one (1) moderate step-up in the dividend/coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of ten (10) years after the issue date and if it results in an increase over the initial rate that is not more than:

i. 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or

ii. fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference security or rate.

l) It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

m) It must be issued in minimum denominations of at least ₱500,000.00 or its equivalent;

n) It must clearly state on its face that it is not a deposit and is not insured by the PDIC; and

o) The bank must submit a written external legal opinion that the abovementioned requirements, including the subordination and loss absorption features, have been met:

Provided, That for purposes of reserve requirement regulation, it shall not be treated as time deposit liability, deposit substitute liability or other forms of borrowings: *Provided, further,* That the total amount of HT1 capital that may be included in the Tier 1 capital shall be limited to a

maximum of fifteen percent (15%) of total Tier 1 capital (net of deductions enumerated in paragraph 3): *Provided, furthermore,* That the amount of HT1 capital in excess of the maximum limit shall be eligible for inclusion in the UT2 capital, subject to the limit in total Tier 2 capital. To determine the allowable amount of HT1 capital, the amount of total core Tier 1 capital (net of deductions enumerated in paragraph 3) should be multiplied by seventeen and sixty five percent (17.65%), the number derived from the proportion of fifteen percent (15%) to eighty five percent (85%), i.e., $15\%/85\% = 17.65\%$.

E. Eligible unsecured subordinated debt

13. UnSD issuances by banks should comply with the following minimum conditions in order to be eligible as UT2 capital:

a) It must be issued and fully paid-up. Only the net proceeds received from the issuance shall be included as capital;

b) It must be available to absorb losses of the bank without it being obliged to cease carrying on business. The agreement governing its issuance should specifically provide for the coupon and principal to absorb losses where the bank would otherwise be insolvent, or for its holders to be treated as if they were holders of a specified class of share capital in any proceedings commenced for the winding up of the bank. Issue documentation must disclose to prospective investors the manner by which the instrument is to be treated in loss situation.

Alternatively, the agreement governing its issuance can provide for automatic conversion into common shares or perpetual and non-cumulative shares or perpetual and cumulative preferred shares upon occurrence of certain trigger events, as follows:

- i. Breach of minimum capital ratio;
- ii. Commencement of proceedings for winding up of the bank; or
- iii. Upon appointment of receiver for the bank.

The rate of conversion must be fixed at the time of subscription to the instrument. The bank must also ensure that it has appropriate buffer of authorized capital stock and appropriate stockholders and board authorization for conversion/issue to take place anytime;

c) Its holders must not have priority claim, in respect of principal and coupon payments in the event of winding up of the bank, which is higher than or equal with that of depositors, other creditors of the bank, and holders of LT2 capital instruments. Its holder must waive his right to set off any amount he owes the bank against any subordinated amount owed to him due to the UT2 capital instrument;

d) It must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of any holder as against depositors, other creditors of the bank and holders of LT2 capital instruments;

e) It must not be redeemable at the initiative of the holder. It must not be repayable prior to maturity without the prior approval of the BSP: *Provided,* That repayment may be allowed only in connection with a call option after a minimum of five (5) years from issue date: *Provided, however,* That a call option may be exercised within the first five (5) years from issue date when:

- i. It was issued for the purpose of a merger with or acquisition by the bank and the merger or acquisition is aborted;
- ii. There is a change in tax status of the UT2 capital instrument due to changes in the tax laws and/or regulations; or
- iii. It does not qualify as UT2 capital as

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determined by the BSP:

Provided, further, That such repayment prior to maturity shall be approved by the BSP only if the debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption.

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency. The agreement governing its issuance must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option which may be exercised by the bank;

f) Its main features must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

g) The proceeds of the issuance must be immediately available without limitation to the bank;

h) The bank must have the option to defer any coupon payment where the bank:

i. has not paid or declared a dividend on its common shares in the preceding financial year; or

ii. determines that no dividend is to be paid on such shares in the current financial year;

It is acceptable for the deferred coupon to bear interest but the interest rate payable must not exceed market rates;

i) The coupon rate, or the formulation for calculating coupon payments must be fixed at the time of issuance and must not be linked to the credit standing of the bank;

j) It may allow only one (1) moderate step-up in the coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of ten (10) years after the issue date and if it results in an increase

over the initial rate that is not more than:

i. 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or

ii. fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference security or rate;

k) It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

l) It must be issued in minimum denominations of at least ₱500,000.00 or its equivalent;

m) It must clearly state on its face that it is not a deposit and is not insured by the PDIC; and

n) The bank must submit a written external legal opinion that the abovementioned requirements, including the subordination and loss absorption features, have been met:

Provided, That it shall be subject to a cumulative discount factor of twenty percent (20%) per year during the last five (5) years to maturity [i.e., twenty percent (20%) if the remaining life is four (4) years to less than five (5) years, forty percent (40%) if the remaining life is three (3) years to less than four (4) years, etc.]: *Provided, further,* That where it is denominated in a foreign currency, it shall be revalued in accordance with PAS 21: *Provided, furthermore,* That for purposes of reserve requirement regulation, it shall not be treated as time deposit liability, deposit substitute liability or other forms of borrowings.

14. UnSD issuances by banks should comply with the following minimum conditions in order to be eligible as LT2

capital:

a) It must be issued and fully paid-up. Only the net proceeds received from the issuance shall be included as capital;

b) Its holders must not have priority claim, in respect of principal and coupon payments in the event of winding up of the bank, which is higher than or equal with that of depositors and other creditors of the bank. Its holder must waive his right to set-off any amount he owes the bank against any subordinated amount owed to him due to the LT2 capital instrument;

c) It must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of any holder as against depositors and other creditors of the bank;

d) It must not be redeemable at the initiative of the holder. It must not be repayable prior to maturity without the prior approval of the Bangko Sentral:

Provided, That repayment may be allowed only in connection with a call option after a minimum of five (5) years from issue date: *Provided, however*, That a call option may be exercised within the first five (5) years from issue date when:

i. It was issued for the purpose of a merger with or acquisition by the bank and the merger or acquisition is aborted;

ii. There is a change in tax status of the LT2 capital instrument due to changes in the tax laws and/or regulations; or

iii. It does not qualify as LT2 capital as determined by the Bangko Sentral:

Provided, further, That such repayment prior to maturity shall be approved by the Bangko Sentral only if the debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption.

It must not contain any clause which

requires acceleration of payment of principal, except in the event of insolvency. The agreement governing its issuance must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option which may be exercised by the bank;

e) Its main features must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

f) The proceeds of the issuance must be immediately available without limitation to the bank;

g) The coupon rate, or the formulation for calculating coupon payments must be fixed at the time of issuance and must not be linked to the credit standing of the bank;

h) It may allow only one (1) moderate step-up in the coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of five (5) years after the issue date and if it results in an increase over the initial rate that is not more than:

i. 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or

ii. fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference security or rate;

i) It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

j) It must be issued in minimum denominations of at least P500,000.00 or its equivalent;

k) It must clearly state on its face that

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it is not a deposit and is not insured by the PDIC; and

l) The bank must submit a written external legal opinion that the abovementioned requirements, including the subordination features, have been met:

Provided, That it shall be subject to a cumulative discount factor of twenty percent (20%) per year during the last five (5) years to maturity [i.e., twenty percent (20%) if the remaining life is four (4) years to less than five (5) years, forty percent (40%) if the remaining life is three (3) years to less than four (4) years, etc.]: *Provided, further,* That where it is denominated in a foreign currency, it shall be revalued in accordance with PAS 21: *Provided, furthermore,* That for purposes of reserve requirement regulation, it shall not be treated as time deposit liability, deposit substitute liability or other forms of borrowings.

15. Capital instruments issued by banks starting 01 January 2011 should comply with

the minimum conditions specified in *Appendix 63d* in order to be eligible as Hybrid Tier 1 or Lower Tier 2 capital.

(As amended by Circular Nos. 762 dated 25 July 2012)

Part III. Credit risk-weighted assets

A. Risk-weighting

1. Banking book exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit assessment institutions listed in Part III.C.

The table below sets out the mapping of external credit assessments with the corresponding risk weights for banking book exposures. Exposures related to credit derivatives and securitizations are dealt with in Parts IV and V, respectively. Exposures should be risk-weighted net of specific provisions.

STANDARDIZED CREDIT RISK WEIGHTS								
Credit Assessment ¹ B +	AAA Below	AA + to AA-	A + to A-	BBB + to BBB-	BB + to BB-	to B-	B-	Unrated
Sovereigns	0%	0%	20%	50%	100%	100%	150%	100%
MDBs	0%	20%	50%	50%	100%	100%	150%	100%
Banks	20%	20%	50%	50%	100%	100%	150%	100% ²
Interbank call loans	20%							
Local government units	20%	20%	50%	50%	100%	100%	150%	100% ²
Government corporations	20%	20%	50%	100%	100%	150%	150%	100% ²
Corporates	20%	20%	50%	100%	100%	150%	150%	100% ²
Housing loans	50%							
MSME qualified portfolio	75%							
Defaulted exposures								
Housing loans	100%							
Others	150%							
ROPA	150%							
All other assets	100%							

Sovereign Exposures

2. These include all exposures to central governments and central banks. All Philippine peso (Php) denominated exposures to the Philippine National Government (NG) and the Bangko Sentral shall be risk-weighted at zero percent (0%). Foreign currency denominated

exposures to the NG and the Bangko Sentral, however, shall be risk-weighted according to the table above: *Provided,* That only one-third (1/3) of the applicable risk weight shall be applied from 01 July 2007, two-thirds (2/3) from

¹ The notations follow the rating symbols used by Standard & Poor's. The mapping of ratings of all recognized external rating agencies is in Part III.C
² Or risk weight applicable to sovereign of incorporation, whichever is higher

01 January 2008, and the full risk weight from 01 January 2009¹. Exposures to the Bank for International Settlements (BIS), the International Monetary Fund (IMF), and the European Central Bank (ECB) and the European Community (EC) shall also receive zero percent (0%) risk weight.
(As amended by Circular No. 588 dated 11 December 2007)

MDB Exposures

3. These include all exposures to multilateral development banks. Exposures to the World Bank Group comprised of the IBRD and the IFC, the ADB, the AfDB, the EBRD, the IADB, the EIB, the European Investment Fund (EIF), the NIB, the CDB, the Islamic Development Bank (IDB), and the CEDB currently receive zero percent (0%) risk weight. However, it is the responsibility of the bank to monitor the external credit assessments of multilateral development banks to which they have an exposure to reflect in the risk weights any change therein.

Bank Exposures

4. These include all exposures to Philippine-incorporated banks/QBs, as well as foreign-incorporated banks.

Interbank Call Loans

5. Interbank call loans refer to interbank loans that pass through the Interbank Call Loan Funds Transfer System of the Bangko Sentral, the BAP, and the PCHC.

Exposures to Local Government Units

6. These include all exposures to non-central government public sector entities.
(As amended by Circular No. 717 dated 25 March 2011)

Exposures to Government Corporations

7. These include all exposures to commercial undertakings owned by central

or local governments. Exposures to Philippine GOCCs that are not explicitly guaranteed by the Philippine NG are also included in this category.

Corporate Exposures

8. These include all exposures to business entities, which are not considered as micro, small, or medium enterprises (MSME), whether in the form of a corporation, partnership, or sole-proprietorship. These also include all exposures to FIs, including securities dealers/brokers and insurance companies, not falling under the definition of *Bank* in paragraph 4.

Housing Loans

9. These include all current loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower².
(As amended by M-2008-015 dated 19 March 2008)

Micro, Small, and Medium Enterprises (MSME)

10. An exposure must meet the following criteria to be considered as an MSME exposure:

- a) The exposure must be to an MSME as defined under existing Bangko Sentral regulations; and
- b) The exposure must be in the form of direct loans, or unavailed portion of committed credit lines and other business facilities such as outstanding guarantees issued and unused letters of credit: *Provided*, That the credit equivalent amounts thereof shall be determined in accordance with the methodology for off-balance sheet items.

Qualified portfolio

11. For a bank’s portfolio of MSME exposures to be considered as *qualified*, it

¹ The capital treatment of banks holdings of ROP Global Bonds paired with Warrants under the Bangko Sentral’s revised risk-based capital adequacy framework is contained in *Appendix 63b-1*.
² Includes housing microfinance loans under Sec. X361.5

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must be a highly diversified portfolio, i.e., it has at least 500 borrowers that are distributed over a number of industries. In addition, all MSME exposures in the qualified portfolio must be current exposures. All non-current MSME exposures are excluded from count and are to be treated as ordinary non-performing loans. Current MSME exposures not qualifying under highly diversified MSME portfolio will be risk-weighted based on external rating and shall be risk-weighted in the same manner as corporate exposures.

Defaulted Exposures

12. A default is considered to have occurred in the following cases:

- a) If a credit obligation is considered non-performing under existing rules and regulations. For non-performing debt securities, they shall be defined as follows:
 - i. For zero-coupon debt securities, and debt securities with quarterly, semi-annual, or annual coupon payments, they shall be considered non-performing when principal and/or coupon payment, as may be applicable, is unpaid for thirty (30) days or more after due date; and
 - ii. For debt securities with monthly coupon payments, they shall be considered non-performing when three (3) or more coupon payments are in arrears: *Provided, however, That* when the total amount of arrearages reaches twenty percent (20%) of the total outstanding balance of the debt security, the total outstanding balance of the debt security shall be considered as non-performing.
- b) If a borrower/obligor has sought or has been placed in bankruptcy, has been found insolvent, or has ceased operations in the case of businesses;
- c) If the bank sells a credit obligation at a material credit-related loss, i.e., excluding gains and losses due to interest rate movements. Banks' board-approved

internal policies must specifically define when a material credit-related loss occurs; and

- d) If a credit obligation of a borrower/obligor is considered to be in default, all credit obligations of the borrower/obligor with the same bank shall also be considered to be in default.

Housing loans

13. These include all loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower, which are considered to be in default in accordance with paragraph 12.

Others

14. These include the total amounts or portions of all other defaulted exposures, which are not secured by eligible collateral or guarantee as defined in Part III.B.

ROPA

15. All real and other properties acquired and classified as such under existing regulations.

Other Assets

16. The standard risk weight for all other assets, including bank premises, furniture, fixtures and equipment, will be 100%, except in the following cases:

- a) Cash on hand and gold, which shall be risk-weighted at zero percent (0%);
- b) Checks and other cash items, which shall be risk-weighted at twenty percent (20%); and
- c) Loans to small farmer and fisherfolk engaged in palay and/or food production projects/activities to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008, which shall be risk weighted at twenty percent (20%): *Provided, That* a separate fund is maintained

to guarantee the loans originated by banks: *Provided, further,* That the maximum allowable leveraging ratio of the fund maintained to guarantee bank loans shall be three (3), i.e., the maximum amount of loans guaranteed by the fund is thrice the amount of money in the fund: *Provided, furthermore,* That the fund maintained to guarantee bank loans is invested in assets that are zero percent (0%) risk-weighted under this risk-based capital adequacy framework.

(As amended by Circular Nos. 750 dated 01 March 2012 and 713 dated 14 February 2011)

Accruals on a claim shall be classified and risk-weighted in the same way as the claim. Bills purchased shall be classified and risk-weighted as claims on the drawee bank. The treatments of credit derivatives and securitization exposures are presented separately in Parts IV and V, respectively. Investments in equity or other regulatory capital instruments issued by banks or other financial/non-financial allied/non-allied undertakings will be risk-weighted at 100%, unless deductible from the capital base as required in Part II.

Off-balance sheet items

17. For off-balance sheet items, the risk-weighted amount shall be calculated using a two-step process. First, the credit equivalent amount of an off-balance sheet item shall be determined by multiplying its notional principal amount by the appropriate credit conversion factor, as follows:

a) *100% credit conversion factor* - this shall apply to direct credit substitutes, e.g., general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances), and shall include:

i. Guarantees issued other than shipside bonds/airway bills;

ii. Financial standby letters of credit

b) *Fifty percent (50%) credit conversion factor* – this shall apply to certain transaction-related contingent items, e.g., performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions, and shall include:

i. Performance standby letters of credit (net of margin deposit), established as a guarantee that a business transaction will be performed;

This shall also apply to –

i. Note issuance facilities and revolving underwriting facilities; and

ii. Other commitments, e.g., formal standby facilities and credit lines with an original maturity of more than one (1) year, and this shall also include Underwritten Accounts Unsold.

c) *Twenty percent (20%) credit conversion factor* – this shall apply to short-term, self-liquidating trade-related contingencies arising from movement of goods, e.g., documentary credits collateralized by the underlying shipments, and shall include:

i. Trade-related guarantees:

- Shipperside bonds/airway bills
- Letters of credit – confirmed

ii. Sight letters of credit outstanding (net of margin deposit);

iii. Usance letters of credit outstanding (net of margin deposit);

iv. Deferred letters of credit (net of margin deposit); and

v. Revolving letters of credit (net of margin deposit) arising from movement of goods and/or services;

This shall also apply to commitments with an original maturity of up to one (1) year, and shall include Committed Credit Line for Commercial Paper Issued.

d) *Zero percent (0%) credit conversion factor* – this shall apply to commitments

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which can be unconditionally cancelled at any time by the bank without prior notice, and shall include Credit Card Lines.

This shall also apply to those not involving credit risk, and shall include:

- i. Late deposits/payments received;
- ii. Inward bills for collection;
- iii. Outward bills for collection;
- iv. Travelers' checks unsold;
- v. Trust department accounts;
- vi. Items held for safekeeping/custodianship;
- vii. Items held as collaterals;
- viii. Deficiency claims receivable; and
- ix. Others.

18. For derivative contracts, the credit equivalent amount shall be the sum of the current credit exposure (or replacement cost) and an estimate of the potential future credit exposure (or add-on). However, the following shall not be included in the computation:

- a) Instruments which are traded in an exchange where they are subject to daily receipt and payment of cash variation margin; and
- b) Exchange rate contract with original maturity of fourteen (14) calendar days or less.

19. The current credit exposure shall be the positive mark-to-market value of the contract (or zero if the mark-to-market value is zero or negative). The potential future credit exposure shall be the product of the notional principal amount of the contract multiplied by the appropriate potential future credit conversion factor, as indicated below:

Residual Maturity	Interest		Exchange
	Rate Contract	Rate Contract	Equity Contract
One (1) year or less	0.0%	1.0%	6.0%
Over one (1) year to five (5) years	0.5%	5.0%	8.0%
Over five (5) years	1.5%	7.5%	10.0%

Provided, That:

a) For contracts with multiple exchanges of principal, the factors are to be multiplied by the number of remaining payments in the contract;

b) For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date, and in the case of interest rate contracts with remaining maturities of more than one (1) year that meet these criteria, the potential future credit conversion factor is subject to a floor of one-half percent (1/2%); and

c) No potential future credit exposure shall be calculated for single currency floating/floating interest rate swaps, i.e., the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

20. The credit equivalent amount shall be treated like any on-balance sheet asset, and shall be assigned the appropriate risk weight, i.e., according to the third party credit assessment of the counterparty exposure.

B. Credit risk mitigation (CRM)

21. Banks use a number of techniques to mitigate the credit risks to which they are exposed. For example, exposures may be collateralized by first priority claims, in whole or in part with cash or securities, or a loan exposure may be guaranteed by a third party. Physical collateral, such as real estate, buildings, machineries, and inventories are not recognized at this time for credit risk mitigation purposes in line with Basel II recommendations.

22. In order for banks to obtain capital relief for any use of CRM techniques, all documentation used in collateralized transactions and for documenting guarantees must be binding on all parties and legally enforceable in all relevant jurisdictions. Banks must have conducted

sufficient legal review to verify this and have a well-founded legal basis to reach this conclusion, and undertake such further review as necessary to ensure continuing enforceability.

23. The effects of CRM will not be double counted. Therefore, no additional supervisory recognition of CRM for regulatory capital purposes will be granted on claims for which an issue-specific rating is used that already reflects that CRM. Principal-only ratings will not be allowed within the framework of CRM.

24. While the use of CRM techniques reduces or transfers credit risk, it simultaneously may increase other risks (residual risks). Residual risks include legal, operational, liquidity and market risks. Therefore, it is imperative that banks employ robust procedures and processes to control these risks, including strategy; consideration of the underlying credit; valuation; policies and procedures; systems; control of roll-off risks; and management of concentration risk arising from the bank's use of CRM techniques and its interaction with the bank's overall credit risk profile.

25. The disclosure requirements under Part VIII of this document must also be observed for banks to obtain capital relief (i.e., adjustments in the risk weights of collateralized or guaranteed exposures) in respect of any CRM techniques.

Collateralized transactions

26. A collateralized transaction is one in which:

- a) banks have a credit exposure or potential credit exposure; and
- b) that credit exposure or potential credit exposure is hedged in whole or in part by collateral posted by a counterparty¹ or by a third party in behalf of the counterparty.

27. In addition to the general requirement for legal certainty set out in

paragraph 22, the legal mechanism by which collateral is pledged or transferred must ensure that the bank has the right to liquidate or take legal possession of it, in a timely manner, in the event of default, insolvency or bankruptcy (or one or more otherwise-defined credit events set out in the transaction documentation) of the counterparty (and, where applicable, of the custodian holding the collateral). Furthermore, banks must take all steps necessary to fulfill those requirements under the law applicable to the bank's interest in the collateral for obtaining and maintaining an enforceable security interest, e.g., by registering it with a registrar, or for exercising a right to net or set off in relation to title transfer collateral.

28. In order for collateral to provide protection, the credit quality of the counterparty and the value of the collateral must not have a material positive correlation. For example, securities issued by the counterparty – or by any related group entity – would provide little protection and so would be ineligible.

29. Banks must have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed, and that collateral can be liquidated promptly.

30. Where the collateral is required to be held by a custodian, the BSP will only recognize the collateral for regulatory capital purposes if it is held by BSP-authorized third party custodians.

31. A capital requirement will be applied to a bank on either side of the collateralized transaction: for example, both repos and reverse repos will be subject to capital requirements. Likewise, both sides of a securities lending and borrowing transaction will be subject to explicit capital charges, as will the posting of securities in

¹ *Counterparty* refers to a party to whom a bank has an on- or off-balance sheet credit exposure or a potential credit exposure.

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connection with a derivative exposure or other borrowing.

Banking book

32. Where banks take eligible collateral, as listed in paragraph 34, and satisfies the requirements under paragraphs 27 to 31, they are allowed to apply the risk weight of the collateral to the collateralized portion of the credit exposure (equivalent to the fair market value of recognized collateral), subject to a floor of twenty percent (20%). The twenty percent (20%) floor shall not apply and a zero percent (0%) risk weight can be applied when the exposure and the collateral are denominated in the same currency, and either:

- a) The collateral is cash as defined in paragraph 34.a; or
- b) The collateral is a sovereign debt security eligible for zero percent (0%) risk weight, or a Php-denominated debt obligation issued by the Philippine NG or the BSP, which fair market value has been discounted by twenty percent (20%).

33. For collateral to be recognized, however, the collateral must be pledged for at least the life of the exposure and it must be marked to market and revalued with a minimum frequency of every six (6) months.

34. The following are the eligible collateral instruments:

- a) Cash (as well as certificates of deposit or comparable instruments issued by the lending bank) on deposit with the bank which is incurring the counterparty exposure;
- b) Gold;
- c) Debt obligations issued by the Philippine NG or the BSP;
- d) Debt securities issued by central governments and central banks (and PSEs treated as sovereigns) of foreign countries as well as MDBs with at least investment grade external credit ratings;
- e) Other debt securities with external

credit ratings of at least BBB- or its equivalent;

- f) Unrated senior debt securities issued by banks with an issuer rating of at least BBB- or its equivalent, or with other debt issues of the same seniority with a rating of at least BBB- or its equivalent;
- g) Equities included in the main index of an organized exchange; and
- h) Investments in Unit Investment Trust Funds (UITF) and the Asian Bond Fund 2 (ABF2) duly approved by the BSP.

Trading book

35. A credit risk capital requirement should also be applied to banks' counterparty exposures in the trading book (e.g., repo-style transactions, OTC derivatives contracts). Where banks take eligible collateral for these trading book transactions, as listed in paragraph 34, and satisfies the requirements under paragraphs 27 to 31, they are to compute for the credit risk capital requirement according to the following paragraphs: *Provided*, That, for repo-style transactions in the trading book, all instruments which are included in the trading book may be used as eligible collateral.

36. For collateralized transactions in the trading book, the exposure amount after risk mitigation is calculated as follows:

$$E^* = \max \{0, [E \times (1 + H_e) - C \times (1 - H_c - H_{fx})]\}$$

Where:

- E* = the exposure value after risk mitigation
- E = the current value of the exposure
- H_e = haircut appropriate to the exposure
- C = the current value of the collateral received
- H_c = haircut appropriate to the collateral
- H_{fx} = haircut appropriate for currency mismatch between the collateral and exposure set at 8% (based on a 10-business day holding period and daily marking to market)

¹ The notations follow the rating symbols used by Standard & Poor's. The mapping of ratings of all recognized external rating agencies is in Part III.C

37. The treatment of transactions where there is a maturity mismatch between the maturity of the counterparty exposure and the collateral is given in paragraphs 50 to 54.

38. These are the haircuts to be used (based on a 10-business day holding period, daily marking to market and daily remargining), expressed as percentages:

Issue rating for debt securities ¹	Residual maturity	Haircut	
		Sovereign (and PSEs treated as sovereign) and MDB (with 0% risk weight) issuers	Other Issuers
Php – denominated securities issued by the Philippine NG and BSP	< 1 year	0.5	
	> 1 yr. to < 5 yrs.	2	
	> 5 years	4	
AAA to AA-	< 1 year	0.5	1
	> 1 yr. to < 5 yrs.	2	4
	> 5 years	4	8
A+ to BBB-/ Unrated bank debt securities as defined in paragraph 34.f	< 1 year	1	2
	> 1 yr. to < 5 yrs.	3	6
	> 5 years	6	12
Equities included in the main index and gold		15	
UITF and ABF2		Highest haircut applicable to any security in which the fund can invest	
Cash per paragraph 34.a in the same currency		0	
Other financial instruments in the trading book (applies to repo-style transactions in the trading book only)		25	

39. Where the collateral is a basket of assets, the haircut on the basket will be $H = \sum a_i H_i$, where a_i is the weight of the asset in the basket and H_i is the haircut applicable to that asset.

40. For collateralized OTC derivatives transactions in the trading book, the credit

equivalent amount will be computed according to paragraphs 18 to 19, but adjusted by deducting the volatility adjusted collateral amount as computed according to paragraphs 36 to 39.

41. The exposure amount after risk mitigation will be multiplied by the risk weight of the counterparty to obtain the risk-weighted asset amount for the collateralized transaction.

Guarantees

42. Where guarantees are direct, explicit, irrevocable and unconditional, banks may be allowed to take account of such credit protection in calculating capital requirements.

43. A guarantee must represent a direct claim on the protection provider and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible. Other than non-payment by a protection purchaser of money due in respect of the credit protection contract, the guarantee must be irrevocable; there must be no clause in the contract that would allow the protection provider unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. It must also be unconditional; there should be no clause in the protection contract outside the direct control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.

44. In addition to the legal certainty requirement in paragraph 22, in order for a guarantee to be recognized, the following conditions must be satisfied:

a) On the qualifying default/non-payment of the counterparty, the bank may in a timely manner pursue the guarantor

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for any monies outstanding under the documentation governing the transaction. The guarantor may make one lump sum payment of all monies under such documentation to the bank, or the guarantor may assume the future payment obligations of the counterparty covered by the guarantee. The bank must have the right to receive any such payments from the guarantor without first having to take legal actions in order to pursue the counterparty for payment;

b) The guarantee is an explicitly documented obligation assumed by the guarantor; and

c) The guarantee must cover all types of payments the underlying obligor is expected to make under the documentation governing the transaction, for example, notional amount, margin payments, etc. Where a guarantee covers payment of principal only, interests and other uncovered payments should be treated as an unsecured amount.

45. Where the bank's exposure is guaranteed by an eligible guarantor, as listed in paragraph 47, and satisfies the requirements under paragraphs 42 to 44, the bank is allowed to apply the risk weight of the guarantor to the guaranteed portion of the credit exposure.

46. The treatment of transactions where there is a mismatch between the maturity of the counterparty exposure and the guarantee is given in paragraphs 50 to 54.

47. The following are the eligible guarantors:

- a) Philippine NG and the BSP;
- b) Central governments and central banks and PSEs of foreign countries as well as MDBs with a lower risk weight than the counterparty;
- c) Banks with a lower risk weight than the counterparty;
- d) Other entities with external credit assessment of at least A- or its equivalent;

and

e) The Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008.

(As amended by Circular No. 713 dated 14 February 2011)

48. Where a bank provides a credit protection to another bank in the form of a guarantee that a third party will perform on its obligations, the risk to the guarantor bank is the same as if the bank had entered into the transaction as a principal. In such circumstances, the guarantor bank will be required to calculate capital requirement on the guaranteed amount according to the risk weight corresponding to the third party exposure. In this instance, and provided the credit protection is deemed to be legally effective, the credit risk is considered transferred to the bank providing credit protection. However, the bank receiving credit protection on its exposure to a third party shall recognize a corresponding risk-weighted credit exposure to the bank providing credit protection.

49. An exposure that is covered by a guarantee that is counter-guaranteed by the Philippine NG or BSP, may be considered as covered by the guarantee of the Philippine NG or BSP: *Provided, That:*

- a) the counter-guarantee covers all credit risk element of the exposure;
- b) both the original guarantee and the counter-guarantee meet all operational requirements for guarantees, except that the counter guarantee need not be direct and explicit to the original exposure; and
- c) the cover is robust and that no historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct guarantee of the Philippine NG and BSP.

Currently, Php-denominated exposures to the extent guaranteed by Industrial Guarantee and Loan Fund (IGLF), Home Guaranty Corporation (HGC)^{1v}, and Trade and Investment Development Corporation

^{1v} Housing microfinance loans under Sec. X361.5 to the extent guaranteed by the HGC, shall be subject to a zero percent (0%) risk weight.

of the Philippines (TIDCORP), which guarantees are counter-guaranteed by the Philippine NG receive zero percent (0%) risk weight.

(As amended by M-2008-015 dated 19 March 2008)

Maturity mismatch

50. For collateralized transactions in the trading book and guaranteed transactions, the credit risk mitigating effects of such transactions will still be recognized even if a maturity mismatch occurs between the hedge and the underlying exposure, subject to appropriate adjustments.

51. For purposes of calculating risk-weighted assets, a maturity mismatch occurs when the residual maturity of a hedge is less than that of the underlying exposure.

52. The maturity of the hedge and the maturity of the underlying exposure should both be defined conservatively. For the hedge, embedded options which may reduce the term of the hedge should be taken into account so that the shortest possible effective maturity is used. Where a call is at the discretion of the guarantor/protection seller, the maturity will always be at the first call date. If the call is at the discretion of the protection buying bank but the terms of the arrangement at origination of the hedge contain a positive incentive for the bank to call the transaction before contractual maturity, the remaining time to the first call date will be deemed to be the effective maturity. For example, where there is a step-up in cost in conjunction with a call feature or where the effective cost of cover increases over time even if credit quality remains the same or increases, the effective maturity will be the remaining time to the first call. The effective maturity of the underlying, on the other hand, should be gauged as the longest remaining time before the counterparty is

scheduled to fulfill its obligation, taking into account any applicable grace period.

53. Hedges with maturity mismatches are only recognized when their original maturities are greater than or equal to one year. As a result, the maturity of hedges for exposures with original maturities of less than one (1) year must be matched to be recognized. In all cases, hedges will no longer be recognized when they have a residual maturity of three months or less.

54. When there is a maturity mismatch with recognized credit risk mitigants, the following adjustment will be applied.

$$Pa = P \times (t - 0.25) / (T - 0.25)$$

Where:

- Pa = value of the credit protection adjusted for maturity mismatch
- P = credit protection (e.g., collateral amount, guarantee amount) adjusted for any haircuts
- t = min (T, residual maturity of the credit protection arrangement) expressed in years
- T = min (5, residual maturity of the exposure) expressed in years

C. Use of third party credit assessments

55. The following third party credit assessment agencies are recognized by the BSP for regulatory capital purposes:

International credit assessment agencies:

- a) Standard & Poor's;
- b) Moody's;
- c) Fitch Ratings; and
- d) Such other rating agencies as may be approved by the Monetary Board.

Domestic credit assessment agencies:

- a) PhilRatings; and
- b) Such other rating agencies as may be approved by the Monetary Board.

56. The tables below set out the mapping of ratings given by the recognized credit assessment agencies for purposes of determining the appropriate risk weights: exclusively for use in the 57.

Agency	INTERNATIONAL RATINGS						
S&P	AAA	AA +	AA	AA-	A +	A	A-
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3
Fitch	AAA	AA +	AA	AA-	A +	A	A-

Agency	DOMESTIC RATINGS						
PhilRatings	AAA	Aa +	Aa	Aa-	A +	A	A-

Agency	INTERNATIONAL RATINGS						
S&P	BBB +	BBB	BBB-	BB +	BB	BB-	B +
Moody's	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1
Fitch	BBB +	BBB	BBB-	BB +	BB	BB-	B +

Agency	DOMESTIC RATINGS						
PhilRatings	Baa +	Baa	Baa-	Ba +	Ba	Ba-	B +

Agency	INTERNATIONAL RATINGS		
S&P	B	B-	
Moody's	B2	B3	
Fitch	B	B-	

Agency	DOMESTIC RATINGS		
PhilRatings	B	B-	

57. The BSP will issue the mapping of ratings of other rating agencies as soon as it is recognized by the BSP for regulatory capital purposes.

National Rating Systems

58. With prior BSP approval, international credit rating agencies may have national rating systems developed exclusively for use in the Philippines using the Philippines using the Philippine sovereign as reference highest credit quality anchor.

Multiple Assessments

59. If an exposure has only one rating by any of the BSP recognized credit assessment agencies, that rating shall be used to determine the risk weight of the exposure; in cases where there are two or more ratings which map into different risk

weights, the higher of the two lowest risk weights should be used.

Issuer versus issue assessments

60. Any reference to credit rating shall refer to issue-specific rating; the issuer rating may be used only if the exposure being risk-weighted is:

- a) an unsecured senior obligation of the issuer and is of the same denomination applicable to the issuer rating (e.g., local currency issuer rating may be used for risk weighting local currency denominated senior claims);
- b) short-term; and
- c) in cases of guarantees.

61. For loans, risk weighting shall depend on either the rating of the borrower or the rating of the unsecured senior obligation of the borrower: *Provided*, That in case of the latter, the loan is of the same

currency denomination as the unsecured senior obligation.

Domestic versus international debt issuances

62. Domestic debt issuances may be rated by BSP-recognized domestic credit assessment agencies or by international credit assessment agencies which have developed a national rating system acceptable to the BSP. Internationally-issued debt obligations shall be rated by BSP-recognized international credit assessment agencies only.

Level of application of the assessment

63. External credit assessments for one entity within a corporate group cannot be used to proxy for the credit assessment of other entities within the same group. Such other entities should secure their own ratings.

Part IV. Credit Derivatives

1. This Part sets out the capital treatment for credit derivatives. Banks may use credit derivatives to mitigate its credit risks or to acquire credit risks. For credit derivatives that are used as credit risk mitigants (CRM), the general requirements for the use of CRM techniques in paragraphs 21 to 25, Part III.B, have to be satisfied, in addition to the specific operational requirements for credit derivatives in paragraphs 8 to 14.

2. The contents of this Part are just the general rules to be followed in computing capital requirements for credit derivatives. A bank, therefore, is expected to consult the BSP-SES when there is uncertainty about the computation of capital requirements, or even about whether a given transaction should be treated under the credit derivatives framework.

A. Definitions and general terminology

3. *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. Credit derivatives may refer to credit default swaps (CDS), total return swaps (TRS), and credit-linked notes (CLN) and similar products.

4. *Credit default swap* – 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.

5. *Total return swap* – a credit derivative wherein the protection buyer exchanges the actual collections and variations in the prices of the reference asset with the protection seller in return for a fixed premium.

6. *Credit-linked note* – a pre-funded credit derivative 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).

7. *Special purpose vehicle* – refers to an entity specifically established to issue CLNs of a single, homogeneous risk class that are fully collateralized as to principal by eligible collateral instruments listed in paragraph 34, Part III.B, and which are

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purchased out of the proceeds of the note issuance.

B. Operational requirements for credit derivatives

8. A credit derivative must represent a direct claim on the protection seller and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible. Other than non-payment by a protection buyer of money due in respect of the credit derivative contract, it must be irrevocable; there must be no clause in the contract that would allow the protection seller unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. It must also be unconditional; there should be no clause in the credit derivative contract outside the direct control of the protection buyer that could prevent the protection seller from being obliged to pay out in a timely manner in the event of a defined credit event.

9. The credit events specified by the contracting parties must at a minimum cover:

- a) failure to pay the amounts due under terms of the underlying obligation that are in effect at the time of such failure (with a grace period that is closely in line with the grace period in the underlying obligation);
- b) bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events; and
- c) restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that results in a credit loss event (i.e., charge-off, specific provision or other similar debit to the profit and loss account).

10. The credit derivative shall not

terminate prior to expiration of any grace period required for a default on the underlying obligation to occur as a result of a failure to pay, subject to the provisions of paragraph 52 of Part III.B.

11. Credit derivatives allowing for cash settlement are recognized for capital purposes insofar as a robust valuation process is in place in order to estimate loss reliably. There must be a clearly specified period for obtaining post-credit event valuations of the underlying obligation.

12. If the protection buyer's right or ability to transfer the underlying obligation to the protection seller is required for settlement, the terms of the underlying obligation must provide that any required consent to such transfer may not be unreasonably withheld.

13. The identity of the parties responsible for determining whether a credit event has occurred must be clearly defined. This determination must not be the sole responsibility of the protection seller. The bank as protection buyer must have the right/ability to inform the protection seller of the occurrence of a credit event.

14. Asset mismatches (underlying obligation is different from the obligation used for purposes of determining cash settlement or the deliverable obligation, or from the obligation used for purposes of determining whether a credit event has occurred) are permissible if:

a) the obligation used for purposes of determining cash settlement or the deliverable obligation, or the obligation used for purposes of determining whether a credit event has occurred ranks *pari passu* with or is junior to the underlying obligation; and

b) both obligations share the same obligor (i.e., the same legal entity) and legally enforceable cross-default or

cross-acceleration clauses are in place.

C. Capital treatment for protection buyers

15. A bank that enters into a credit derivative transaction as a protection buyer in order to hedge an existing exposure in the banking book may only get capital relief if all the general requirements for the use of CRM techniques in paragraphs 21 to 25, Part III.B and the conditions in paragraphs 8 to 14 are satisfied. In addition, only the eligible guarantors listed in paragraph 47, Part III.B are considered as eligible protection sellers.

16. If all of the conditions in paragraph 15 are satisfied, banks that are protection buyers may apply the risk weight of the protection seller to the protected portion of the exposure being hedged. The risk weight of the protection seller should therefore be lower than the risk weight of the exposure being hedged for capital relief to be recognized. Exposures that are protected through the issuance of CLNs will be treated as transactions collateralized by cash and a zero percent (0%) risk weight is applied to the protected portion. The uncovered portion shall retain the risk weight of the bank's underlying counterparty.

17. The protected portion of an exposure is measured as follows:

- a) The fixed amount, if such is to be paid upon the occurrence of a credit event; or
- b) The notional value of the contract if either (1) par is to be paid in exchange for physical delivery of the reference asset, or (2) par less market value of the asset is to be paid upon the occurrence of a credit event.

18. A bank may obtain credit protection for a basket of reference entities where the contract terminates and pays out on the first entity to default. In this case, the bank may substitute the risk weight of the protection seller for the risk weight of the asset within

the basket with the lowest risk-weighted amount, but only if the notional amount is less than or equal to the notional amount of the credit derivative.

19. Where the contract terminates and pays out on the n^{th} (other than the first) entity to default, the bank will only be able to recognize any reductions in the risk weight of the underlying asset if $(n-1)^{\text{th}}$ default-protection has also been obtained or when $n-1$ of the assets within the basket has already defaulted.

20. Where the contract is referenced to entities in the basket proportionately, reductions in the risk weight will only apply to the extent of the underlying asset's share of protection in the contract.

21. When a bank conducts an internal hedge using a credit derivative (i.e., hedging the credit risk of an exposure in the banking book with a credit derivative booked in the trading book), in order for the bank to receive any reduction in the capital requirement for the exposure in the banking book, the credit risk in the trading book must be transferred to an outside third party (i.e., an eligible protection seller).

22. Where a bank buys credit protection through a TRS and records the net payments received on the swap as net income, but does not record offsetting deterioration in the value of the asset that is protected (either through reductions in fair value or by an addition to reserves), the credit protection will not be recognized.

23. Materiality thresholds on payments below which no payment is made in the event of loss are equivalent to retained first loss positions and must be deducted in full from the capital of the bank buying the credit protection.

24. Where the credit protection is denominated in a currency different from that in which the exposure is denominated – i.e., there is a currency mismatch – the protected portion of the exposure will be

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reduced by the application of a haircut, as follows:

$$Ga = G \times (1 - H_{fx})$$

Where:

Ga = adjusted protected portion of the exposure

G = protected portion of the exposure prior to haircut

H_{fx} = haircut appropriate for currency mismatch between the credit protection and underlying obligation set at eight percent (8%) (based on a 10-business day holding period and daily marking to market)

25. Where a maturity mismatch occurs between the credit protection and the underlying exposure, the protected portion of the exposure adjusted for maturity mismatch will be computed according to paragraph 50 to 54, Part III.B.

D. Capital treatment for protection sellers

26. Where a bank is a protection seller in a CDS or TRS transaction, it must calculate a capital requirement on the reference asset as if it were a direct investor in the reference asset. The risk weight of the reference asset is multiplied by the nominal amount of the protection provided by the credit derivative to obtain the risk-weighted exposure.

27. For a bank holding a CLN, credit exposure is acquired on two fronts. As such, the on-balance sheet exposure arising from the note should be weighted by adding the risk weights of the reference entity and the risk weight of the note issuer. The amount of exposure is the carrying amount of the note. If the CLN principal is fully collateralized by an eligible collateral listed in paragraph 34, Part III.B, and which satisfies the requirements in paragraphs 27 to 31, Part III.B, the risk weight of the note issuer is substituted with the risk weight associated with the relevant collateral.

28. When the credit derivative is referenced to a basket of reference entities and the contract terminates and pays out on the first entity to default in the basket, capital should be held to consider the cumulative risk of all the reference entities in the basket. This means that the risk weights of all the reference entities are added up and multiplied by the amount of the protection provided by the credit derivative to obtain the risk-weighted exposure to the basket. However, the risk-weighted exposure is capped at ten (10) times the protection provided under the contract. Accordingly, the maximum capital charge is 100% of the protection provided under the contract. The multiplier ten (10) is the reciprocal of the BSP-required minimum CAR of ten percent (10%). For CLNs, the risk weight of the issuer is likewise included in the summing of the risk weights.

29. When the contract terminates and pays out on the nth (other than the first) entity to default, the treatment above shall apply except that in aggregating the risk weights of the reference entities, the risk weight/s of the n-1 lowest risk-weighted entity/ies is/are excluded from the computation. For CLNs, the risk weight of the issuer is likewise included in the summing of the risk weights.

30. When a first or an nth-to-default credit derivative has an external credit rating acceptable to the BSP, the risk weight in paragraph 21, Part V.F will be applied.

31. A contract that is referenced to entities in the basket proportionately should be risk-weighted according to each reference entity's share of protection under the contract.

E. Credit derivatives in the trading book

32. The following describes the positions to be reported for credit derivative transactions for purposes of calculating

specific risk and general market risk charges under the standardized approach.

33. A CDS creates a notional position in the specific risk of the reference obligation. A TRS creates notional positions on the specific and general market risks of the reference obligation, and an opposite notional position on a zero coupon government security representing the fixed payments or premium under the TRS. A CLN creates a notional position in the specific risk of the reference obligation, a position on the specific risk associated with the issuer, and a position on the general market risk of the note.

Specific risk

34. The specific risk position/s on the reference obligation/s created by credit derivatives are reported as short positions by protection buyers and long positions by protection sellers. In addition, holders of CLNs should report a long position on the specific risk of the note issuer.

35. The protection buyer in a first-to-default transaction should report a short position in the reference obligation with the lowest specific risk charge. A protection buyer in an nth (other than the first)-to-default transaction shall only be allowed to report a short position in a reference obligation only if n-1 obligations in the reference basket has/have already defaulted.

36. When a credit derivative is referenced to multiple entities and the contract terminates and pays out on the first obligation to default in the basket, the transaction should be reported by the protection seller as long positions in each of the reference obligations in the basket. A CLN should likewise be reported as a long position on the note issuer. The total capital charge is capped at the notional amount of the derivative or, in the case of a CLN, the carrying amount of the note.

37. When the contract terminates and pays out on the nth (other than the first) entity to default in the basket, the treatment above shall apply except that the protection seller may exclude the long position/s on n-1 reference obligations with the lowest risk-weighted exposures in its report. A CLN should likewise be reported as a long position on the note issuer. The total capital charge is capped at the notional amount of the derivative or, in the case of a CLN, the carrying amount of the note.

38. When an nth-to-default credit derivative has an external credit rating acceptable to the BSP, the specific risk weights in Part VI.B will be applied.

39. When the contract is referenced to multiple obligations under a proportionate structure, positions in the reference obligations should be reported according to their respective proportions in the contract.

General market risk

40. A protection buyer/seller in a TRS should report a short/long notional position on the reference obligation and a long/short notional position on a zero coupon government security representing the fixed payment under the contract.

41. A protection buyer/seller in a CLN should report a short/long position on the note.

Counterparty credit risk

42. CDS and TRS transactions in the trading book attract counterparty credit risk charges. A five percent (5%) add-on factor for the computation of the potential future credit exposure shall be used by both protection buyers and protection sellers if the reference obligation has an external credit rating of at least BBB- or its equivalent. A ten percent (10%) add-on factor applies to all other reference obligations. However, a protection seller in a CDS shall only be subject to the add-on factor if it is subject to

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closeout upon the insolvency of the protection buyer while the underlying is still solvent. The add-on in this case should be capped to the amount of unpaid premiums.

43. Where the credit derivative is a first to default transaction, the add-on will be determined by the lowest credit quality underlying in the basket, i.e., if there are any non-investment grade or unrated items in the basket, the ten percent (10%) add-on should be used. For second and subsequent to default transactions, underlying assets should continue to be allocated according to the credit quality, i.e., the second lowest credit quality will determine the add-on for a second to default transaction, etc.

44. Where the credit derivative is referenced proportionately to multiple obligations, the add-on factor will follow the add-on factor applicable for the obligation with the biggest share. If the protection is equally proportioned, the highest add-on factor should be used.

Part V. Securitization

1. Banks must apply the securitization framework for determining regulatory capital requirements on their securitization exposures. Securitization exposures can include but are not restricted to the following: asset-backed securities, mortgage-backed securities, credit enhancements, liquidity facilities, interest rate or currency swaps, and credit derivatives. Underlying instruments in the pool being securitized may include but are not restricted to the following: loans, commitments, asset-backed and mortgage-backed securities, corporate bonds, equity securities, and private equity investments.

2. Since securitizations may be structured in many different ways, the capital treatment of a securitization exposure must be determined on the basis of its economic substance rather than its legal form. The

contents of this Part are just the general rules to be followed in computing capital requirements for securitization exposures. A bank should therefore consult the BSP-SES when there is uncertainty about the computation of capital requirements, or even about whether a given transaction should be considered a securitization.

A. Definitions and general terminology

3. *Traditional securitization* – a structure where the cash flow from an underlying pool of exposures is used to service at least two (2) different stratified risk positions or tranches reflecting different degrees of credit risk. Payments to the investors depend upon the performance of the specified underlying exposures, as opposed to being derived from an obligation of the entity originating those exposures. The stratified/tranched structures that characterize securitizations differ from ordinary senior/subordinated debt instruments in that junior securitization tranches can absorb losses without interrupting contractual payments to more senior tranches, whereas subordination in a senior/subordinated debt structure is a matter of priority of rights to the proceeds of liquidation.

4. *Synthetic securitization* – a structure with at least two (2) different stratified risk positions or tranches that reflect different degrees of credit risk where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of funded (e.g., credit-linked notes) or unfunded (e.g., credit default swaps) credit derivatives or guarantees that serve to hedge the credit risk of the portfolio. Accordingly, the investors’ potential risk is dependent upon the performance of the underlying pool.

5. *Originating bank* – a bank that originates directly or indirectly underlying exposures included in the securitization.

6. *Clean-up call* – an option that permits the securitization exposures to be called before all of the underlying exposures or securitization exposures have been repaid. In the case of traditional securitizations, this is generally accomplished by repurchasing the remaining securitization exposures once the pool balance or outstanding securities have fallen below some specified level. In the case of a synthetic transaction, the clean-up call may take the form of a clause that extinguishes the credit protection.

7. *Credit enhancement* – a contractual arrangement in which the bank retains or assumes a securitization exposure and, in substance, provides some degree of added protection to other parties to the transaction.

8. *Early amortization provisions* – mechanisms that, once triggered, allow investors to be paid out prior to the originally stated maturity of the securities issued. For risk-based capital purposes, an early amortization provision will be considered either controlled or non-controlled. A controlled early amortization provision must meet all of the following conditions:

a) The bank must have an appropriate capital/liquidity plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortization;

b) Throughout the duration of the transaction, including the amortization period, there is the same pro rata sharing of interest, principal, expenses, losses and recoveries based on the bank's and investors' relative shares of the receivables outstanding at the beginning of each month;

c) The bank must set a period for amortization that would be sufficient for at least ninety percent (90%) of the total debt outstanding at the beginning of the early amortization period to have been repaid or recognized as in default; and

d) The pace of repayment should not be any more rapid than would be allowed by straight-line amortization over the period set out in criterion (c).

An early amortization provision that does not satisfy the conditions for a controlled early amortization provision will be treated as non-controlled early amortization provision.

9. *Eligible liquidity facilities* – an off-balance sheet securitization exposure shall be treated as an eligible liquidity facility if the following minimum requirements are satisfied:

a) The facility documentation must clearly identify and limit the circumstances under which it may be drawn. Draws under the facility must be limited to the amount that is likely to be repaid fully from the liquidation of the underlying exposures and any seller-provided credit enhancements. In addition, the facility must not cover any losses incurred in the underlying pool of exposures prior to a draw, or be structured such that draw-down is certain (as indicated by regular or continuous draws);

b) The facility must be subject to an asset quality test that precludes it from being drawn to cover credit risk exposures that are considered non-performing under existing BSP regulations. In addition, liquidity facilities should only fund exposures that are externally rated investment grade at the time of funding;

c) The facility cannot be drawn after all applicable (e.g., transaction-specific and program-wide) credit enhancements from which the liquidity would benefit have been exhausted; and

d) Repayment of draws on the facility (i.e., assets acquired under a purchase agreement or loans made under a lending agreement) must not be subordinated to any interests of any note holder in the program or subject to deferral or waiver.

10. *Eligible servicer cash advance*

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facilities – cash advance that may be provided by servicers to ensure an uninterrupted flow of payments to investors. The servicer should be entitled to full reimbursement and this right is senior to other claims on cash flows from the underlying pool of exposures.

11. *Excess spread* – generally defined as gross finance charge collections and other income received by the trust or special purpose entity (SPE, specified in paragraph 13) minus certificate interest, servicing fees, charge-offs, and other senior trust or SPE expenses.

12. *Implicit support* – arises when a bank provides support to a securitization in excess of its predetermined contractual obligation.

13. *Special purpose entity* – a corporation, trust, or other entity organized for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE, and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures. SPEs are commonly used as financing vehicles in which exposures are sold to a trust or similar entity in exchange for cash or other assets funded by debt issued by the trust.

B. Operational requirements for the recognition of risk transference in traditional securitizations

14. An originating bank may exclude securitized exposures from the calculation of risk-weighted assets only if all of the following conditions have been met. Banks meeting these conditions, however, must still hold regulatory capital against any securitization exposures they retain.

a) Significant credit risk associated with the securitized exposures has been transferred to third parties.

b) The transferor does not maintain

effective or indirect control over the transferred exposures. The assets are legally isolated from the transferor in such a way (e.g., through the sale of assets or through subparticipation) that the exposures are put beyond the reach of the transferor and its creditors, even in bankruptcy or receivership. These conditions must be supported by an opinion provided by a qualified legal counsel.

The transferor is deemed to have maintained effective control over the transferred credit risk exposures if it:

i. is able to repurchase from the transferee the previously transferred exposures in order to realize their benefits; or

ii. is obligated to retain the risk of the transferred exposures.

The transferor's retention of servicing rights to the exposures will not necessarily constitute indirect control of the exposures.

c) The securities issued are not obligations of the transferor. Thus, investors who purchase the securities only have claim to the underlying pool of exposures.

d) The transferee is an SPE and the holders of the beneficial interests in that entity have the right to pledge or exchange them without restriction.

e) Clean-up calls must satisfy the conditions set out in paragraph 17.

f) The securitization does not contain clauses that (i) require the originating bank to alter systematically the underlying exposures such that the pool's weighted average credit quality is improved unless this is achieved by selling assets to independent and unaffiliated third parties at market prices; (ii) allow for increases in a retained first loss position or credit enhancement provided by the originating bank after the transaction's inception; or (iii) increase the yield payable to parties

other than the originating bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the underlying pool.

C. Operational requirements for the recognition of risk transference in synthetic securitizations

15. For synthetic securitizations, the use of CRM techniques (i.e., collateral, guarantees and credit derivatives) for hedging the underlying exposure may be recognized for risk-based capital purposes only if the conditions outlined below are satisfied:

- a) Credit risk mitigants must comply with the requirements as set out in Part III.B and Part IV of this Framework.
- b) Eligible collateral is limited to that specified in paragraph 34, Part III.B. Eligible collateral pledged by SPEs may be recognized.
- c) Eligible guarantors are defined in paragraph 47, Part III.B. SPEs are not recognized as eligible guarantors in the securitization framework.
- d) Banks must transfer significant credit risk associated with the underlying exposure to third parties.
- e) The instruments used to transfer credit risk must not contain terms or conditions that limit the amount of credit risk transferred, such as those provided below:
 - i. Clauses that materially limit the credit protection or credit risk transference (e.g., significant materiality thresholds below which credit protection is deemed not to be triggered even if a credit event occurs or those that allow for the termination of the protection due to deterioration in the credit quality of the underlying exposures);
 - ii. Clauses that require the originating bank to alter the underlying

exposures to improve the pool’s weighted average credit quality;

- iii. Clauses that increase the banks’ cost of credit protection in response to deterioration in the pool’s quality;
- iv. Clauses that increase the yield payable to parties other than the originating bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the reference pool; and
- v. Clauses that provide for increases in a retained first loss position or credit enhancement provided by the originating bank after the transaction’s inception.
- f) An opinion must be obtained from a qualified legal counsel that confirms the enforceability of the contracts in all relevant jurisdictions.
- g) Clean-up calls must satisfy the conditions set out in paragraph 17.

16. For synthetic securitizations, the effect of applying CRM techniques for hedging the underlying exposure are treated according to Part III.B and Part IV of this Framework. In case there is a maturity mismatch, the capital requirement will be determined in accordance with paragraphs 50 to 54, Part III.B. When the exposures in the underlying pool have different maturities, the longest maturity must be taken as the maturity of the pool. Maturity mismatches may arise in the context of synthetic securitizations when, for example, a bank uses credit derivatives to transfer part or all of the credit risk of a specific pool of assets to third parties. When the credit derivatives unwind, the transaction will terminate. This implies that the effective maturity of the tranches of the synthetic securitization may differ from that of the underlying exposures. Originating banks of synthetic securitizations with such maturity mismatches must deduct all retained positions that are unrated or rated

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below investment grade. Accordingly, when deduction is required, maturity mismatches are not taken into account. For all other securitization exposures, the bank must apply the maturity mismatch treatment set forth in paragraphs 50 to 54, Part III.B.

D. Operational requirements and treatment of clean-up calls

17. For securitization transactions that include a clean-up call, no capital will be required due to the presence of a clean-up call if the following conditions are met: (i) the exercise of the clean-up call must not be mandatory, in form or in substance, but rather must be at the discretion of the originating bank; (ii) the clean-up call must not be structured to avoid allocating losses to credit enhancements or positions held by investors or otherwise structured to provide credit enhancement; and (iii) the clean-up call must only be exercisable when ten percent (10%) or less of the original underlying portfolio, or securities issued remain, or, for synthetic securitizations, when ten percent (10%) or less of the original reference portfolio value remains.

18. Securitization transactions that include a clean-up call that does not meet all of the criteria stated in paragraph 17 result in a capital requirement for the originating bank. For a traditional securitization, the underlying exposures must be treated as if they were not securitized. Additionally, banks must not recognize in regulatory capital any gain-on-sale, as defined in paragraph 23. For synthetic securitization, the bank purchasing protection must hold capital against the entire amount of the securitized exposures as if they did not benefit from any credit protection. Same treatment applies for synthetic securitization that incorporates a call, other than a clean-up call, that effectively terminates the transaction and the purchased credit protection on a specified date.

19. If a clean-up call, when exercised, is found to serve as a credit enhancement, the exercise of the clean-up call must be considered a form of implicit support provided by the bank and must be treated in accordance with paragraph 26.

E. Operational requirements for use of external credit assessments

20. The following operational criteria concerning the use of external credit assessments apply in the securitization framework:

a) To be eligible for risk-weighting purposes, the external credit assessment must take into account and reflect the entire amount of credit risk exposure the bank has with regard to all payments owed to it. For example, if a bank is owed both principal and interest, the assessment must fully take into account and reflect the credit risk associated with timely repayment of both principal and interest.

b) The external credit assessments must be from an eligible ECAI as recognized by the bank's national supervisor in accordance with Part III.C. An eligible credit assessment must be publicly available. In other words, a rating must be published in an accessible form and included in the ECAI's transition matrix. Consequently, ratings that are made available only to the parties to a transaction do not satisfy this requirement.

c) Eligible ECAIs must have a demonstrated expertise in assessing securitizations, which may be evidenced by strong market acceptance.

d) A bank must apply external credit assessments from eligible ECAIs consistently across a given type of securitization exposure. Furthermore, a bank cannot use the credit assessments issued by one ECAI for one or more tranches and those of another ECAI for other positions (whether retained or purchased) within the same

securitization structure that may or may not be rated by the first ECAI. Where two or more eligible ECAs can be used and these assess the credit risk of the same securitization exposure differently, paragraph 59 of Part III.C will apply.

e) Where CRM is provided directly to an SPE by an eligible guarantor defined in paragraph 47 of Part III.B and is reflected in the external credit assessment assigned to a securitization exposure(s), the risk weight associated with that external credit assessment should be used. In order to avoid any double counting, no additional capital recognition is permitted. If the CRM provider is not an eligible guarantor, the covered securitization exposures should be treated as unrated.

f) In the situation where a credit risk mitigant is not obtained by the SPE but rather applied to a specific securitization exposure within a given structure (e.g., ABS tranche), the bank must treat the exposure as if it is unrated and then use the CRM treatment outlined in Part III.B to recognize the hedge.

F. Risk-weighting

21. The risk-weighted asset amount of a securitization exposure is computed by multiplying the amount of the position by the appropriate risk weight determined in accordance with the following table. For off-balance sheet exposures, banks must apply a credit conversion factor (CCF) and then risk weight the resultant credit equivalent amount.

Credit assessment ¹	AAA to AA-	A+ to A-	BBB+ to BBB-	Below BBB- and unrated
Risk weight	20%	50%	100%	Deduction from capital (50% from Tier 1 and 50% from Tier 2)

22. The capital treatment of implicit support, liquidity facilities, securitizations

of revolving exposures, and credit risk mitigants are identified separately.

23. Banks must deduct from Tier 1 capital any increase in equity capital resulting from a securitization transaction, such as that associated with expected future margin income resulting in a gain-on-sale that is recognized in regulatory capital. Such an increase in capital is referred to as a “gain-on-sale” for the purposes of the securitization framework.

24. Credit enhancing IOs (interest only), net of the amount that must be deducted from Tier 1 as in paragraph 23, are to be deducted fifty percent (50%) from Tier 1 capital and fifty percent (50%) from Tier 2 capital.

25. Deductions from capital may be calculated net of any specific provisions taken against the relevant securitization exposures.

26. When a bank provides implicit support to a securitization, it must, at a minimum, hold capital against all of the exposures associated with the securitization transaction as if they had not been securitized. Additionally, banks would not be permitted to recognize in regulatory capital any gain-on-sale, as defined in paragraph 23. Furthermore, the bank is required to disclose publicly that (a) it has provided non-contractual support and (b) the capital impact of doing so.

27. As a general rule, off-balance sheet securitization exposures will receive a CCF of 100%, except in the cases below.

28. A CCF of twenty percent (20%) and fifty percent (50%) will be applied to eligible liquidity facilities as defined in paragraph 9 above with original maturity of one year or less and more than one year, respectively. However, if an external rating of the facility itself is used for risk weighting the facility, a 100% CCF must be applied. A zero percent (0%) CCF may be applied to eligible liquidity facilities that

¹ The notations follow the rating symbols used by Standard & Poor's. The mapping of ratings of all recognized external rating agencies is in Part III.C

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are only available in the event of a general market disruption (i.e., whereupon more than one SPE across different transactions are unable to roll over maturing commercial paper, and that inability is not the result of an impairment in the SPE’s credit quality or in the credit quality of the underlying exposures). To qualify for this treatment, the conditions provided in paragraph 9 must be satisfied. Additionally, the funds advanced by the bank to pay holders of the capital market instruments (e.g., commercial paper) when there is a general market disruption must be secured by the underlying assets, and must rank at least *pari passu* with the claims of holders of the capital market instruments.

29. A CCF of zero percent (0%) will be applied to undrawn amount of eligible servicer cash advance facilities, as defined in paragraph 10 above, that are unconditionally cancellable without prior notice.

30. An originating bank is required to hold capital against the investors’ interest (i.e., against both the drawn and undrawn balances related to the securitized exposures) when:

- a) It sells exposures into a structure that contains an early amortization feature; and
- b) The exposures sold are of a revolving nature. These involve exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g., credit card receivables and corporate loan commitments).

31. Originating banks, though, are not required to calculate a capital requirement for early amortizations in the following situations:

- a) Replenishment structures where the underlying exposures do not revolve and the early amortization ends the ability of the bank to add new exposures;

- b) Transactions of revolving assets containing early amortization features that mimic term structures (i.e., where the risk of the underlying facilities does not return to the originating bank);

- c) Structures where a bank securitizes one or more credit line(s) and where investors remain fully exposed to future draws by borrowers even after an early amortization event has occurred; and

- d) The early amortization clause is solely triggered by events not related to the performance of the securitized assets or the selling bank, such as material changes in tax laws or regulations.

32. As described below, the CCFs depend upon whether the early amortization repays investors through a controlled or non-controlled mechanism. They also differ according to whether the securitized exposures are uncommitted retail credit lines (e.g., credit card receivables) or other credit lines (e.g., revolving corporate facilities). A line is considered uncommitted if it is unconditionally cancelable without prior notice.

33. For uncommitted retail credit lines (e.g., credit card receivables) that have either controlled or non-controlled early amortization features, banks must compare the three-month average excess spread defined in paragraph 11 to the point at which the bank is required to trap excess spread as economically required by the structure (i.e., excess spread trapping point). In cases where such a transaction does not require excess spread to be trapped, the trapping point is deemed to be 4.5 percentage points.

34. The bank must divide the excess spread level by the transaction’s excess spread trapping point to determine the appropriate segments and apply the corresponding conversion factors, as outlined in the following tables:

	Controlled		Non-controlled	
	3-month average excess spread-credit conversion factor (CCF)	Credit conversion factor (CCF)	3-month average excess spread-credit conversion factor (CCF)	Credit conversion factor (CCF)
	Uncommitted	Committed	Uncommitted	Committed
Retail credit lines	133.33% of trapping point or more – 0% CCF	90% CCF	133.33% of trapping point or more – 0% CCF	100% CCF
	less than 133.33% to 100% of trapping point – 1% CCF		less than 133.33% to 100% of trapping point – 5% CCF	
	less than 100% to 75% of trapping point – 2% CCF		less than 100% to 75% of trapping point – 15% CCF	
	less than 75% to 50% of trapping point - 10% CCF		less than 75% to 50% of trapping point - 50% CCF	
	less than 50% to 25% of trapping point - 20% CCF		less than 50% of trapping point - 100% CCF	
	less than 25% of trapping point - 40%			
Non-retail credit lines	90% CCF	90% CCF	100% CCF	100%CCF

35. All other securitized revolving exposures with controlled and non-controlled early amortization features will be subject to CCFs of ninety percent (90%) and 100%, respectively, against the off-balance sheet exposures.

36. The CCF will be applied to the amount of the investors’ interest. The resultant credit equivalent amount shall then be applied a risk weight applicable to the underlying exposure type, as if the exposures had not been securitized.

37. For a bank subject to the early amortization treatment, the total capital charge for all of its positions will be subject to a maximum capital requirement (i.e., a ‘cap’) equal to the greater of (i) that required for retained securitization exposures, or (ii) the capital requirement that would apply

had the exposures not been securitized. In addition, banks must deduct the entire amount of any gain-on-sale and credit enhancing IOs arising from the securitization transaction in accordance with paragraphs 23 and 25.

G. Credit risk mitigation

38. The treatment below applies to a bank that has obtained or given a credit risk mitigant on a securitization exposure. Credit risk mitigants include collateral, guarantees, and credit derivatives. Collateral in this context refers to that used to hedge the credit risk of a securitization exposure rather than the underlying exposures of the securitization transaction.

Collateral

39. Eligible collateral is limited to

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that recognized in paragraph 34, Part III.B. Collateral pledged by SPEs may be recognized.

Guarantees and credit derivatives

40. Credit protection provided by the entities listed in paragraph 47, Part III.B may be recognized. SPEs cannot be recognized as eligible guarantors.

41. Where guarantees or credit derivatives fulfill the minimum operational requirements as specified in Part III.B and Part IV, respectively, banks can take account of such credit protection in calculating capital requirements for securitization exposures.

42. Capital requirements for the collateralized or guaranteed/protected portion will be calculated according to Part III.B and Part IV.

43. A bank other than the originator providing credit protection to a securitization exposure must calculate a capital requirement on the covered exposure as if it were an investor in that securitization. A bank providing protection to an unrated credit enhancement must treat the credit protection provided as if it were directly holding the unrated credit enhancement.

Maturity mismatches

44. For the purpose of setting regulatory capital against a maturity mismatch, the capital requirement will be determined in accordance with paragraphs 50 to 54, Part III.B, except for synthetic securitizations which will be determined in accordance with paragraph 16.

Part VI. Market risk-weighted assets

1. Market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. The risks addressed in these guidelines are:

- a) The risks pertaining to interest rate-related instruments and equities in the trading book; and
- b) Foreign exchange risk throughout the bank.

A. Definition of the trading book

2. A trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any restrictive covenants on their tradability or able to be hedged completely. In addition, positions should be frequently and accurately valued, and the portfolio should be actively managed.

3. A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary financial instruments (or cash instruments) and derivative financial instruments. A financial asset is any asset that is cash, the right to receive cash or another financial asset; or the contractual right to exchange financial assets on potentially favorable terms, or an equity instrument. A financial liability is the contractual obligation to deliver cash or another financial asset or to exchange financial liabilities under conditions that are potentially unfavorable.

4. Positions held with trading intent are those held intentionally for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits, and may include for example proprietary positions, positions arising from client servicing (e.g. matched principal brokering) and market making.

5. The following will be the basic requirements for positions eligible to receive trading book capital treatment:

- a) Clearly documented trading strategy for the position/instrument or portfolios, approved by senior management (which would include expected holding horizon);
- b) Clearly defined policies and procedures for the active management of the position, which must include:
 - i. positions are managed on a trading desk;
 - ii. position limits are set and monitored for appropriateness;
 - iii. dealers have the autonomy to enter into/manage the position within agreed limits and according to the agreed strategy;
 - iv. positions are marked to market at least daily, and when marking to model the parameters must be assessed on a daily basis;
 - v. positions are reported to senior management as an integral part of the institution’s risk management process; and
 - vi. positions are actively monitored with reference to market information sources (assessment should be made of the market liquidity or the ability to hedge positions or the portfolio risk profiles). This would include assessing the quality and availability of market inputs to the valuation process, level of

- market turnover, sizes of positions traded in the market, etc.
- c) Clearly defined policy and procedures to monitor the positions against the bank’s trading strategy including the monitoring of turnover and stale positions in the bank’s trading book.
6. The documentations of the basic requirements of paragraph 5 should be submitted to the BSP.
7. In addition to the above documentation requirements, the bank should also submit to the BSP a documentation of its systems and controls for the prudent valuation of positions in the trading book including the valuation methodologies.

B. Measurement of capital charge

8. The market risk capital charge shall be computed according to the methodology set under Subsec. 1115.2, subject to certain modifications as outlined in the succeeding paragraphs.
9. The specific risk weights for trading book positions in debt securities and debt derivatives shall depend on the third party credit assessment of the issue or the type of issuer, as may be appropriate, as follows:

Credit ratings of debt securities/derivatives issued by sovereigns ¹	Credit ratings of debt securities/derivatives issued by MDBs	Credit ratings of debt securities/derivatives issued by other entities	Unadjusted specific risk weight
Php-denominated debt securities/derivatives issued by the Philippine NG and BSP			0.00%
LGU Bonds covered by Deed of Assignment of Internal Revenue Allotment and guaranteed by LGU Guarantee Corporation			4.00%
AAA to AA-	AAA		0.00%
A+ to BBB-	AA+ to BBB-	AAA to BBB-	
Residual maturity ≤ 6 months	Residual maturity ≤ 6 months	Residual maturity ≤ 6 months	0.25%
Residual maturity > 6 months, ≤ 24 months	Residual maturity > 6 months, ≤ 24 months	Residual maturity > 6 months, ≤ 24 months	1.00%
Residual maturity > 24 months	Residual maturity > 24 months	Residual maturity > 24 months	1.60%
		All other debt securities/derivatives	8.00%

¹ The notations follow the rating symbols used by Standard & Poor’s. The mapping of ratings of all recognized external rating agencies is in Part III.C. For purposes of this framework, debt securities/derivatives issued by sovereigns include foreign currency denominated debt securities/derivatives issued by the Philippine NG.

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10. Foreign currency denominated debt securities/derivatives issued by the Philippine NG and BSP¹ shall be risk-weighted according to the table above: *Provided*, That only one-third (1/3) of the applicable risk weight shall be applied from 01 July 2007, two-thirds (2/3) from 01 January 2008, and the full risk weight from 01 January 2009.

11. A security, which is the subject of a repo-style transaction, shall be treated as if it were still owned by the seller/lender of the security, i.e., to be reported by the seller/lender.

12. In addition to capital charge for specific and general market risk, a credit risk capital charge should be applied to banks' counterparty exposures in repo-style transactions and OTC derivatives contracts. The computation of the credit risk capital charge for counterparty exposures arising from trading book positions are discussed in paragraphs 35 to 41 of Part III.B.

(As amended by Circular No. 605 dated 05 March 2008)

C. Measurement of risk-weighted assets

13. Market risk-weighted assets are determined by multiplying the market risk capital charge by ten (10) [i.e., the reciprocal of the minimum capital ratio of ten percent (10%)].

Part VII. Operational risk-weighted assets

A. Definition of operational risk

1. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

2. Banks should be guided by the Basel Committee on Banking Supervision's

recommendations on *Sound Practices for the Management and Supervision of Operational Risk* (February 2003). The same may be downloaded from the BIS website (www.bis.org).

B. Measurement of capital charge

3. In computing for the operational risk capital charge, banks may use either the basic indicator approach or the standardized approach.

4. Under the basic indicator approach, banks must hold capital for operational risk equal to fifteen percent (15%) of the average gross income over the previous three (3) years of positive annual gross income. Figures for any year in which annual gross income is negative or zero should be excluded from both the numerator and denominator when calculating the average.

5. Banks that have the capability to map their income accounts into the various business lines given in paragraph 7 may use the standardized approach subject to prior BSP approval¹. In order to qualify for use of the standardized approach, a bank must satisfy BSP that, at a minimum:

- a) Its board of directors and senior management are actively involved in the oversight of the operational risk management framework;
- b) It has an operational risk management system that is conceptually sound and is implemented with integrity; and
- c) It has sufficient resources in the use of the approach in the major business lines as well as the control and audit areas.

6. Operational risk capital charge is calculated as the three (3)-year average of the simple summation of the regulatory capital charges across each of the business lines in each year. In any given year, negative capital charges (resulting

¹ Warrants paired with ROP Global Bonds shall be exempted from capital charge for market risk only to the extent of bank's holdings of bonds paired with warrants equivalent to not more than fifty percent (50%) of total qualifying capital, as defined under Part II of this Appendix.

² Refer to *Appendix 63b-2* for the Guidelines on the Use of the Standardized Approach in Computing the Capital Charge for Operational Risk

from negative gross income) in any business line may offset positive capital charges in other business lines without limit. However, where the aggregate capital charge across all business lines within a given year is negative, then figures for that year shall be excluded from both the numerator and denominator.

7. The business lines and their corresponding beta factors are listed below:

Business lines		Activity Groups	Beta factors
Level 1	Level 2		
Corporate finance	Corporate Finance	Mergers and acquisitions, underwriting, privatization, securitization, research, debt (government, high yield), equity, syndications, IPO, secondary private placements	18%
	Municipal/Government Finance		
	Advisory Services		
Trading and Sales	Sales	Fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage, debt, prime brokerage	18%
	Market Making		
	Proprietary Positions		
	Treasury		
Retail Banking	Retail Banking	Retail lending and deposits, banking services, trust and estates	12%
	Private Banking	Private lending and deposits, banking services, trust and estates, investment advice	
	Card Services	Merchant/commercial/corporate cards, private labels and retail	
Commercial Banking	Commercial Banking	Project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange	15%
Payment and Settlement	External Clients	Payments and collections, funds transfer, clearing and settlement	18%
Agency Services	Custody	Escrow, depository receipts, securities lending (customers) corporate actions	15%
	Corporate Agency	Issuer and paying agents	
	Corporate Trust		
Asset Management	Discretionary Fund Management	Discretionary and non-discretionary fund management, whether pooled, segregated, retail, institutional, closed, open, private equity	12%
	Non-Discretionary Fund Management		
Retail Brokerage	Retail brokerage	Execution and full service	12%

8. Gross income, for the purpose of computing for operational risk capital charge, is defined as net interest income plus non-interest income. This measure should:
- a) be gross of any provisions for losses on accrued interest income from financial assets;
 - b) be gross of operating expenses, including fees paid to outsourcing service providers;
 - c) include fees and commissions;
 - d) exclude gains/(losses) from the sale/redemption/derecognition of non-trading financial assets and liabilities;
 - e) exclude gains/(losses) from sale/derecognition of non-financial assets; and
 - f) include other income (i.e., rental income, miscellaneous income, etc.)
- (As amended by M-2007-019 dated 21 June 2007)
- C. Measurement of risk-weighted assets**
9. The resultant operational risk capital charge is to be multiplied by 125% before multiplying by ten (10) [i.e., the reciprocal

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of the minimum capital ratio of ten percent (10%)].

Part VIII. Disclosures in the Annual Reports and Published Statement of Condition

1. This section lists the specific information that banks have to disclose, at a minimum, in their Annual Reports, except Item "h", paragraph 4 which should also be disclosed in banks' quarterly Published Statement of Condition. These enhanced disclosures shall commence with Annual Reports for financial year 2007 and quarterly published statement of condition from end-September 2007.

2. Full compliance of these disclosure requirements is a prerequisite before banks can obtain any capital relief (i.e., adjustments in the risk weights of collateralized or guaranteed exposures) in respect of any credit risk mitigation techniques.

A. Capital structure and capital adequacy

3. The following information with regard to banks' capital structure and capital adequacy shall be disclosed in banks' Annual Reports, except Item "h" below which should also be disclosed in banks' quarterly published statement of condition:

- a) Tier 1 capital and a breakdown of its components (including deductions solely from Tier 1);
- b) Tier 2 capital and a breakdown of its components;
- c) Deductions from Tier 1 fifty percent (50%) and Tier 2 fifty percent (50%) capital;
- d) Total qualifying capital;
- e) Capital requirements for credit risk (including securitization exposures);
- f) Capital requirements for market risk;

g) Capital requirements for operational risk; and

h) Total and Tier 1 CAR on both solo and consolidated bases.

B. Risk exposures and assessments

4. For each separate risk area (credit, market, operational, interest rate risk in the banking book), banks must describe their risk management objectives and policies, including:

- a) Strategies and processes;
- b) The structure and organization of the relevant risk management function;
- c) The scope and nature of risk reporting and/or measurement systems; and
- d) Policies for hedging and/or mitigating risk, and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.

Credit risk

5. Aside from the general disclosure requirements stated in paragraph 4, the following information with regard to credit risk have to be disclosed in banks' Annual Reports:

- a) Total credit risk exposures (i.e., principal amount for on-balance sheet and credit equivalent amount for off-balance sheet, net of specific provision) broken down by type of exposures as defined in Part III;
- b) Total credit risk exposure after risk mitigation, broken down by:
 - i. type of exposures as defined in Part III; and
 - ii. risk buckets, as well as those that are deducted from capital;
- c) Total credit risk-weighted assets broken down by type of exposures as defined in Part III;
- d) Names of external credit assessment institutions used, and the types of exposures for which they were used;
- e) Types of eligible credit risk mitigants

used including credit derivatives;

- f) For banks with exposures to securitization structures, aside from the general disclosure requirements stated in paragraph 4, the following minimum information have to be disclosed:
 - i. Accounting policies for these activities;
 - ii. Total outstanding exposures securitized by the bank; and
 - iii. Total amount of securitization exposures retained or purchased broken down by exposure type;
- g) For banks that provide credit protection through credit derivatives, aside from the general disclosure requirements stated in paragraph 4, total outstanding amount of credit protection given by the bank broken down by type of reference exposures should also be disclosed; and
- h) For banks with investments in other types of structured products, aside from the general disclosure requirements stated in paragraph 4, total outstanding amount of other types of structured products issued or purchased by the bank broken down by type should also be disclosed.

Market risk

6. Aside from the general disclosure requirements stated in paragraph 4, the following information with regard to market risk have to be disclosed in banks’ Annual Reports:

- a) Total market risk-weighted assets broken down by type of exposures (interest rate, equity, foreign exchange, and options); and
- b) For banks using the internal models approach, the following information have to be disclosed:
 - i. The characteristics of the models used;
 - ii. A description of stress testing

applied to the portfolio;

- iii. A description of the approach used for backtesting/validating the accuracy and consistency of the internal models and modeling processes;
- iv. The scope of acceptance by the Bangko Sentral; and
- v. A comparison of VaR estimates with actual gains/losses experienced by the bank, with analysis of important outliers in backtest results.

Operational risk

7. Aside from the general disclosure requirements stated in paragraph 4, banks have to disclose their operational risk-weighted assets in their Annual Reports.

Interest rate risk in the banking book

8. Aside from the general disclosure requirements stated in paragraph 4, the following information with regard to interest rate risk in the banking book have to be disclosed in banks’ Annual Reports:

- a) Internal measurement of interest rate risk in the banking book, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of measurement; and
- b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to internal measurement of interest rate risk in the banking book.

Part IX. Enforcement

A. Sanctions for non-reporting of CAR breaches

1. It is the responsibility of the bank CEO to cause the immediate reporting of CAR breaches both to its Board and to the Bangko Sentral. It is likewise the CEO’s

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responsibility to ensure the accuracy of CAR calculations and the integrity of the associated monitoring and reporting system. Any willful violation of the above will be considered as a serious offense for purposes of determining the appropriate monetary penalty that will be imposed on the CEO. In addition, the CEO shall be subject to the following non-monetary sanctions:

- a) First offense – warning;
- b) Second offense – reprimand;
- c) Third offense – 1 month suspension without pay; and
- d) Further offense – disqualification.

B. Sanctions for non-compliance with required disclosures

2. Willful non-disclosure or erroneous disclosure of any item required to be disclosed under this framework in either the Annual Report or the Published Statement

of Condition shall be considered as a serious offense for purposes of determining the appropriate monetary penalty that will be imposed on the bank. In addition, the CEO and the Board shall be subject to the following non-monetary sanctions:

- a) First offense – warning on CEO and the Board;
- b) Second offense – reprimand on CEO and the Board;
- c) Third offense – 1 month suspension of CEO without pay; and
- d) Further offense – possible disqualification of the CEO and/or the Board.

(Circular No. 538 dated 04 August 2006, as amended by Circular Nos. 762 dated 25 July 2012, 750 dated 01 March 2012, 717 and 716 both dated 25 March 2011, 713 dated 14 February 2011, 709 dated 10 January 2011, M-2008-015 dated 25 March 2008, Circular Nos. 605 dated 05 March 2008, 588 dated 11 December 2007, M-2007-019 dated 21 June 2007, Circular No. 560 dated 31 January 2007 and M-2006-022 dated 24 November 2006)

**GUIDELINES ON THE CAPITAL TREATMENT OF BANKS’ HOLDINGS OF
REPUBLIC OF THE PHILIPPINES GLOBAL BONDS PAIRED WITH WARRANTS
(Appendix to Sec. X116)**

A bank’s holdings of ROP Global Bonds that are paired with Warrants (paired Bonds), which give the bank the option or right to exchange its holdings of ROP Global Bonds into Peso-denominated government securities upon occurrence of a predetermined credit event, shall be risk	weighted at zero percent (0%): <i>Provided</i> , That the zero percent (0%) risk weight shall be applied only to bank’s holdings of paired Bonds equivalent to not more than fifty percent (50%) of the total qualifying capital, as defined under <i>Appendix 63-b</i> . <i>(Circular 588 dated 11 December 2007)</i>
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**GUIDELINES ON THE USE OF THE STANDARDIZED APPROACH IN
COMPUTING THE CAPITAL CHARGE FOR OPERATIONAL RISKS**
(Appendix to Sec. X116)

Banks applying for the use of the Standardized Approach (TSA) must satisfy the following requirements/criteria:

General Criteria

1. The use of TSA shall be conditional upon the explicit prior approval of the BSP.
2. The BSP will only give approval to an applicant bank if at a minimum:
 - a. Its board of directors (or equivalent management committee in the case of foreign bank branches) and senior management are actively involved in the oversight of the operational risk management framework;
 - b. It has an operational risk management system that is conceptually sound and is implemented with integrity; and,
 - c. It has sufficient resources in the use of the approach in the major business lines as well as in the control and audit areas.
3. The above criteria should be supported by a written documentation of the board-approved operational risk management framework of the bank which should cover the following:
 - a. Overall objectives and policies
 - b. Strategies and processes
 - c. Operational risk management structure and organization
 - d. Scope and nature of risk reporting/assessment systems
 - e. Policies and procedure for mitigating operational risk
4. This operational risk management framework of the bank should be disclosed in its annual report, as provided under *Appendix 63b*.

Mapping of Gross Income

5. Banks using TSA in computing operational risk capital charge must develop specific written policies and criteria for mapping gross income of their current business lines into the standard business lines prescribed under *Appendix 63b*. They must also put in place a review process to adjust these policies and criteria for new or changing business activities or products as appropriate.
6. Banks must adopt the following principles for mapping their business activities to the appropriate business lines:
 - (a) Activities or products must be mapped into only one (1) of the eight (8) standard business lines, as follows:
 - (1) *Corporate finance*- This includes banking arrangements and facilities [e.g., mergers and acquisitions, underwriting, privatizations, securitization, research, debt (government, high yield), equity, syndications, Initial Public Offering (IPO), secondary private placements] provided to large commercial enterprises, multinational companies, NBFIs, government departments, etc.
 - (2) *Trading and sales*- This includes treasury operations, buying and selling of securities, currencies and others for proprietary and client account.
 - (3) *Retail banking*- This includes financing arrangements for private individuals, retail clients and small businesses such as personal loans, credit cards, auto loans, etc. as well as other facilities such as trust and estates and investment advice.
 - (4) *Commercial banking*- This includes financing arrangements for commercial enterprises, including project

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finance, real estate, export finance, trade finance, factoring, leasing, guarantees, bills of exchange, etc.

(5) *Payment and settlement* - This includes activities relating to payments and collections, inter-bank funds transfer, clearing and settlement.

(6) *Agency services* - This refers to activities of the banks acting as issuing and paying agents for corporate clients, providing custodial services, etc.

(7) *Asset management* - This includes managing funds of clients on a pooled, segregated, retail, institutional, open or closed basis under a mandate.

(8) *Retail brokerage* - This includes brokering services provided to customers that are retail investors rather than institutional investors.

(a) Any activity or product which cannot be readily mapped into one (1) of the standardized business lines but which is ancillary¹ to a business line shall be allocated to the business line to which it is ancillary. If the activity is ancillary to two (2) or more business lines, an objective criteria or qualification must be made to allocate the annual gross income derived from that activity to the relevant business lines.

(b) Any activity that cannot be mapped into a particular business line and is not an ancillary activity to a business line shall be mapped into one (1) of the business lines with the highest associated beta factor eighteen percent (18%). Any ancillary activity to that activity will follow the same business line treatment.

(c) Banks may use internal pricing methods to allocate gross income between business lines: *Provided*, That the sum of gross income for the eight (8) business lines must still be equal to the gross income as would be recorded if the bank uses the Basic Indicator Approach (BIA).

(d) The process by which banks map their business activities into the standardized business lines must be regularly reviewed by party independent from that process.

7. In computing the gross income of the bank, the amounts of the income accounts reported in the operational risk template² must be equal to the year-end balance reported in the FRP. Any discrepancy must be properly accounted and supported by a reconciliation statement

Application Process for the Use of TSA

8. Banks applying for the use of TSA should submit the following documents to their respective Central Points of Contact (CPCs) of the BSP:

(a) An application letter signed by the president/CEO (or equivalent management committee in the case of foreign bank branches) of the bank signifying its intention to use TSA in computing the capital charge for operational risk;

(b) Written documentation of the Board-approved operational risk management framework as described in paragraph 3.

(c) Written policies and criteria for mapping business activities and their corresponding gross income into the standard business lines as described in paragraphs 5 to 7.

(d) An overall roll-out plan of the bank including project plans and execution processes, with the appropriate time lines.

Initial Monitoring Period

9. The BSP may require a six (6)-month period of initial monitoring of a bank's TSA before it is used for supervisory capital purposes.

Reversion from TSA to BIA

10. A bank which has been approved to use TSA in computing its capital charge

¹ Ancillary function is an activity/function that is not the main activity of a given business line but only as a support activity
² Part V of the revised CAR report template

for operational risk will not be allowed to revert to the simpler approach, i.e., the BIA. However, if the BSP determines that the bank no longer meets the qualifying criteria for TSA, it may require the bank to revert to BIA. The bank shall be required to repeat

the whole application process should it opt to return to the use of TSA, but only after a year of using the BIA.

These guidelines shall take effect on 21 July 2007.

(M-2007-019 dated 21 June 2007)

**RISK BASED CAPITAL ADEQUACY FRAMEWORK FOR STAND-ALONE
THRIFT BANKS, RURAL BANKS, AND COOPERATIVE BANKS¹**
(Appendix to Sec. X118)

Introduction

This Appendix contains the implementing guidelines of the revised risk-based capital adequacy framework for stand-alone TBs, RBs and Coop Banks. The framework is similar to the Basel 1 framework but incorporates certain elements of Basel 2.

The guidelines contained in this Appendix shall take effect on 1 January 2012.

Part I. Risk-based Capital Adequacy Ratio

1. The risk based CAR of stand-alone TBs, RBs and Coop Banks, or collectively, [banks], expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than ten percent (10%).

2. Qualifying capital is computed in accordance with the provisions of Part II. Risk weighted assets is the sum of (1) credit risk-weighted assets (Part III), and (2) operational risk-weighted assets (Part IV): *Provided*, That banks that shall engage in trading activities², including derivatives activities as end-user for hedging purpose and/or under a Type 3-Limited User Authority granted pursuant to the provisions of Circular No. 594 dated 8 January 2008, shall likewise include counterparty credit risk-weighted assets and/or market risk-weighted assets relative to such exposures, which shall be computed based on the relevant provisions of The Revised Risk-Based Capital Adequacy Framework for the Philippine Banking System issued under Circular No. 538 dated 4 August 2006, as amended.

(As amended by Circular No. 770 dated 28 September 2012)

3. The CAR requirement will be applied to all stand-alone TBs, RBs and Coop Banks on both solo and consolidated bases, as applicable. The application of the requirement on a consolidated basis is the best means to preserve the integrity of capital in banks with subsidiaries by eliminating double gearing. However, as one of the principal objectives of supervision is the protection of depositors, it is essential to ensure that capital recognized in capital adequacy measures is readily available for those depositors. Accordingly, individual banks should likewise be adequately capitalized on a stand-alone basis.

4. To the greatest extent possible, all banking and other relevant financial activities (both regulated and unregulated) conducted by a bank and its subsidiaries will be captured through consolidation. Thus, majority-owned or controlled financial allied undertakings (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) should be fully consolidated on a line-by-line basis. Exemptions from consolidation shall only be made in cases where such holdings are acquired through debt previously contracted and held on a temporary basis, are subject to different regulation, or where non-consolidation for regulatory capital purposes is otherwise required by law. All cases of exemption from consolidation must be made with prior clearance from the Bangko Sentral.

5. Banks shall comply with the minimum CAR at all times notwithstanding that supervisory reporting shall only be on quarterly basis. Any breach, even if only temporary, shall be reported to the bank's Board of Directors and to Bangko Sentral-SES within three (3) banking days. For this

¹ These refers to TBs, RBs and Coop Banks that are not subsidiaries of UBs and KBs.

² Effective 01 January 2013.

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purpose, these banks shall develop an appropriate system to properly monitor their compliance.

6.The Bangko Sentral reserves the right, upon authority of the Deputy Governor-SES, to conduct on-site inspection outside of regular or special examination, for the purpose of ascertaining the accuracy of CAR calculations as well as the integrity of CAR monitoring and reporting systems.

Part II. Qualifying Capital

1. Qualifying capital consists of Tier 1 (core plus hybrid) capital and Tier 2 (supplementary) capital elements, net of required deductions from capital.

A. Tier 1 Capital

2. Tier 1 capital is the sum of core Tier 1 capital and allowable amount of hybrid Tier 1 capital, as set in paragraph 11.

3. Core Tier 1 capital consists of:

- a) Paid-up common stock;
- b) Deposit for common stock subscription;
- c) Paid-up perpetual and non-cumulative preferred stock;
- d) Deposit for perpetual and non-cumulative preferred stock subscription;
- e) Additional paid-in capital;
- f) Retained earnings;
- g) Undivided profits;
- h) Net gains on fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities;
- i) Cumulative foreign currency translation; and
- j) Minority interest in subsidiary financial allied undertakings (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) which are less than wholly-owned: *Provided*, That a bank shall not use minority interests in the equity accounts of consolidated subsidiaries as an avenue for introducing into its capital structure elements that might not otherwise qualify as Tier 1 capital or that would, in

effect, result in an excessive reliance on preferred stock within Tier 1:

Less:

- i. Common stock treasury shares;
- ii. Perpetual and non-cumulative preferred stock treasury shares;
- iii. Net unrealized losses on available for sale equity securities purchased;
- iv. Unbooked valuation reserves and other capital adjustments based on the latest report of examination as approved by the Monetary Board;
- v. Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses;
- vi. Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, net of allowance for credit losses;
- vii. Deferred tax asset, net of deferred tax liability: *Provided*, That the conditions to offset under PAS 12 are met: *Provided, further*, That any excess of deferred tax liability over deferred tax asset (i.e., net deferred tax liability) shall not be added to Tier 1 capital; and
- viii. Goodwill, net of allowance for losses, including that relating to unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks (on solo basis) and unconsolidated non-financial allied undertakings (on solo and consolidated bases).

4. Hybrid Tier 1 capital in the form of perpetual preferred stock and perpetual unsecured subordinated debt may be issued subject to prior Bangko Sentral approval and to the conditions in paragraph 11.

(As amended by Circular No. 762 dated 25 July 2012)

B. Tier 2 Capital

5. Tier 2 capital is the sum of upper Tier 2 capital and lower Tier 2 capital.

- 6.The total amount of lower Tier 2 capital before deductions enumerated in paragraph 9 that may be included in total Tier 2 capital shall be limited to a maximum of fifty percent (50%) of total Tier 1 capital (net of deductions enumerated in paragraph 3). The total amount of upper and lower Tier 2 capital both before deductions enumerated in paragraph 9 that may be included in total qualifying capital shall be limited to a maximum of 100% of total Tier 1 capital (net of deductions enumerated in paragraph 3).
7. Upper Tier 2 capital consists of:
- a) Paid-up perpetual and cumulative preferred stock;
 - b) Deposit for perpetual and cumulative preferred stock subscription;
 - c) Paid-up limited life redeemable preferred stock issued with the condition that redemption thereof shall be allowed only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level prior to redemption;
 - d) Deposit for limited life redeemable preferred stock subscription with the replacement requirement upon redemption;
 - e) Appraisal increment reserve – bank premises, as authorized by the Monetary Board;
 - f) Net unrealized gains on available for sale equity securities purchased subject to a fifty-five percent (55%) discount;
 - g) General loan loss provision, limited to a maximum of one percent (1%) of total credit risk-weighted assets, and any amount in excess thereof shall be deducted from the total credit risk weighted assets in computing the denominator of the risk-based capital ratio;
 - h) With prior Bangko Sentral approval, unsecured subordinated debt with a minimum original maturity of at least ten (10) years, issued subject to the conditions in paragraph 12, in an amount equivalent

to its carrying amount discounted by the following rates: and

Remaining maturity	Discount factor
5 years & above	0%
4 years to < 5 years	20%
3 years to < 4 years	40%
2 years to < 3 years	60%
1 year to < 2 years	80%
< 1 year	100%

- i) Hybrid Tier 1 capital as defined in paragraph 4 in excess of the maximum allowable limit of fifteen percent (15%) of total Tier 1 capital (net of deductions enumerated in paragraph 3):
 - Less:
 - i. Perpetual and cumulative preferred stock treasury shares;
 - ii. Limited life redeemable preferred stock treasury shares with the replacement requirement upon redemption;
 - iii. Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption; and
 - iv. Net losses in fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities.
- 8. Lower Tier 2 capital consists of:
 - a) Paid-up limited life redeemable preferred stock without the replacement requirement upon redemption in an amount equivalent to its carrying amount discounted by the following rates:

Remaining maturity	Discount factor
5 years & above	0%
4 years to < 5 years	20%
3 years to < 4 years	40%
2 years to < 3 years	60%
1 year to < 2 years	80%
< 1 year	100%

- b) Deposit for limited life redeemable preferred stock subscription without the replacement requirement upon redemption; and

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c) With prior Bangko Sentral approval, unsecured subordinated debt with a minimum original maturity of at least five (5) years, issued subject to the conditions in paragraph 13, in an amount equivalent to its carrying amount discounted by the following rates:

Remaining maturity	Discount factor
5 years & above	0%
4 years to < 5 years	20%
3 years to < 4 years	40%
2 years to < 3 years	60%
1 year to < 2 years	80%
< 1 year	100%

Less:

- i. Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption; and
- ii. Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption up to the extent of the balance of redeemable preferred stock after applying the cumulative discount factor.

(As amended by Circular No. 762 dated 25 July 2012)

C. Deductions from the total of Tier 1 and Tier 2 capital

9. The following items should be deducted fifty percent (50%) from Tier 1 and fifty percent (50%) from Tier 2 capital: *Provided*, That the amount to be deducted from Tier 2 capital shall be limited to its balance and any excess thereof shall be deducted from Tier 1 capital:

- a) Investments in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks, after deducting related goodwill, if any (for solo basis);
- b) Investments in other regulatory capital instruments of unconsolidated subsidiary RBs for Coop Banks (for solo basis);

c) Investments in equity of unconsolidated subsidiary non-financial allied undertakings, after deducting related goodwill, if any (for both solo and consolidated bases);

d) Significant minority investments (20%-50% of voting stock) in banks and other financial allied undertakings (for both solo and consolidated bases); and

e) Reciprocal investments in equity/ other regulatory capital instruments of other banks/QBs/enterprises.

10. Any asset deducted from qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the total risk-weighted assets in computing the denominator of the ratio. Available for sale debt securities shall be risk-weighted net of allowance for credit losses, but without considering accumulated market gains/(losses).

D. Eligible instruments under hybrid Tier 1 capital

11. Perpetual preferred stock and perpetual unsecured subordinated debt issuances of banks should comply with the following minimum conditions in order to be eligible as hybrid Tier 1 (HT1) capital:

- a) It must be issued and fully paid-up. Only the net proceeds received from the issuance shall be included as capital;
- b) The dividends/coupons must be non-cumulative. It is acceptable to pay dividends/coupons in scrip or shares of stock if a cash dividend/coupon is withheld: *Provided*, That this does not result to issuing lower quality capital: *Provided, further*, That where such dividend/coupon stock settlement feature is included, the bank should ensure that it has an appropriate buffer of authorized capital stock and appropriate stockholders and board authorization, if necessary, to fulfill their potential obligations under such issues;

c) It must be available to absorb losses of the bank without it being obliged to cease carrying on business. The agreement governing its issuance should specifically provide for the dividend/coupon and principal to absorb losses where the bank would otherwise be insolvent, or for its	holders to be treated as if they were holders of a specified class of share capital in any proceedings commenced for the winding up of the bank. Issue documentation must disclose to prospective investors the manner by which the instrument is to be treated in loss situation.
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Alternatively, the agreement governing its issuance can provide for automatic conversion into common shares or perpetual and non-cumulative preferred shares upon occurrence of certain trigger events, as follows:

- i. Breach of minimum capital ratio;
- ii. Commencement of proceedings for winding up of the bank; or
- iii. Upon appointment of receiver for the bank.

The rate of conversion must be fixed at the time of subscription to the instrument. The bank must also ensure that it has appropriate buffer of authorized capital stock and appropriate stockholders and board authorization for conversion/issue to take place anytime;

d) Its holders must not have a priority claim, in respect of principal and dividend/coupon payments in the event of winding up of the bank, which is higher than or equal with that of depositors, other creditors of the bank and holders of LT2 and UT2 capital instruments. Its holder must waive his/its right to set-off any amount he/it owes the bank against any subordinated amount owed to him/it due to the HT1 capital instrument;

e) It must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of any holder as against depositors, other creditors of the bank and holders of LT2 and UT2 capital instruments;

f) It must not be redeemable at the initiative of the holder. It must not be repayable without the prior approval of the BSP: *Provided*, That repayment may be allowed only in connection with call option after a minimum of five (5) years from issue date: *Provided, however*, That a call option may be exercised within the first five (5) years from issue date when:

i. It was issued for the purpose of a merger with or acquisition by the bank and the merger or acquisition is aborted;

ii. There is a change in tax status of the HT1 capital instrument due to changes in the tax laws and/or regulations; or

iii. It does not qualify as HT1 capital as determined by the BSP:

Provided, further, That such repayment shall be approved by the BSP only if the preferred share/debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption.

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency. The agreement governing its issuance must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option which may be exercised by the bank;

g) Its main features must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

h) The proceeds of the issuance must be immediately available without limitation to the bank;

i) The bank must have full discretion over the amount and timing of dividends/coupons where the bank:

i. Has not paid or declared a dividend on its common shares in the preceding financial year; or

ii. Determines that no dividend is to be paid on such shares in the current financial year.

The bank must have full control and access to waived payments;

j) Any dividend/coupon to be paid must be paid only to the extent that the bank has profits distributable determined in accordance with existing BSP regulations. The dividend/coupon rate, or the formulation for calculating dividend/coupon

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payments must be fixed at the time of issuance and must not be linked to the credit standing of the bank;

k) It may allow only one (1) moderate step-up in the dividend/coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of ten (10) years after the issue date and if it results in an increase over the initial rate that is not more than:

i. 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or

ii. Fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference security or rate.

l) It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

m) It must be issued in minimum denominations of at P500,000.00 or its equivalent;

n) It must clearly state on its face that it is not a deposit and is not insured by the PDIC; and

o) The bank must submit a written external legal opinion that the abovementioned requirements, including the subordination and loss absorption features, have been met.

Provided, That for purposes of reserve requirement regulation, it shall not be treated as time deposit liability, deposit substitute liability or other forms of borrowings: *Provided, further*, That the total amount of HT1 capital that may be included in the Tier 1 capital shall be limited to a maximum of fifteen percent (15%) of total

Tier 1 capital (net of deductions enumerated in paragraph 3). *Provided, furthermore*, That the amount of HT1 capital in excess of the maximum limit shall be eligible for inclusion in UT2 capital, subject to the limit in total Tier 2 capital. To determine the allowable amount of HT1 capital, the amount of total core Tier 1 capital (net of deductions enumerated in paragraph 3) should be multiplied by 17.65%, the number derived from the proportion of 15% to 85% (i.e., $15\%/85\% = 17.65\%$): *Provided, finally*, That where it is denominated in foreign currency, it shall be revalued in accordance with PAS 21.

E. Eligible unsecured subordinated debt

12. Unsecured subordinated debt issuances by banks should comply with the following minimum conditions in order to be eligible as UT2 capital:

a) It must be issued and fully paid-up. Only the net proceeds received from the issuance shall be included as capital;

b) It must be available to absorb losses of the bank without it being obliged to cease carrying on business. The agreement governing its issuance should specifically provide for the coupon and principal to absorb losses where the bank would otherwise be insolvent, or for its holders to be treated as if they were holders of a specified class of share capital in any proceedings commenced for the winding up of the bank. Issue documentation must disclose to prospective investors the manner by which the instrument is to be treated in loss situation.

Alternatively, the agreement governing its issuance can provide for automatic conversion into common shares or perpetual and non-cumulative shares or perpetual and cumulative preferred shares upon occurrence of certain trigger events, as follows:

- i. Breach of minimum capital ratio;
- ii. Commencement of proceedings for winding up of the bank; or
- iii. Upon appointment of receiver for the bank.

The rate of conversion must be fixed at the time of subscription to the instrument. The bank must also ensure that it has appropriate buffer of authorized capital stock and appropriate stockholders and board authorization for conversion/issue to take place anytime;

c) Its holders must not have a priority claim, in respect of principal and coupon payments of the UT2 in the event of winding up of the bank, which is higher than or equal with that of depositors, other creditors of the bank, and holders of LT2 capital instruments. Its holder must waive his/its right to set-off any amount he/it owes the bank against any subordinated amount owed to him/it due to the UT2 capital instrument;

d) It must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of any holder as against depositors, other creditors of the bank and holders of LT2 capital instruments;

e) It must not be redeemable at the initiative of the holder. It must not be repayable prior to maturity without the prior approval of the BSP: *Provided*, That repayment may be allowed only in connection with call option after a minimum of five (5) years from issue date: *Provided, however*, That a call option may be exercised within the first five (5) years from issue date when:

- i. It was issued for the purpose of a merger with or acquisition by the bank and the merger or acquisition is aborted;
- ii. There is a change in tax status of the UT2 capital instrument due to changes in the tax laws and/or regulations; or

iii. It does not qualify as UT2 capital as determined by the BSP:

Provided, further, That such repayment prior to maturity shall be approved by the BSP only if the debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption,

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency. The agreement governing its issuance must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option which may be exercised by the bank;

f) Its main features must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

g) The proceeds of the issuance must be immediately available without limitation to the bank;

h) The bank must have the option to defer any coupon payment where the bank:

- i. Has not paid or declared a dividend on its common shares in the preceding financial year; or
- ii. Determines that no dividend is to be paid on such shares in the current financial year;

It is acceptable for the deferred coupon to bear interest but the interest rate payable must not exceed market rates;

i) The coupon rate, or the formulation for calculating coupon payments must be fixed at the time of issuance and must not be linked to the credit standing of the bank;

j) It may allow only one (1) moderate step-up in the coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of ten (10) years after the issue

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date and if it results in an increase over the initial rate that is not more than:

- i. 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or
- ii. Fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference security or rate;

k) It must be underwritten or purchased by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

l) It must be issued in minimum denominations of at least P500,000.00 or its equivalent;

m) It must clearly state on its face that it is not a deposit and is not insured by the PDIC; and

n) The bank must submit a written external legal opinion that the abovementioned requirements, including the subordination and loss absorption features, have been met: *Provided*, That it shall be subject to a cumulative discount factor of twenty percent (20%) per year during the last five (5) years to maturity (i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.): *Provided, further*, That where it is denominated in a foreign currency, it shall be revalued in accordance with PAS 21: *Provided, furthermore*, That for purposes of reserve requirement regulation, it shall not be treated as time deposit liability, deposit substitute liability or other forms of borrowings;

13. Unsecured subordinated debt issuances banks should comply with the following minimum conditions in order to be eligible as LT2 capital:

a) It must be issued and fully paid-up. Only the net proceeds received from the issuance shall be included as capital;

b) Its holders must not have a priority claim, in respect of principal and coupon payments in the event of winding up of the bank, which is higher than or equal with that of depositors and other creditors of the bank. Its holder must waive his/its right to set-off any amount he/it owes the bank against any subordinated amount owed to him/it due to the LT2 capital instrument;

c) It must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of any holder as against depositors and other creditors of the bank;

d) It must not be redeemable at the initiative of the holder. It must not be repayable prior to maturity without the prior approval of the BSP: *Provided*, That repayment may be allowed only in connection with call option after a minimum of five (5) years from issue date: *Provided, however*, That a call option may be exercised within the first five (5) years from issue date when:

i. It was issued for the purpose of a merger with or acquisition by the bank and the merger or acquisition is aborted;

ii. There is a change in tax status of the LT2 capital instrument due to changes in the tax laws and/or regulations; or

iii. It does not qualify as LT2 capital as determined by the BSP:

Provided, further, That such repayment prior to maturity shall be approved by the BSP only if the debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption.

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency.

The agreement governing the issuance must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option which may be exercised by the bank;

e) Its main features must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

f) The proceeds must be immediately available without limitation to the bank;

g) The coupon rate, or the formulation for calculating coupon payments must be fixed at the time of issuance and must not be linked to the credit standing of the bank;

h) It may allow only one (1) moderate step-up in the coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of five (5) years after the issue date and if it results in an increase over the initial rate that is not more than:

i. 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or

ii. Fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis;

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference security or rate.

i) It must be underwritten or purchased by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

j) It must be issued in minimum denominations of at least P500,000.00 or its equivalent;

k) It must clearly state on its face that it is not a deposit and is not insured by the PDIC; and

l) The bank must submit a written external legal opinion that the abovementioned requirements, including the subordination feature have been met: *Provided*, That it shall be subject to a cumulative discount factor of twenty percent (20%) per year during the last five (5) years to maturity (i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.): *Provided, further*, That where it is denominated in a foreign currency, it shall be revalued in accordance with PAS 21: *Provided, furthermore*, That for purposes of reserve requirement regulation, it shall not be treated as time deposit liability, deposit substitute liability or other forms of borrowings.

14. Capital instruments issued by banks starting 01 January 2011 should comply with the minimum conditions specified in *Appendix 63d* in order to be eligible as Hybrid Tier 1 or Lower Tier 2 capital.

(As amended by Circular Nos. 716 dated 25 March 2011 and 709 dated 10 January 2011)

Part III. Credit Risk-Weighted Assets

1. Credit risk-weighted assets shall be determined by assigning risk weights to amounts of on-balance sheet assets and to credit equivalent amounts of off-balance sheet items and for banks that shall engage in derivatives activities as end-user for hedging purpose and/or under a Type 3-Limited User Authority granted pursuant to the provisions of Circular No. 594 dated 08 January 2008, inclusive of derivative contracts: *Provided*, That the following shall be deducted from the total credit risk-weighted assets:

a) General loan loss provision (in excess of the amount permitted to be included in upper Tier 2 capital); and

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b) Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board.

A. On-Balance Sheet Assets

2. The risk-weighted amount shall be the product of the net carrying amount of the asset and the risk weight associated with that asset. Net carrying amount shall refer to the outstanding balance of the account inclusive of unamortized discount/(premium) and accumulated market gains/(losses), and net of allowance for credit losses: Provided, That for available for sale debt securities, any accumulated market gains/(losses) shall be deducted/added back as stated in paragraph 10 of Part II.

a) 0% risk weight –

- i. Cash on hand (including foreign currency notes and coins on hand acceptable as international reserves);
- ii. Peso-denominated claims on or portions of claims guaranteed by or collateralized by peso-denominated securities issued by the Philippine National Government and the BSP;
- iii. Claims on or portions of claims guaranteed by or collateralized by securities issued by central governments and central banks of foreign countries with the highest credit quality as defined in Part VI;
- iv. Claims on or portions of claims guaranteed by or collateralized by securities issued by multilateral development banks with the highest credit quality as defined in Part VI;
- v. Loans to the extent covered by hold-out on, or assignment of deposits/deposit substitutes maintained with the lending bank;
- vi. Loans or acceptances under letters of credit to the extent covered by margin deposits;

vii. Peso-denominated special time deposit loans to the extent guaranteed by Industrial Guarantee and Loan Fund (IGLF);

viii. Peso-denominated real estate mortgage loans to the extent guaranteed by the Home Guaranty Corporation (HGC); and

ix. Peso-denominated loans to the extent guaranteed by the Trade and Investment Development Corporation of the Philippines (TIDCORP).

b) 20% risk weight –

- i. Checks and other cash items (including foreign currency checks and other cash items denominated in currencies acceptable as international reserves);
- ii. Claims on or portions of claims guaranteed by or collateralized by securities issued by local government units (LGUs) with the highest credit quality as defined in Part VI;
- iii. Claims on or portions of claims guaranteed by or collateralized by securities issued by non-central government public sector entities of foreign countries with the highest credit quality as defined in Part VI;
- iv. Claims on or portions of claims guaranteed by Philippine incorporated banks/QBs with the highest credit quality as defined in Part VI;
- v. Claims on or portions of claims guaranteed by foreign incorporated banks with the highest credit quality as defined in Part VI;
- vi. Interbank call loans;
- vii. Claims on or portion of claims guaranteed by Philippine incorporated private enterprises (including claims on government corporations and on MSME not qualifying under highly diversified loan portfolio as defined in Item “d” below) with the highest credit quality as defined in Part VI;
- viii. Claims on or portion of claims guaranteed by foreign incorporated

private enterprises (including claims on government corporations) with the highest credit quality as defined in Part VI; and

ix. Loans to small farmer and fisherfolk engaged in palay and/or food production projects/activities to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008: *Provided*, That a separate fund is maintained to guarantee the loans originated by banks: *Provided, further*, That the maximum allowable leveraging ratio of the fund maintained to guarantee bank loans shall be three (3), i.e., the maximum amount of loans guaranteed by the fund is thrice the amount of money in the fund: *Provided, furthermore*, That the fund maintained to guarantee bank loans is invested in assets that are zero percent (0%) risk weighted under this risk-based capital adequacy framework.

c) 50% risk weight

i. Loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower which are not classified as non-performing.

d) 75% risk weight

Qualified micro, small and medium enterprise (MSME) loan portfolio that meets the following criteria:

For individual claims that may form part of the MSME loan portfolio –

(1) Claim must be on a micro, small or medium business enterprise as defined under existing BSP regulations; and

(2) Claim must be in the form of:

- Direct loan; or
- Unused letters of credit: *Provided*, That the credit equivalent amounts thereof shall be determined in accordance with paragraph 3.

For the MSME loan portfolio

It must be a highly diversified portfolio, i.e., it has at least 500 borrowers that are

distributed over a number of industries. All borrowers included in the count must not have any non-performing loan. All non-performing MSME exposures are to be treated as ordinary non-performing loans.

e) 100% risk weight

i. Foreign currency denominated claims on or portion of claims guaranteed by or collateralized by foreign currency denominated securities issued by the Philippine National Government and the BSP: *Provided*, That one-third (1/3) of the applicable risk weight shall be applied by 01 January 2012, two-thirds (2/3) by 01 January 2013, and the full risk weight by 01 January 2014; and

ii. Non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower.

f) 150% risk weight

i. All non-performing loans (except non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower), all non-performing sales contract receivables¹ and all non-performing debt securities.

ii. Real and other properties acquired (ROPA) and Non-Current Assets Held for Sale (NCAHS)¹ – net of allowance for losses; *Provided*, That the 150% risk weight shall be applied on a staggered basis for three (3) years, i.e., 115% starting 01 January 2012, 130% from 01 January 2013, and 150% from 01 January 2014.

g) 100% risk weight

All other assets including, among others, the following:

i. Claims on central governments and central banks of foreign countries other than those with the highest credit quality;

ii. Claims on Philippine local government

¹ For all non-performing sales receivables and NCAHS shall take effect 01 January 2013.

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units other than those with the highest credit quality;

iii. Claims on non-central government public sector entities of foreign countries other than those with the highest credit quality;

iv. Claims on Philippine incorporated banks/QBs other than those with the highest credit quality;

v. Claims on foreign incorporated banks other than those with the highest credit quality;

vi. Claims on the Philippine incorporated private enterprises (including claims on government corporations and on MSME not qualifying under highly diversified loan portfolio as defined in Item 1d above) other than those with the highest credit quality;

vii. Claims on foreign incorporated private enterprises other than those with the highest credit quality;

viii. Loans to companies engaged in speculative residential building or property development;

ix. Equity investments (except those deducted from capital);

x. Bank premises, furniture, fixture and equipment, inclusive of revaluation increment – net of allowance for losses;

xi. Foreign currency notes and coins on hand not acceptable as international reserves; and

xii. Foreign currency checks and other cash items not acceptable as international reserves, except those which are deducted from capital, as follows:

i. Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI - net of allowance for credit losses;

ii. Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates - net of allowance for credit losses;

iii. Deferred tax asset, net of deferred tax liability: *Provided*, That the conditions to offset under PAS 12 are met: *Provided, further*, That any excess of deferred tax liability over deferred tax asset (i.e., net

deferred tax liability) shall not be added to Tier 1 capital;

iv. Goodwill, net of allowance for losses, including that relating to unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks (on solo basis) and unconsolidated non-financial allied undertakings (on solo and consolidated bases);

v. Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption;

vi. Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor);

vii. Investment in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for solo basis);

viii. Investments in other regulatory capital instruments of unconsolidated subsidiary RBs for Coop Banks (for solo basis);

ix. Investment in equity of subsidiary non-financial allied undertakings, after deducting related goodwill, if any (for both solo and consolidated bases);

x. Significant minority investments (twenty percent to fifty percent (20%-50%) of voting stock) in banks and other financial allied undertakings (for both solo and consolidated bases); and

xi. Reciprocal investments in equity/ other regulatory capital instruments of other banks/QBs/enterprises.

(As amended by Circular No. 770 dated 28 September 2012)

B. Off-Balance Sheet Assets

3. The risk-weighted amount shall be calculated using a two-step process. First, the credit equivalent amount of an off-balance sheet item shall be determined by multiplying its notional principal amount by the appropriate credit conversion factor, as follows:

a) 100% credit conversion factor

This shall apply to direct credit substitutes, e.g., general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances), and shall include:

- i. Guarantees issued other than shipside bonds/airway bills; and
- ii. Financial standby letters of credit (net of margin deposit).

b) 50% credit conversion factor

This shall apply to certain transaction-related contingent items, e.g., performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions, and shall include:

- i. Performance standby letters of credit (net of margin deposit), established as a guarantee that a business transaction will be performed.

This shall also apply to –

- i. Other commitments e.g., formal standby facilities and credit lines with an original maturity of more than one (1) year.

c) 20% credit conversion factor

This shall apply to short-term, self-liquidating trade-related contingencies arising from movement of goods, e.g., documentary credits collateralized by the underlying shipments, and shall include:

- i. Trade-related guarantees:
 - (1) Shipperside bonds/airway bills
 - (2) Letters of credit - confirmed
- ii. Sight letters of credit outstanding (net of margin deposit);
- iii. Usance letters of credit outstanding (net of margin deposit);
- iv. Deferred letters of credit (net of margin deposit);
- v. Revolving letters of credit (net of margin deposit) arising from movement of goods and/or services; and

This shall also apply to commitments with an original maturity of up to one (1) year.

d) 0% credit conversion factor

This shall apply to commitments, which can be unconditionally cancelled at any time by the bank without prior notice, and shall include –

- i. Credit card lines.

This shall also apply to those not involving credit risk, and shall include:

- i. Late deposits/payments received;
- ii. Inward bills for collection;
- iii. Outward bills for collection;
- iv. Travelers' checks unsold;
- v. Trust department accounts;
- vi. Items held for safekeeping/custodianship;
- vii. Items held as collaterals;
- viii. Deficiency claims receivable; and
- ix. Others.

Second, the credit equivalent amount shall be treated like any on-balance sheet asset and shall be assigned the appropriate risk weight, i.e., according to the obligor, or if relevant, the qualified guarantor or the nature of collateral.

C. Claims with Eligible Collateral/ Guarantees

4. In order to obtain capital relief, all documentation used in collateralized transactions and for documenting guarantees must be binding on all parties and legally enforceable in all relevant jurisdictions. The disclosure requirements under Part V of this document must also be observed for banks to obtain capital relief.

5. In addition to the general requirement for legal certainty set out in paragraph 4, the legal mechanism by which collateral is pledged or transferred must ensure that the bank has the right to liquidate or take legal possession of it in a timely manner, in the event of default, insolvency or bankruptcy.

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6. The following are the eligible collateral instruments:

- a) Cash (as well as certificates of deposits or comparable instruments issued by the lending bank) on deposit with the bank which is incurring the counterparty exposure;
- b) Peso-denominated securities issued by the Philippine National Government and the BSP;
- c) Multilateral development banks;
- d) Securities with the highest credit quality as defined in Part VI issued by:
 - i. Central government and central banks of foreign countries;
 - ii. Philippine local government units; and
 - iii. Non-central government public sector entities of foreign countries; and
- e) First mortgage on residential property, only in the case of loans to individuals for housing purpose.

7. A guarantee must represent a direct claim on the protection provider and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible. Other than the non-payment by a protection purchaser of money due in respect of the credit protection contract, the guarantee must be irrevocable; there must be no clause in the contract that would allow the protection provider unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. It must also be unconditional; there should be no clause in the protection contract outside the direct control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.

8. The following are the eligible guarantors:

- a) Philippine National Government and the BSP;
- b) Multilateral development banks;
- c) Guarantors with the highest credit quality as defined in Part VI:
 - i. Central government and central banks of foreign countries;
 - ii. Philippine local government units;
 - iii. Non-central government public sector entities of foreign countries;
 - iv. Philippine incorporated banks/QBs;
 - v. Foreign incorporated banks;
 - vi. Philippine incorporated private enterprises (including government corporations);
 - vii. Foreign incorporated private enterprises (including government corporations); and
- d) The Agricultural Guarantee Fund Pool created under Administrative Order No. 225-4 dated 26 May 2008.

9. The extent to which a claim is guaranteed/collateralized shall be determined by the amount of current market value of securities pledged/guarantee coverage, in comparison with the carrying amount of the on-balance sheet claim or the notional principal amount of the off-balance sheet exposure.

Part IV. Operational Risk-Weighted Assets

A. Definition of operational risk

1. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

2. Banks should be guided by the Basel Committee on Banking Supervision's recommendations on Sound Practices for the Management and Supervision of Operational Risk (February 2003). The same may be downloaded from the BIS website (www.bis.org).

B. Measurement of capital charge

3. In computing for the operational risk capital charge, banks shall use the basic indicator approach, with modification.

4. Under this approach, banks must hold capital for operational risk equivalent to twelve percent (12%) of the average gross income over the previous three (3) years of positive annual gross income; *Provided*, That this shall be applied over a three (3)-year period, i.e., four percent (4%) capital charge shall be applied by 01 January 2012, eight (8%) by 01 January 2013, and twelve percent (12%) by 01 January 2014. Figures for any year in which annual gross income is negative or zero should be excluded from both the numerator and denominator when calculating the average.

5. Gross income must be calculated using the year-end balances from the FRP.

6. Gross income, for the purpose of computing for operational risk capital charge, is defined as net interest income plus non-interest income. This measure should:

- a) be gross of any provisions for losses on accrued interest income from financial assets;
- b) be gross of operating expenses, including fees paid to outsourcing service providers;
- c) include fees and commissions;
- d) exclude gains/(losses) from the sale/redemption/derecognition of non-trading financial assets and liabilities;
- e) exclude gains/(losses) from sale/derecognition of non-financial assets; and
- f) include other income (i.e., rental income, miscellaneous income, etc.).

7. Banks that have concerns on the insufficiency of their income data should consult their respective Central Point of Contact Department (CPCD) of the SES for the appropriate computation of the operational risk capital charge.¹

C. Measurement of operational risk-weighted assets

8. The resultant operational risk capital charge is to be multiplied by 125% before multiplying by 10 (i.e., the reciprocal of the minimum capital ratio of 10%) to arrive at the total operational risk-weighted assets.

Part V. Disclosures in the Annual Reports and Published Balance Sheet

1. In addition to the disclosure requirements under Subsec. X190.5 and X192.9.c of the MORB, banks shall disclose in their Annual Reports, where applicable, the information below. Item "h" should also be disclosed in the quarterly Published Balance Sheet (PBS):

- a) Tier 1 capital and a breakdown of its components (including deductions solely from Tier 1);
- b) Tier 2 capital and a breakdown of its components;
- c) Deductions from Tier 1 fifty percent (50%) and Tier 2 fifty percent (50%) capital;
- d) Total qualifying capital;
- e) Capital requirements for credit risk;
- f) Capital requirements for market risk;
- g) Capital requirements for operational risk; and
- h) Total and Tier 1 capital adequacy ratio on both solo and consolidated bases.

2. The required disclosures shall commence with Annual Reports for financial year 2012 and quarterly PBS from end-March 2012.

Part VI. Definitions

1. *Bank premises, furniture, fixture and equipment (inclusive of revaluation increment) – net.* This refers to the real and other properties used/to be used for banking purposes inclusive of revaluation increment as approved by the Monetary Board.

¹Applies to banks operating for less than three years, or those that have been recently merged, among others.

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2. *Cash on hand.* This refers to total amount of cash in the bank’s vault in the form of notes and coins in Philippine currency and in foreign currencies acceptable to form part of the international reserves.
3. *Central government of a foreign country.* This refers to the central government which is regarded as such by a recognized banking supervisory authority in that country.
4. *COCIs.* This refers to the total amount of COCIs received after the selected clearing cut-off time until the close of the regular banking hours denominated in Philippine currency and in foreign currencies acceptable to form part of the international reserves.
5. *Claims.* This refer to exposures to the entity on whom the claim is held, and shall include, but shall not be limited to the following accounts, inclusive of unamortized discount/(premium) and accumulated market gains/(losses) and net of allowance for credit losses: *Provided,* That for available for sale debt securities, any accumulated market gains/(losses) shall be deducted/added back as stated in paragraph 10 of Part II:
- a) Due from BSP;
 - b) Due from other banks;
 - c) Financial assets designated at fair value through profit or loss;
 - d) Available for sale financial assets;
 - e) Held to maturity financial assets;
 - f) Unquoted debt securities classified as loans;
 - g) Loans and receivables;
 - h) Loans and receivable arising from repurchase agreements, certificates of assignment/participation with recourse, and securities lending and borrowing transactions;
 - i) Sales contract receivables;
 - j) Accrued interest income from financial assets; and

- k) Others, e.g., accounts receivable and dividends receivable.
- Accruals on a claim shall be classified and risk weighted in the same way as the claim. Bills purchased on a without recourse basis shall be classified as claims on the drawee banks.
6. *Claims on (a) central government and central bank and non-central government public sector entities of foreign country and foreign incorporated bank/private enterprise; (b) multilateral development banks; (c) local government units and Philippine incorporated bank/QB/private enterprise with the highest credit quality.* This refers to claims on governments, banks/QBs, private enterprises given the highest credit rating by any of the following BSP-recognized credit rating agencies:

International rating agencies:

Rating agency	Highest rating
Moody’s	“Aa3” and above
Standard & Poor’s	“AA-” and above
Fitch Ratings	“AA-” and above
And such other rating agencies as may be approved by the Monetary Board	

International rating agencies (with National Ratings):

Rating agency	Highest rating
Fitch Ratings Singapore	“AA-” and above
And such other rating agencies as may be approved by the Monetary Board	

Domestic rating agencies:

Rating agency	Highest rating
PhilRatings	“PRS Aa” and above
And such other rating agencies as may be approved by the Monetary Board	

Provided, That for purposes of this Appendix,

- With prior BSP approval, international credit rating agencies may have national rating

systems developed exclusively for use in the Philippines using the Philippine sovereign as reference highest credit quality anchor;

- If a claim has only one rating by any of the Bangko Sentral recognized credit assessment agencies, that rating shall be used to determine the risk weight of the claim; in cases where there are two (2) or more ratings which map into different risk weights, the higher of the two lowest risk weights should be used;

- Any reference to credit rating shall refer to issue-specific rating; the issuer rating may be used only if the claim being risk-weighted is an unsecured senior obligation of the issuer and is of the same denomination applicable to the issuer rating (e.g., local currency issuer rating may be used for risk weighting local currency denominated senior claims); or short-term or in cases of guarantees;

- For loans, risk weighting shall depend on either the rating of the borrower or the rating of the unsecured senior obligation of the borrower: *Provided*, That in the case of the latter, the loan is of the same currency denomination as the unsecured senior obligation; and

- Domestic debt issuances may be rated by Bangko Sentral-recognized domestic or international credit rating agencies, which have developed a national rating scale acceptable to the Bangko Sentral, while internationally issued debt obligations shall be rated by Bangko Sentral-recognized international credit assessment agencies only.

7. *Consolidated basis*. This refers to combined financial statements of parent bank and subsidiary financial allied undertakings (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) on a line by line basis.

8. *Deposit for stock subscription*. This refers to the funds received as deposits for stock subscription that meets the conditions for recognition as equity provided in Sec.

X128.

9. *Financial allied undertakings*. This refers to enterprises or firms with homogenous or similar activities/business/functions with the financial intermediary and may include but not limited to leasing companies, banks, investment houses, financing companies, credit card companies, FIs catering to small and medium scale industries (including VCCs), companies engaged in FX dealership/brokerage, and such other similar activities as the Monetary Board may declare as appropriate from time to time.

10. *Goodwill*. This refers to the future economic benefit arising from assets that are not capable of being individually identified and separately recognized.

11. *Government corporations*. This refers to commercial undertakings owned by central governments or non-central public sector entities. Claims on Philippine GOCCs that are not explicitly guaranteed by the Philippine National Government are also included in this category.

12. *Interbank call loans*. This refers to the cost of call/demand loans granted to other resident banks and non-bank financial intermediaries with quasi-banking authority covered under Section X343.

13. *Investment in subsidiaries*. This refers to the amount of the bank's investments in the equity instruments of unconsolidated subsidiaries which shall be accounted for using the equity method. As provided under PAS 27, a subsidiary is an entity that is controlled by another entity (known as the parent). Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity, unless in exceptional circumstances, it can be directly demonstrated that such ownership does not constitute control.

14. *Loans to individuals for housing purpose, fully secured by first mortgage on*

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residential property that is or will be occupied by the borrower. This shall not include loans to companies engaged in speculative residential building or property development.

15. *Loans or acceptances under letters of credit to the extent covered by margin deposits.* This shall not include the unnegotiated letters of credit or the unutilized portion thereof, or other items booked under contingent accounts. This shall also not include margin deposits against loans or acceptance accounts which are fully liquidated.

16. *Loans to the extent covered by hold-out on, or assignment of, deposits or deposit substitutes maintained in the lending bank.* A loan shall be considered as secured by a hold-out on, or assignment of deposit or deposit substitute only if such deposit or deposit substitute account is covered by a hold-out agreement or deed of assignment signed by the depositor or investor/placer in favor of the bank. This shall not include loans transferred to/carried by the bank's trust department secured by deposit hold-out/assignment.

17. *Multilateral development banks.* This includes all exposures to multilateral development banks. Claims on World Bank Group, which comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the European Investment Fund (EIF), the Nordic Investment Bank (NIB), the Caribbean Development Bank (CDB), the Islamic Development Bank (IDB), and the Council of Europe Development Bank (CEDB) currently receive 0% risk weight.

18. *Non-central government public sector entities of a foreign country.* This

refers to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

19. *Non-performing debt securities.* This refers to debt securities as described below:

a) For zero-coupon debt securities, and debt securities with quarterly, semi-annual, or annual coupon payments, they shall be considered non-performing when principal and or coupon payment is unpaid for thirty (30) days or more after due date; and

b) For debt securities with monthly coupon payments, they shall be considered non-performing when three (3) or more coupon payments are in arrears: *Provided, however,* That when the total amount of arrearages reaches twenty percent (20%) of the total outstanding balance of the debt security, the total outstanding balance of the debt security shall be considered as non-performing.

20. *Other commitments.* This includes undrawn portion of any binding arrangements which obligate the bank to provide funds at some future date.

21. *Other commitments with an original maturity of up to one (1) year.* This includes any revolving or undated open-ended commitments, e.g., overdrafts or unused credit lines, providing that they can be unconditionally cancelled at any time and subject to credit revision at least annually.

22. *Other regulatory capital instruments.* This refers to unsecured subordinated term debt instruments qualifying as capital of banks.

23. *Perpetual preferred stock.* This refers to preferred stock that does not have a maturity date, that cannot be redeemed at the option of the holder of the instrument, and that has no provision that will require future redemption of the issue. Consistent with these provisions, any perpetual

preferred stock with a feature permitting redemption at the option of the issuer may qualify as capital only if the redemption is subject to prior approval of the Bangko Sentral.

24. *Philippine LGUs*. This refers to Philippine government units below the level of national government, such as city, provincial, and municipal governments.

25. *Philippine National Government*. This shall refer to the Philippine National Government and its agencies such as departments, bureaus, offices, and instrumentalities, but excluding GOCCs.

26. *Private enterprises*. This refers to all commercial companies whether organized in the form of a corporation, partnership, or sole proprietorship. This shall include government corporations.

27. *Redeemable preferred stock*. This refers to preferred stock which under existing regulation may be redeemed at the specific dates or periods fixed for redemption, only upon prior approval of the Bangko Sentral and, where the conditions of the issuance specifically state, only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption: *Provided*, That redemption shall not be earlier than five (5) years after the date of issuance: *Provided, further*, That such redemption may not be made where the bank is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the bank to meet its debts as they mature.

28. *Solo basis*. This refers to combined financial statements of head office and branches.

29. *Treasury shares*. This refers to shares of the parent bank held by a subsidiary financial allied undertaking (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) in consolidated financial statements.

Part VII. Required Reports

1. Banks shall submit a report of their risk-based capital ratio on a solo basis (head office plus branches) and on a consolidated basis (parent bank plus subsidiary financial allied undertakings (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) quarterly in the prescribed forms within the deadlines, i.e., fifteen (15) banking days and thirty (30) banking days after the end of the reference quarter, respectively. Only banks with subsidiary financial allied undertakings (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) which under the existing regulations are required to prepare consolidated financial statements on a line-by-line basis shall be required to submit report on consolidated basis. The abovementioned reports shall be classified as Category A-2 reports.

(As amended by Circular No. 762 dated 25 July 2012)

Part VIII. Sanctions

A. For non-reporting of CAR breaches

1. It is the responsibility of the President or any officer of the bank holding equivalent position to cause the immediate reporting of CAR breaches both to its Board of Directors and to the Bangko Sentral. It is likewise the responsibility of the President/ or any officer holding equivalent position to ensure the accuracy of CAR calculations and the integrity of the associated monitoring and reporting system. Any willful violation of the above will be considered as a serious offense for purposes of determining the appropriate monetary penalty that will be imposed on the President/or any officer holding equivalent position. In addition, the President/or any officer holding equivalent position shall be subject to the non-monetary sanctions:

- a) First offense – warning
- b) Second offense – reprimand

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- c) Third offense – one (1) month suspension without pay
- d) Further offense – disqualification

B. For non-compliance with required disclosures

2. Willful non-disclosure or erroneous disclosure of any item required to be disclosed under this framework in either the Annual Report or the Published Balance Sheet shall be considered as a serious offense for purposes of determining the appropriate monetary penalty that will be imposed on the bank. In addition, the President/or any officer holding equivalent position and the BOD shall be subject to the following non-monetary sanctions:

- a) First offense – warning on President/or any officer holding equivalent position and the BOD
- b) Second offense – reprimand on President/or any officer holding equivalent position and the BOD
- c) Third offense – 1 month suspension of President/or any officer holding equivalent position without pay
- d) Further offense – possible disqualification of the President/or any officer holding equivalent position and/or the BOD

C. For non-compliance with the minimum CAR

3. In case a bank does not comply with the prescribed minimum CAR, the Monetary Board may limit or prohibit the distribution of net profits by such bank and may require that part or all of net profits be used to increase the capital accounts of the bank

until the minimum requirements has been met. The Monetary Board may, furthermore, restrict or prohibit the acquisition of major assets and the making of new investments by the bank, with the exception of purchases of readily marketable evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral included in paragraph 2, Item a.ii of Part III, and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines, until the minimum requirement capital ratio has been restored.

4. In case of a bank merger, or consolidation, or when a bank is under rehabilitation program approved by the Bangko Sentral, the Monetary Board may temporarily relieve the surviving bank, consolidated bank, or constituent bank or corporations under rehabilitation from full compliance with the required capital ratio under such conditions as it may prescribe.

5. A bank may also be subject to PCA framework when either the total CAR, Tier 1 ratio or leverage ratio falls below 10%, 6%, and 5%, respectively, or such other minimum levels that may be prescribed for the said ratios under relevant regulations, and/or the combined capital accounts falls below the minimum capital requirement prescribed under Subsec. X111.1, pursuant to the provisions of Circular No. 523 dated 23 March 2006, as amended.

(Circular No. 688 dated 26 May 2010, as amended by Circular Nos. 770 dated 28 September 2012, 762 dated 25 July 2012, 750 dated 01 March 2012, 717 dated 25 March 2011 and 713 dated 14 February 2011)

**RISK-BASED CAPITAL ADEQUACY FRAMEWORK FOR THE BANKS ON THE
DEFINITION OF QUALIFYING CAPITAL INSTRUMENTS**
(Appendix to App. 63a, 63b and 63c)

Introduction

The Basel Committee on Banking Supervision (BCBS) has issued new standards that modify the structure of banks’ regulatory capital, among others. The standards divide capital elements into (1) Tier 1 capital, which is also referred to as going-concern capital, and is composed of common equity and additional going concern capital, and (2) Tier 2 capital, which is also referred to as gone-concern capital. Moreover, the standards set forth eligibility criteria for inclusion of capital instruments as additional going concern capital and Tier 2 capital.

To align with the international standards, the Bangko Sentral hereby adopts the BCBS’ eligibility criteria on additional going concern capital and Tier 2 capital to determine the eligibility of capital instruments to be issued by Philippine banks as Hybrid Tier 1 capital and Lower Tier 2 capital, respectively, under the existing risk-based capital adequacy framework for banks effective 01 January 2011.

Following are the guidelines on banks’ issuances of qualifying capital instruments:

Effective 01 January 2011, capital instruments issued by banks should comply with the following minimum conditions in order to be eligible as Hybrid tier 1 or Lower Tier 2 capital, as applicable:

1. For Hybrid Tier 1:
- a) It must be issued and paid-in;
 - b) It must be subordinated to depositors, general creditors and subordinated debt of the bank;

c) It is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors;

d) It is perpetual, i.e., there is no maturity date and there are no step ups or other incentives to redeem;

e) It may be callable at the initiative of the issuer only after a minimum of five years, subject to the following conditions:

i. To exercise a call option a bank must receive prior supervisory approval; and

ii. A bank must not do anything which creates an expectation that the call will be exercised; and

iii. Banks must not exercise a call unless:

a. They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank¹; or

b. The bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised;

f) Any repayment of principal (e.g. through repurchase or redemption) must be with prior supervisory approval and banks should not assume or create market expectations that supervisory approval will be given;

g) With regard to dividend/coupon discretion:

i. The bank must have full discretion at all times to cancel distributions/payments²;

¹Replacement issues can be concurrent with but not after the instrument is called.

²A consequence of full discretion at all times to cancel distributions/payments is that “dividend pushers” are prohibited. An instrument with a dividend pusher obliges the issuing bank to make a dividend/coupon payment on the instrument if it has made a payment on another (typically more junior) capital instrument or share. This obligation is inconsistent with the requirement for full discretion at all times. Furthermore, the term “cancel distributions/payments” means extinguish these payments. It does not permit features that require the bank to make distributions/payments in kind.

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- ii. Cancellation of discretionary payments must not be an event of default;
- iii. Banks must have full access to cancelled payments to meet obligations as they fall due; and
- iv. Cancellation of distributions/ payments must not impose restrictions on the bank except in relation to distributions to common stockholders;
- h) Dividends/coupons must be paid out of distributable items;
- i) The instrument cannot have a credit sensitive dividend feature, that is, a dividend/coupon that is reset periodically based in whole or in part on the bank's credit standing;
- j) The instrument cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency law;
- k) Instruments classified as liabilities for accounting purposes must have principal loss absorption through either
 - (i) conversion to common shares at an objective pre-specified trigger point or
 - (ii) a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects:
 - i. Reduce the claim of the instrument in liquidation;
 - ii. Reduce the amount re-paid when a call is exercised; and
 - iii. Partially or fully reduce coupon/ dividend payments on the instrument;
- l) Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument;
- m) The instrument cannot have any features that hinder recapitalization, such as provisions that require the issuer to compensate investors if a new instrument

is issued at a lower price during a specified time frame;

n) It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

o) It must clearly state on its face that it is not a deposit and is not insured by the Philippine Deposit Insurance Corporation (PDIC); and

p) The bank must submit a written external legal opinion that the abovementioned requirements, including the subordination and loss absorption features, have been met: *Provided*, That instruments that meet the foregoing conditions shall be subject to the same treatment as eligible Hybrid Tier 1 capital issued prior to 01 January 2011 for purposes of (1) reserve requirement regulation, and (2) the limit on the amount of Hybrid Tier 1 capital that may be included in Tier 1 capital.

q) It must have a provision that requires the instrument to be either written-off or converted into common equity upon the occurrence of a trigger event as determined by the Bangko Sentral.

The issuance of any new shares as a result of the trigger event must occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted.

2. For Lower Tier 2 capital:

- a) It must be issued and paid-in;
- b) It must be subordinated to depositors and general creditors of the bank;
- c) It is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general bank creditors;
- d) With regard to maturity:
 - i. It must have a minimum original maturity of at least five (5) years;

- ii. Its recognition in regulatory capital in the remaining five (5) years before maturity will be amortized on a straight line basis; and
- iii. There are no step-ups or other incentives to redeem;
- e) It may be callable at the initiative of the issuer only after a minimum of five (5) years:
 - i. To exercise a call option a bank must receive prior supervisory approval; and
 - ii. A bank must not do anything which creates an expectation that the call will be exercised¹; and
 - iii. Banks must not exercise a call unless:
 - a. They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank²; or
 - b. The bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised;
 - f) The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation;
 - g) The instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the bank's credit standing;
 - h) Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of, the instrument;

- i) It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;
- j) It must clearly state on its face that it is not a deposit and is not insured by the PDIC; and
- k) The bank must submit a written external legal opinion that the abovementioned requirements including the subordination and loss absorption features, have been met.
- l) It must have a provision that requires the instrument to be either written-off or converted into common equity upon the occurrence of a trigger event as determined by the Bangko Sentral.

The issuance of any new shares as a result of the trigger event must occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted.

Effective 01 January 2011, no new issuances of capital instruments shall be included in Upper Tier 2 capital.

Eligible capital instruments under Hybrid Tier 1, Upper Tier 2 and Lower Tier 2 capital that have been issued as of 31 December 2010 shall continue to be recognized as qualifying capital subject to limits provided under the existing risk-based capital adequacy framework for banks until such time that the Bangko Sentral issues further guidelines, in accordance with developments in international standards.

(Circular No. 709 dated 10 January 2011, as amended by Circular Nos. 768 dated 21 September 2012 and 716 dated 25 March 2011)

¹An option to call the instrument after five (5) years but prior to the start of the amortization period will not be viewed as an incentive to redeem as long as the bank does not do anything that creates an expectation that the call will be exercised at this point.
²Replacement issues can be concurrent with but not after the instrument is called.
³Written external legal opinion that the loss absorption feature has been met was required from 1 February 2011 to 5 April 2011.

**BANGKO SENTRAL RULES OF PROCEDURE ON ADMINISTRATIVE CASES
INVOLVING DIRECTORS AND OFFICERS OF BANKS**
(Appendix to Sec. X150)

RULE I – GENERAL PROVISIONS

Section 1. Title. These rules shall be known as the BSP Rules of Procedure on Administrative Cases Involving Directors and Officers of Banks.

Sec. 2. Applicability. These rules shall apply to administrative cases filed with or referred to the Office of Special Investigation (OSI), BSP, involving directors and officers of banks pursuant to Section 37 of Republic Act No. 7653 (The New Central Bank Act) and Sections 16 and 66 of Republic Act No. 8791 (The General Banking Law of 2000).

The disqualification of directors and officers under Section 16 of R.A. No. 8791 shall continue to be covered by existing BSP rules and regulations.

Sec. 3. Nature of proceedings. The proceedings under these rules shall be summary in nature and shall be conducted without necessarily adhering to the technical rules of procedure and evidence applicable to judicial trials. Proceedings under these rules shall be confidential and shall not be subject to disclosure to third parties, except as may be provided under existing laws.

RULE II – COMPLAINT

Sec. 1. Complaint. The complaint shall be in writing and subscribed and sworn to by the complainant. However, in cases initiated by the appropriate department of the BSP, the complaint need not be under oath. No anonymous complaint shall be entertained.

Sec. 2. Where to file. The complaint shall be filed with or referred to the OSI.

Sec. 3. Contents of the complaint. The complaint shall contain the ultimate facts of the case and shall include:

- a. full name and address of the complainant;
- b. full name and address of the person complained of;
- c. specification of the charges;
- d. statement of the material facts;
- e. statement as to whether or not a similar complaint has been filed with the BSP or any other public office.

The complaint shall include copies of documents and affidavits of witnesses, if any, in support of the complaint.

**RULE III – DETERMINATION OF
PRIMA FACIE CASE
AND PROSECUTION OF THE CASE**

Sec. 1. Action on complaint. Upon determination that the complaint is sufficient in form and substance, the OSI shall furnish the respondent with a copy thereof and require respondent to file within ten (10) days from receipt thereof, a sworn answer, together with copies of documents and affidavits of witnesses, if any, copy furnished the complainant.

Failure of the respondent to file an answer within the prescribed period shall be considered a waiver and the case shall be deemed submitted for resolution.

Sec. 2. Preliminary investigation. Upon receipt of the sworn answer of the respondent, the OSI shall determine whether there is a *prima facie* case against

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the respondent. If a *prima facie* is established during the preliminary investigation, the OSI shall file the formal charge with the Supervised Banks Complaints Evaluation Group (SBCEG), BSP. However, in the absence of a *prima facie* case, the OSI shall dismiss the complaint without prejudice or take appropriate action as may be warranted.

Sec. 3. Formal charge. The formal charge shall contain the name of the respondent, a brief statement of material or relevant facts, the specific charge, and the pertinent provisions of banking laws, rules or regulations violated.

Sec. 4. Prosecution. The OSI shall prosecute the case. The complainant may be assisted or represented by counsel, who may be deputized for such purpose, under the direction and control of the OSI.

**RULE IV – PROCEEDING BEFORE
THE HEARING PANEL OR HEARING
OFFICER**

Sec. 1. Filing of the formal charge. The OSI shall file the formal charge before the SBCEG. It shall also furnish the SBCEG with supporting documents relevant to the formal charge.

Sec. 2. Hearing officer and composition of the hearing panel. The case shall be heard either by a hearing officer or a hearing panel, which shall be composed of a chairman and two (2) members, all of whom shall be designated by the SBCEG. The SBCEG shall determine whether the case shall be heard either by a hearing panel or a hearing officer.

Sec. 3. Answer. The hearing panel or hearing officer shall furnish the respondent with a copy of the formal charge, with

supporting documents relevant thereto, and shall require him to submit, within ten (10) days from receipt thereof, a sworn answer, copy of which shall be furnished the prosecution.

The respondent, in his answer, shall specifically admit or deny all the charges specified in the formal charge, including the attachments. Failure of the respondent to comment, under oath, on the documents attached thereto shall be deemed an admission of the genuineness and due execution of said documents.

Sec. 4. Waiver. In the event that the respondent, despite due notice, fails to submit an answer within the prescribed period, he shall be deemed to have waived his right to present evidence. The hearing panel or hearing officer shall issue an order to that effect and direct the prosecution to present evidence *ex parte*. Thereafter, the hearing panel or hearing officer shall submit a report on the basis of available evidence.

Sec. 5. Preliminary conference. Upon receipt of the answer of respondent, the hearing panel or hearing officer shall set the case for preliminary conference for the parties to consider and agree on the admission or stipulation of facts and of documents, simplification of issues, identification and marking of evidence and such other matters as may aid in the prompt and just resolution of the case. Any evidence not presented and identified during the preliminary conference shall not be admitted in subsequent proceedings.

Sec. 6. Submission of position papers After the preliminary conference, the hearing panel or hearing officer shall issue an order stating therein the matters taken up, admissions made by the parties and issues for resolution. The order shall also direct the parties to simultaneously submit,

within ten (10) days from the receipt of said order, their respective position papers which shall be limited to a discussion of the issues as defined in the order.

Sec. 7. Hearing. After the submission by the parties of their position papers, the hearing panel or hearing officer shall determine whether or not there is a need for a hearing for the purpose of cross-examination of the affiant(s). If the hearing panel or hearing officer finds no necessity for conducting a hearing, he shall issue an order to the effect.

In cases where the Hearing Panel or Hearing Officer deems it necessary to allow the parties to conduct cross-examination, the case shall be set for hearing. The affidavits of the parties and their witnesses shall take the place of their direct testimony.

RULE V – PROHIBITED MOTIONS

Sec. 1. Prohibited Motions. No motion to dismiss or quash, motion for bill of particulars and such other dilatory motions shall be allowed in the cases covered by these rules.

RULE VI – RESOLUTION OF THE CASE

Sec. 1. Contents and period for submission of report. Within sixty (60) days after the hearing panel or hearing officer has issued an order declaring that the case is submitted for resolution, a report shall be submitted to the Monetary Board. The report of the hearing panel or hearing officer shall contain clearly and distinctly the findings of facts and conclusions of law on which it is based.

Sec. 2. Rendition and notice of resolution After consideration of the report, the Monetary Board shall act thereon and

cause true copies of its resolution to be served upon the parties.

Sec. 3. Finality of the resolution. The resolution of the Monetary Board shall become final after the expiration of fifteen (15) days from receipt thereof by the parties, unless a motion for reconsideration shall have been timely filed.

Sec. 4. Motion for reconsideration. A motion for reconsideration may only be entertained if filed within fifteen (15) days from receipt of the resolution by the parties. No second motion for reconsideration shall be allowed.

RULE VII – APPEAL

Sec. 1. Appeal. An appeal from the Resolution of the Monetary Board may be taken to the Court of Appeals within the period and in the manner provided under Rule 43 of the Revised Rules of Court.

RULE VIII – EXECUTION OF RESOLUTION

Sec. 1. Resolution becoming executory The resolution of the Monetary Board shall become executory upon the lapse of fifteen (15) days from receipt thereof by the parties or from the receipt of the denial of the motion for reconsideration.

Sec. 2. Effect of appeal. The appeal shall not stay the resolution sought to be reviewed unless the Court of Appeals shall direct otherwise upon such terms as it may deem just.

Sec. 3. Enforcement of resolution. When the resolution orders the imposition of fines, suspension or removal from office of respondent, the enforcement thereof shall be referred to the appropriate department of the BSP.

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**RULE IX - MISCELLANEOUS
PROVISIONS**

Sec. 1. Repeal. All existing rules, regulations, orders or circulars or any part thereof inconsistent with these rules are

hereby repealed, amended or modified accordingly.

Sec. 2. Separability Clause. If any part of these rules is declared unconstitutional or illegal, the other parts or provisions shall remain valid.

FORMAT CERTIFICATION
(Appendix to Subsec. X235.12)

Name of Bank

CERTIFICATION

Pursuant to the requirements of Subsec. X235.12, I hereby certify that on all banking days of the semester ended _____ that the _____ (bank) did not enter into any repurchase agreement covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments that are not documented in accordance with existing BSP regulations and that it has strictly complied with the pertinent rules of the SEC and the BSP on the proper sale of securities to the public and performed the necessary representations and disclosures on the securities particularly the following:

1. Informed and explained to the client all the basic features of the security being sold on a without recourse basis, such as, but not limited to:
 - a. Issuer and its financial condition;
 - b. Term and maturity date;
 - c. Applicable interest rate and its computation;
 - d. Tax features (whether taxable, tax paid or tax-exempt);
 - e. Risk factors and investment considerations;
 - f. Liquidity feature of the instrument:
 - (1) Procedures for selling the security in the secondary market (e.g., OTC or exchange);
 - (2) Authorized selling agents; and
 - (3) Minimum selling lots.
 - g. Disposition of the security
 - (1) Registry (address and contact numbers)
 - (2) Functions of the registry
 - (3) Pertinent registry rules and procedures
 - h. Collecting and Paying Agent of the principal and interest
 - i. Other pertinent terms and conditions of the security and if possible, a copy of the prospectus or information sheet of the security.
2. Informed the client that pursuant to BSP Circular No. 392 dated 23 July 2003 –
 - a. Securities sold under repurchase agreements shall be physically delivered, if certificated, to a BSP accredited custodian that is mutually acceptable to the client and the bank, or by means of book-entry transfer to the appropriate securities account of the BSP accredited custodian in a registry for said securities, if immobilized or dematerialized, and
 - b. Securities sold on a without recourse basis are required to be delivered physically to the purchaser, or to his designated custodian duly accredited by the BSP, if

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certificated, or by means of book-entry transfer to the appropriate securities account of the purchaser or his designated custodian in a registry for said securities if immobilized or dematerialized

3. Clearly stated to the client that:
- a. The bank does not guarantee the payment of the security sold on a “without recourse basis” and in the event of default by the issuer, the sole credit risk shall be borne by the client; and
 - b. The bank is not performing any advisory or fiduciary function.

Name of Officer
Position

Date _____

SUBSCRIBED AND SWORN to before me, this _____ day of _____, affiant exhibiting his Community Tax Certificate as indicated below:

<u>Name</u>	Community Tax <u>Cert. No.</u>	Date/Place <u>Issued</u>
		<u>Notary Public</u>

FORMAT CERTIFICATION

Name of Bank

CERTIFICATION

Pursuant to the requirements of Subsec. X235.12_____ dated _____, I hereby certify that as of 31 January 2005, the _____ (name of bank) does not have any outstanding repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments that are not documented in accordance with existing BSP regulations.

Name of Officer
Position

SUBSCRIBED AND SWORN to before me, this _____ day of _____, affiant exhibiting his Community Tax Certificate as indicated below:

Name

Community Tax
Cert. No.

Date/Place
Issued

Notary Public

**REGULATORY REQUIREMENTS IN INVESTING IN CREDIT-LINKED NOTES,
STRUCTURED PRODUCTS AND SECURITIES OVERLYING SECURITIZATION
STRUCTURES BY UNIVERSAL BANKS AND COMMERCIAL BANKS**
[Appendix to Secs. 1628 (2008 - 1633), 1635, 1636 and 1648]

a. Banks shall: submit the following documents to the appropriate department of the SES within five (5) banking days after the date of its initial investment in credit-linked notes, structured products and/or securities overlying securitization structures -

(1) A notarized certification in the prescribed formats (Annexes “A” and “B”) duly signed by the President/Chief Executive Officer or its equivalent, the Treasurer and Compliance Officer, stating that the bank’s investments are in compliance with relevant BSP rules and regulations, and that the bank has an adequate risk management system in place; and

(2) Terms and conditions and/or product manuals on the credit-linked notes, structured products and/or securities overlying securitization structures, which as a minimum should cover the following:

(a) Description of the relevant financial product;

(b) Analysis of the proposed investments’ –

i. reasonableness vis-à-vis the institution’s overall financial condition and capital levels; and

ii. consistency with the institution’s business strategies and objectives;

(c) Analysis of the risks that may arise from the investments and the corresponding impact on the bank’s risk profile;

(d) Procedures/methodologies that the bank will implement to measure, monitor and control the risks inherent in the financial products;

(e) Relevant accounting guidelines, including pro-forma accounting entries;

(f) Relevant tax treatment;

(g) Analysis of any legal/regulatory restrictions and whether the investment is permissible for the institution; and

(h) Process flow chart, from deal initiation to risk reporting, indicating the departments and personnel involved in the identified processes.

UBs/KBs failing to submit the required certification within the prescribed deadline shall be subject to monetary penalties applicable for delayed reporting under existing regulations. For purposes of imposing monetary penalties, the required certification shall be classified as a *Category A-1 report*. Further, failure to comply with the above requirements shall subject the erring bank to the imposition of administrative sanctions under Section 37 of R.A. 7653.

The certification and the terms and conditions and/or product manual need not be submitted for a bank’s subsequent investments in the same issue of credit-linked note or structured product, or securities overlying the same tranche of a securitization structure.

b. The certification shall be subject to post-verification by the appropriate supervision and examination department of the BSP.

Should the BSP subsequently determine that the investments do not fully comply with the provisions of Secs. 1628, 1635, 1636 and 1648, as applicable, and other relevant BSP regulations, the UB/KB shall be considered to have submitted a false certification, subject to the sanctions prescribed under -

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- (1) Sec. 1636 for investments in structured products by UBs and KBs without expanded derivatives authority, or
- (2) Section 37 of R.A. No. 7653 for investments in structured products by UBs and KBs with expanded derivatives authority, and for investments in credit-

linked notes and similar products and in securities overlying securitization structures by all UBs and KBs.

Monetary penalties shall be reckoned from the date of the investment until the date that the erring bank shall have fully complied with the requirements under Secs. 1628, 1635, 1636 and 1648.

Annex A

For investments in (1) structured products by UBs and KBs with expanded derivatives authority and
(2) credit-linked notes and securities overlying securitization structures by all UBs and KBs

(Name of Bank)

CERTIFICATION

We certify, in relation to _____ (Name of Bank) _____'s investment
in _____ (name of financial product) _____ on _____ (date), _____ that –

1. The bank is allowed to invest in the product cited above under existing rules and regulations of the Bangko Sentral ng Pilipinas and the investment was approved by the Board of Directors in its Resolution No. _____ dated _____; and
2. The bank has an adequate risk management system, which includes, among others, the following:

a. Written policies and procedures that provide for adequate identification, measurement, monitoring and control of all risks in the investment;

b. Pertinent risk measurement system/methodologies that effectively measure on a timely basis all risks inherent in the investment;

c. Limit structure that addresses all risk factors and is consistent with the board-approved risk appetite and business strategy;

d. Internal controls; and

e. Management information system that efficiently provides accurate and timely monitoring and reporting of risk exposures and limit compliance.

President/CEO

Treasurer

Compliance Officer

SUBSCRIBED AND SWORN to before me this _____ day of _____ at _____, with affiants exhibiting to me the following Community Tax Certificate Nos. –

Name	Date Issued	Place Issued
President/CEO	_____	_____
Treasurer	_____	_____
Compliance Officer	_____	_____

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For investments in structured products by UBs and KBs without expanded derivatives authority

(Name of Bank)

CERTIFICATION

We certify, in relation to _____ (Name of Bank) 's investment
in _____ (name of financial product) on _____ (date), that –

1. The bank is allowed to invest in the product cited above under existing rules and regulations of the Bangko Sentral ng Pilipinas;
2. The bank’s investment is in compliance with the conditions set out in Circular No. 466 dated 05 January 2005, as follows:
 - a. The revenue stream of the structured product is linked only to interest rate indices and/or foreign exchange rates other than those that involve the Philippine Peso, and that the minimum all-in return of such investments is not lower than zero.
 - b. The contractual maturity of the instrument does not exceed 5 years.
 - c. The product is issued by a bank or special purpose vehicle (SPV) collateralized by securities rated at least “A” or its equivalent by an international rating agency acceptable to the Monetary Board.
 - d. The investment is booked in the “Held to Maturity” (HTM) Securities” account, or for instruments with put options, in the “Available for Sale (AFS) Securities” account.
 - e. The total carrying value of all the bank’s investments in structured products does not exceed 20% of the total investment portfolio of its EFCDU.
 - f. The bank has established internal processes to identify, evaluate, monitor and manage the risk exposures (e.g. credit risk, market risk, liquidity risk, operational risk, legal risk, compliance risk), created by its investment in the above-cited product. Further to this:
 - (i) The investment was specifically approved by the Board of Directors in its Resolution No. _____ dated _____, and is subject to appropriate internal limits and periodic reporting to the Board.

- (ii) The bank complies with generally accepted accounting and disclosure standards and/or rules and regulations prescribed by the BSP.
- (iii) An independent risk management function is in place.
- (iv) The bank has the ability to value the investments on a continuing and consistent basis and to measure its sensitivity to market movements.
- (v) The risks of the investments can be accurately aggregated in risk reports on a timely basis.

Further, we undertake to –

- (i) Perform, at regular intervals, stress tests that reflect extreme market conditions; and
- (ii) Obtain, on a monthly basis, bid prices from the issuer(s) of the investment instruments, to supplement the valuation exercise in Item 2.f.iv above.

_____ President/CEO	_____ Treasurer	_____ Compliance Officer
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SUBSCRIBED AND SWORN to before me this _____ day of _____ at _____, with affiants exhibiting to me the following Community Tax Certificate Nos. –

Name	Date Issued	Place Issued
President/CEO	_____	_____
Treasurer	_____	_____
Compliance Officer	_____	_____

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Doc. No. _____
Page No. _____
Series of _____

GUIDELINES ON THE ACCOUNTING TREATMENT FOR INVESTMENTS IN
CREDIT-LINKED NOTES AND OTHER STRUCTURED PRODUCTS
(Appendix to Sec. 1389)

In line with the policy of promoting fairness and accuracy in reporting financial transactions, banks are enjoined to observe the following guidelines on accounting for investments in credit-linked notes (CLNs) and other structured products (SPs) in addition to those prescribed under PAS 39:

CLNs and other SPs are financial instruments which consist of the host contract (e.g., debt or equity contract) and one or more embedded derivatives. Said financial instruments may be accounted for as compound financial instruments or as bifurcated financial instruments where the embedded derivatives shall be separated from the host contracts. PAS 39 provides the conditions on when the embedded derivative may be bifurcated from the host contract.

Booking of CLNs and other SPs as a compound instrument

1. CLNs may be booked under the “Held for Trading” (HFT) or “Designated at Fair Value through Profit or Loss” (DFVPL) category according to intention as provided under Circular No. 494 dated 20 September 2005.

2. Other SPs, shall also be booked under the HFT or DFVPL category according to intention as provided in PAS 39.

In either case, the compound instrument (host contract and embedded derivatives) shall be carried at fair value with fair value changes reflected in profit or loss.

Booking of CLNs and other SPs as bifurcated financial instrument

Investment in CLNs and other SPs that are not intended to be traded (i.e., not to

be booked as HFT) or to be designated at fair value through profit or loss shall be accounted for as bifurcated financial instruments.

Accounting for host contracts. When the embedded derivatives are bifurcated (separated) from the host contract, the host contract shall be accounted for as follows:

1. In the case of CLN, the host contract shall be booked under the “Available for Sale” (ASS) but not under the “Held to Maturity” (HTM) nor under the “Unquoted Debt Securities Classified as Loans” (UDSCL) category in accordance with Circular No. 494.

2. In the case of other SPs, the host contract shall be booked under the ASS, HTM or UDSCL category in accordance with X388.5.

Host contracts of investments in CLNs and Other SPs shall in no case be booked under the “Due from Other Banks” or “Interbank Loans Receivable” accounts.

Accounting for embedded derivatives
The bifurcated embedded derivatives shall be accounted for as “Derivatives Held for Trading” with fair value changes reflected in profit or loss, except in cases where the bifurcated embedded derivatives are designated and effective hedging instruments, which shall be booked under the “Derivatives Held for Hedging” account. The following shall be observed for purposes of FRP reporting of bifurcated embedded derivatives:

- The entire notional amount (or leveraged notional amount in cases of leveraged exposures) of the hybrid contract

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and the corresponding positive/(negative) fair value of the embedded derivatives shall be reported in Schedule 4 (Derivatives Held for Trading – Embedded Derivatives) of the FRP.

- In the case of CLNs and Other SPs that have more than one embedded derivatives (multiple embedded derivatives) that are required to be separated from the hybrid contract, the entire notional amount (or leveraged notional amount in cases of leveraged exposures) of the hybrid contract and the corresponding positive/(negative) fair value of the embedded derivatives shall be reported in Schedule 4 (Derivatives Held for Trading – Embedded Derivatives) of the FRP for each type of bifurcated derivatives.

Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative. However, embedded derivatives that are classified as equity are accounted for separately from those classified as assets or liabilities. In addition, if an instrument has more than one embedded derivatives and those derivatives relate to different risk exposures and are readily separable and independent of each other, they are accounted for separately from each other.

Marking to market guidance

In addition to the marking to market guidelines provided under PAS 39, banks should likewise consider apart from the carrying amount of the host contract the notional amount (or leveraged notional amount in cases of leveraged exposures) of embedded derivatives in marking to market the hybrid financial instrument.

For this purpose, the term CLN shall include similar instruments such as credit linked deposits (CLDs) and credit linked loans (CLLs) where the repayment of the principal to the note holder is contingent upon the occurrence of a defined credit event. On the other hand, other SPs (as defined under X625.2) shall refer to a financial instrument where the total return is a function of one 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 re-shape the risk-return pattern of the hybrid instrument. The term SP does not include asset-backed securities.

(M-2008-010 dated 07 March 2008)

THE GUIDELINES FOR THE IMPOSITION OF MONETARY PENALTY FOR VIOLATIONS/OFFENSES WITH SANCTIONS FALLING UNDER SECTION 37 OF R.A. NO. 7653 ON BANKS, DIRECTORS AND/OR OFFICERS
(Appendix to Secs. X199, X299, X399, X499, X599, X699, X799, X899, X999, Circular No. 645 dated 13 February 2009)

The schedule of penalty, categorized based on: (1) the nature of offenses such as minor, less serious, and/or serious, and (2) the asset size of the bank, shall be as follows:

A. For Serious Offense

Asset Size	Up to P200.0 million	Above P200.0 million but not exceeding P500.0 million	Above P500.0 million but not exceeding P1.0 Billion	Above P1.0 Billion but not exceeding P10.0 Billion	Above P10.0 Billion but not exceeding P50.0 Billion	Above P50.0 Billion
Penalty Range						
Minimum	P 500	P 1,000	P 3,000	P 10,000	P 18,000	P 25,000
Medium	750	1,500	5,000	12,500	20,000	27,500
Maximum	1,000	2,000	7,000	15,000	22,000	30,000

B. For Less Serious Offense

Asset Size	Up to P200.0 million	Above P200.0 million but not exceeding P500.0 million	Above P500.0 million but not exceeding P1.0 Billion	Above P1.0 Billion but not exceeding P10.0 Billion	Above P10.0 Billion but not exceeding P50.0 Billion	Above P50.0 Billion
Penalty Range						
Minimum	P 300	P 600	P 1,000	P 3,000	P 7,000	P 15,000
Medium	350	700	1,250	4,000	8,500	17,500
Maximum	400	800	1,500	5,000	10,000	20,000

C. For Minor Offense

Asset Size	Up to P200.0 million	Above P200.0 million but not exceeding P500.0 million	Above P500.0 million but not exceeding P1.0 Billion	Above P1.0 Billion but not exceeding P10.0 Billion	Above P10.0 Billion but not exceeding P50.0 Billion	Above P50.0 Billion
Penalty Range						
Minimum	P 150	P 300	P 600	P 1,000	P 3,000	P 6,000
Medium	200	400	700	1,500	4,000	8,000
Maximum	250	500	800	2,000	5,000	10,000

For purposes of this Regulation, the following definition of terms shall mean:

1. **Serious Offense** - This refers to unsafe or unsound banking practice. An unsafe or unsound practice is one (1) in which there has been some conduct, whether act or omission, which is contrary to accepted standards of prudent banking operation and may result to the exposure of the bank and its shareholders to abnormal risk or loss.

(a) In determining the acts or omissions included under the unsafe or unsound banking practice, an analysis of the impact thereof on the banks/quasi-banks/trust entities' operations and financial condition must be undertaken, including evaluation of capital position, asset condition, management, earnings posture and liquidity position. The following circumstances shall be considered:

(b) The act or omission has resulted or may result in material loss or damage, or

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abnormal risk or danger to the safety, stability, liquidity or solvency of the institution;

(c) The act or omission has resulted or may result in material loss or damage or abnormal risk to the institution’s depositors, creditors, investors, stockholders or to the Bangko Sentral or to the public in general;

(d) The act or omission has caused any undue injury, or has given unwarranted benefits, advantage or preference to the bank or any party in the discharge by the director or officer of his duties and responsibilities through manifest partiality, evident bad faith or gross inexcusable negligence; or

(e) The act or omission involves entering into any contract or transaction manifestly and grossly disadvantageous to the bank, QB or trust entity, whether or not the director or officer profited or will profit thereby.

Certain acts or omissions as falling under this classification maybe determined based on the guidelines provided under *Appendix 48*.

2. Less Serious Offense - These include major acts or omissions defined as bank/individual’s failure to comply with the requirements of banking laws, rules and regulations, provisions of Manual of Regulations (MOR)/Circulars/Memorandum as well as Monetary Board directives/instructions having material^{1/} impact on Bank’s solvency, liquidity or profitability and/or those violations classified as major offenses under the Report of Examination, except those classified under unsafe or unsound banking practice.

3. Minor Offense - These include acts or omissions which are procedural in

nature, can be corrected immediately and do not have material impact on the solvency, liquidity and profitability of the Bank. All other acts or omissions that cannot be classified under the major offenses/violations will be classified under this category.

4. Minimum refers to the range of penalties to be imposed if the mitigating factor(s) outweigh the aggravating circumstances.

5. Medium refers to the penalty to be imposed in the absence of any mitigating and aggravating circumstances or if the mitigating factor(s) offset the aggravating factor(s).

6. Maximum refers to the penalty to be imposed if the aggravating circumstances outweigh the mitigating factor(s).

In determining the amount of penalty, a two-stage assessment shall be conducted as follows:

Step 1: Determine the nature of offense whether it is: (a) Serious; (b) Less Serious; or (c) Minor Offense; and

Step 2: Determine whether there are aggravating and/or mitigating factors (as listed and defined in Annex A).

Both the aggravating and mitigating factors shall be considered for initial penalty imposition and subsequent requests for reconsideration thereto.

The foregoing monetary penalties shall be without prejudice to the imposition of non-monetary sanctions, if and when deemed applicable by the Monetary Board. Violations of banking laws and Bangko Sentral regulations with specific penal clause are not covered by this Regulation.

^{1/} SFAS/IAS defines materiality as any information, which if omitted or misstated, could influence the economic decisions of users taken on the basis of the financial statements. Per Financial Accounting Standard Board (FASB), it is defined as the magnitude of an omission or misstatement of accounting information xxx.

Aggravating and Mitigating Factors to be Considered in the Imposition of Penalty

1. Aggravating Factors

(a) Frequency of the commission of specific violation. This pertains to commission or omission of a specific offense involving either the *same or different transaction*. This will also refer to a violation which may have been corrected in the past but found repeated in another transaction/account in the subsequent examination.

In determining frequency, the number of times of commission or omission of a specific offense during the preceding three (3) - year period shall also be considered.

The word *offense* pertains to a violation that connotes infraction of existing BSP rules and regulations as well as non-compliance with BSP/MB directives.

(b) Duration of violations prior to notification. This pertains to the length of time prior to the latest notification on the violation. Violations that have been existing for a long time before it was revealed/ discovered in the regular examination or are under evaluation for a long time due to pending requests or correspondences from banks on whether a violation has actually occurred shall be dealt with through this criterion. Violations outstanding for more than one (1) year prior to notification, at the minimum, will qualify as violations outstanding for a long time.

(c) Continuation of offense or omission after notification. This pertains to the persistence of an act or offense *after the latest notification on the existence of the violation, either from the appropriate department of the SES or from the Monetary Board and/or Deputy Governor, in cases where the violation has been elevated accordingly*. This covers the period after the final notification of the existence of the violation until such time that the violation has been

corrected and/or remedied. The corrective action shall be reckoned with from the date of notification.

(d) Concealment. This factor pertains to the cover up of a violation. In evaluating this factor, one shall consider the intention of the party(ies) involved and whether pecuniary benefit may accrue accordingly.

Intention precedes concealment. The act of concealing an offense or omission carries with it the intention to defraud regulators. Moreover, the amount of pecuniary benefit, which may or may not accrue from the offense or omission, shall also be considered under this factor.

Concealment may be apparent in cases when bank officers purposely complicates the transaction to make it difficult to uncover or refuse to provide information/ documents that would support the violation/offense committed.

Inasmuch as concealment and intention are speculative matters and may be difficult to establish, appropriate support of facts or circumstantial evidence in this factor shall be considered.

(e) Loss or risk of loss to bank. In assessing this factor, *potential loss* refers to any time at which the bank was in danger of sustaining a loss.

Substantial actual loss. The Bank has been exposed to a significant loss of earnings and capital. The volume of accounts involved in the loss is substantial/ significant in relation to the institution's assets and capital. The bank/individual may have substantial/serious violations that could impact the reputation and earnings of the bank.

Minimal actual loss or substantial risk of loss. The Bank has incurred minimal loss or will be exposed to substantial risk of loss of earnings or capital although both do not materially impact financial condition. The volume of accounts involved for minimal loss or substantial risk of loss is reasonable

and manageable. While a loss was incurred, the bank could absorb the loss in the normal course of business. Substantial risk of loss includes *any potential losses the aggregate of which amounts to at least one percent (1%) of the capital of the bank*^{1/}.

Minimal risk of loss. The risk exposure on earnings or capital is minimal. Bank is not vulnerable to significant loss. The volume of accounts involved for potential loss/risk is minimal/negligible. The risk of loss would have little impact on the bank or its financial condition. The risk of loss aggregating to less than one percent (1%) of the capital of the bank will fall under this classification.

(f) Impact to bank/banking industry. In assessing this factor, it is appropriate to consider any possible negative impact or harm to the bank. (e.g. A violation of law involving insider abuse may result in adverse publicity for the institution, possibly causing a run on deposits and affecting the bank’s liquidity). Resulting effect on the banking industry on the violation/offenses committed by the bank, if any, will also be considered. Sources of data may come from news reports.

Substantial impact on bank. No impact on banking industry. This may involve reputational risk of the bank as a result of negative publicity generated for example, by involvement of bank’s director/officer in activities not acceptable to the regulatory bodies, e.g. pyramiding, investment scams etc. This may also involve insider abuse of authority/power. However, the banking industry is not affected for this isolated case.

Moderate impact on banking industry or on public perception of banking industry. This may involve poor corporate governance and mismanagement of bank that may result to erosion of public confidence leading to bank run in various branches. This may also trigger a bank run in other subsidiaries.

Substantial impact on banking industry or on public perception of banking industry. This is a worst-case scenario. The violations/irregular activities of the bank may totally erode the trust and confidence of the banking public resulting to a nationwide bank run. Pessimistic perception of the banking public on the banking industry is highly observed.

2. Mitigating Factors

(a) Good faith. Good faith is the absence of intention of the of the erring individual/entity in the commission of a violation.

Full cooperation. This is determined by the actions of the individual and/or bank towards the regulators after or even before notification of the offense and/or omission. Assistance rendered by the Bank during the investigation and/or examination conducted relative to the cited offense and/or omission may be viewed favorably when computing the amount of penalty to be imposed on the Bank/individual.

With positive measures/action undertaken although not corrected immediately. The bank is willing to remedy/correct the violation but is being restrained of its capacity to take immediate action thus, will undertake a Memorandum of Undertaking/Commitment for a specified period as a sign of good faith. The bank has started to rectify the infraction by instituting reforms in their operations or systems.

Voluntary disclosure of offense. Voluntary disclosure of the bank of the offense committed before it is discovered by BSP examiners in the regular/special examination or in the supervisory work (e.g. submission of reports to the BSP disclosing the violation committed by the bank based on the internal auditor's findings) may be considered as the highest level of mitigation under this factor.

The burden of proof, however, falls on the bank/individual to support its/his/her claim of good faith and may be used as basis to mitigate the amount of penalty that may be imposed.

^{1/} Circular 410 dated 29 October 2003 provides that external auditors of banks must report to BSP, among others, any potential losses the aggregate of which amounts to at least one percent (1%) of the capital to enable the BSP to take timely and appropriate remedial action.

**IMPLEMENTATION OF THE DELIVERY BY THE SELLER OF SECURITIES TO THE
BUYER OR TO HIS DESIGNATED THIRD PARTY CUSTODIAN**
(Appendix to Sec. X441 and Subsecs. X235.5 & X238.1)

Section 1. Statement of Policy. Pursuant to the policy of the BSP to promote the protection of investors in order to gain their confidence in the securities market [as enunciated under Circular Nos. 392 and 428 dated 23 July 2003 and 27 April 2004,] respectively, the following rules/guidelines shall be observed by banks and NBFIs under BSP supervision in their dealings in securities whether they are acting as seller, buyer, agent or custodian.

The disposition of compliance issues of this Appendix is shown in *Appendix 68a*.

The guidelines on the delivery of government securities by the selling bank to an investor's Principal Securities Account with the RoSS through the Client Interface System facility are in *Appendix 68b*.

Sec. 2. Distinction Between a Custodian and a Registry. A securities custodian is a BSP-accredited bank under BSP supervision that is authorized to engage in investment management (for banks with quasi-banking authority only) or trust business and is designated by the investor to perform the functions of safekeeping, holding title to the securities in a nominee capacity, reports rendition, mark-to-market valuation, collection and payment of dividends, interest earnings or proceeds from the sale/redemption/maturity of securities held under custodianship and representation of clients in corporate actions.

It may also perform the value added service of securities lending as agent, subject to the conditions specified under Subsec. X441.6.

Sec. 3. Registry of Scripless Securities of the Bureau of Treasury. The Bureau of Treasury, as operator of the RoSS, which serves as the official registry for government securities, is not subject to BSP accreditation and is exempted from the independence requirement under the existing BSP regulations.

Sec. 4. Delivery of Securities. Pursuant to existing BSP regulations, securities sold on a without recourse basis shall be delivered by the seller to the purchaser, or to his designated BSP-accredited custodian which must not be a subsidiary or affiliate of the issuer or seller.

Sec. 5. Mode of Delivery. If the securities sold are certificated, delivery shall be effected physically to the purchaser, or to his designated BSP-accredited custodian. The certificate must be transferred to and registered under the name of the purchaser and properly recorded in the registry book. On the other hand, delivery of immobilized or dematerialized securities shall be effected by means of book entry transfer to the appropriate securities account of either: (1) the purchaser in a registry of said securities; or (2) the purchaser's designated custodian in a registry of said securities. Book-entry transfer to a sub-account for clients under the primary account of the seller will not be deemed compliant with this requirement. The delivery must be supported by a confirmation of book-entry transfer to be issued by the securities registry in case of name on registry or by a confirmation receipt to be issued by the

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custodian in case of delivery to the purchaser’s designated custodian.

Sec. 6. Client Information. Selling or dealing banks shall inform their clients of the requirements under Secs. 3 and 4 above, together with the complete list of all BSP-accredited custodians. The selling or dealing bank or NBFJ must inform their clients that the choice of custodian is the sole prerogative of the securities purchaser. The seller or dealer may, however, indicate to their clients their preferred custodian. Attached as *Annex “A”* is a suggested template of the letter to the client.

Sec. 7. Custodianship Agreement. The securities owner/purchaser shall enter into a custodianship agreement with a BSP-accredited third-party custodian of his choice. However, the securities purchasers/owners may designate/appoint through a special power of attorney (SPA) a representative or agent for the purpose of opening and maintaining an account with the BSP-accredited third-party custodian: *Provided*, That if the securities seller or dealer is appointed as an agent, its authority shall be limited to the opening of the custodianship account and the execution of trade transactions (i.e. buying and selling instructions including relaying of instructions to the custodian to receive or deliver securities in order to consummate the buy/sell transactions). It shall be the responsibility of the custodian to protect the interest of the client by ensuring that the agent is acting within the scope of his authority.

Sec. 8. Authority of the Securities Owner/Purchaser to Revoke Special Power of Attorney (SPA). Whenever a securities owner/purchaser executes an SPA designating/appointing an agent to open and maintain a custodianship account with a

BSP-accredited third party custodian pursuant to Sec. 6 above, said SPA shall clearly stipulate that the appointment of the agent is revocable at the instance of the securities owner/purchaser or his agent. Any revocation by either party shall be made in writing and must be given to the other party and to the custodian. The custodian is hereby enjoined to acknowledge and respect said right of the client. It is, however, understood that the revocation of the SPA shall be without prejudice to any transaction executed by the agent or custodian prior to said party’s knowledge of the revocation. Upon revocation of the SPA, the custodian shall deal directly with the securities owner or his newly appointed agent. However, the custodian has the right to impose additional reasonable conditions similar to those being imposed on separate custody accounts maintained directly by individual or corporate clients.

Sec. 9. Reports of the Custodian. Periodic reports of the custodian on account balances shall be rendered at least quarterly and shall reflect the mark-to-market valuation of the security in accordance with existing BSP regulations. It shall be delivered, mailed or electronically transmitted directly to the securities owner unless the securities owner gives a written request or instruction directly to the custodian to deliver said reports to a person/entity named therein. Said request/instruction of the securities owner shall indicate that he is appointing an agent/ representative for the purpose, notwithstanding contrary advice of the BSP.

Aside from the periodic reports, the custodian shall also issue confirmation of transfers of ownership as they occur in either electronic or printed form delivered directly to the securities owner, unless the securities owner gives a written request

or instruction directly to the custodian to deliver the confirmation reports to a person/entity named therein.

Sec. 10. Right of the Securities Owner to Sell his Securities. Subject to the requirements of existing laws and regulations, securities owners shall have the right to choose the best buyers of his securities in the secondary market, without limiting himself to the original selling or dealing bank that he transacted with. The securities seller or dealer shall not impose any condition that will impair this right of the securities owner or leave him no alternative except to sell his securities exclusively to the selling or dealing bank.

Sec. 11. Undelivered Securities. In cases where banks or NBFIs under BSP supervision maintain custody of securities which were sold prior to the effectivity of Circular No. 457 dated 14 October 2004 to clients who are unable or unwilling to take delivery of said securities pursuant to the provisions of Circular No. 392 dated 23 July 2003 but who declined to deliver their existing securities to a BSP-accredited third party custodian, said banks/FIs shall:

- a. report on a quarterly basis to the appropriate department of the SES the volume of said securities broken down into maturity dates, type of security, ISIN or applicable certificate or reference number, and registry; and
- b. ensure that said securities under custody are segregated from their proprietary holdings.

Sec. 12. Compliance with the Anti-Money Laundering Act of 2001. For purposes of compliance with the requirements of R.A. No. 9160, otherwise known as the “Anti-Money Laundering Act of 2001”, as

amended, particularly the provisions regarding customer identification, recordkeeping and reporting of suspicious transactions, a BSP-accredited custodian may rely on referral by the seller/issuer of securities, in lieu of the face-to-face contact with client, subject to the following conditions:

- a. the seller/issuer is also a covered institution;
- b. the seller/issuer certifies to the custodian that it has performed its own KYC screening on the client;
- c. the custodian has unchallenged access to the KYC records/documents of the referring seller/issuer pertaining to the referral client;
- d. the custodian maintains a record of the referral together with the minimum information/documents required under the law and its implementing rules and regulations; and
- e. the seller/issuer must provide the custodian with the following minimum information/documents:

For individual clients:

- 1. Name;
- 2. Present address;
- 3. Permanent address;
- 4. Date and place of birth;
- 5. Nationality;
- 6. Nature of work and name of employer or nature of self-employment/business;
- 7. Contact numbers;
- 8. Tax identification number, SSS number or GSIS number;
- 9. Specimen signature; and
- 10. Source of fund(s);

For corporate clients:

- 1. Articles of Incorporation/ Partnership;
- 2. By-laws;
- 3. Official address or principal business address;
- 4. List of directors/partners;

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- 5. List of principal stockholders owning at least two percent (2%) of the capital stock;
- 6. Contact numbers;
- 7. Beneficial owners, if any;
- 8. Authorized signatories;
- 9. Board/Partnership Resolution on the authority of the signatories; and
- 10. Verification of the identification and authority of the person purporting to act on behalf of the client.

Sec. 13. Safekeeping of Customers’ Identification Documents. The BSP accredited third-party custodian may entrust to the referring seller/dealer the safekeeping and maintenance of the customer identification documents supporting its KYC certification: *Provided, That:*

- a. The BSP accredited custodian has received a certification from the seller/dealer that it has in its possession all required KYC documents and the custodian shall maintain a list of such documents;
- b. The accredited custodian shall have unhampered access to the KYC documents for its own verification; and
- c. KYC or customer identification documents shall be made available to regulators for verification upon request.

Notwithstanding Secs. 12 and 13, the custodian is not precluded from conducting its own KYC activities and maintaining direct custody of the KYC documents of its clients.

(Circular No. 524 dated 31 March 2006, as amended by Circular No. 714 dated 10 March 2011 and M-2007-002 dated 23 January 2007)

TEMPLATE OF LETTER TO INVESTOR

Dear Investor:

We wish to inform you that the Bangko Sentral ng Pilipinas (BSP), in July of 2003 issued **Circular No. 392, Series of 2003**, which requires all securities sold by banks on a **“without recourse basis”** (i.e. the bank has no liability to the buyer of securities in paying the obligation due on the security) to be delivered to the buyer/purchaser of securities through any of the following means:

- (a) **If the security is evidenced by a certificate of indebtedness**, the certificate must be transferred in the name of the purchaser/buyer and physically delivered to the purchaser/buyer or to his designated BSP-accredited third party custodian.
- (b) **If the security is immobilized or dematerialized** (i.e., that the security is not evidenced by a certificate of indebtedness and instead security account is created in the electronic books of the registry in the name of the purchaser/buyer or his designated custodian):
 - i. The security must be delivered by book-entry transfer to the appropriate securities account of the buyer in the registry of said securities which must be evidenced by a confirmation in writing by the registrar to the buyer. The confirmation of sale or document of conveyance shall be physically delivered by the seller or dealer to the buyer, or
 - ii. The security must be delivered by book-entry transfer to the appropriate securities account of the BSP-accredited third party custodian designated by the buyer/purchaser in the registry of said securities which must be evidenced by a confirmation in writing by the registrar to the said BSP-accredited third party custodian, who shall in turn issue to the securities owner a delivery receipt acknowledging receipt of the securities

Circular No. 392 is part of a package of reforms to support the development of the domestic capital market through enhanced investor protection and greater market transparency. It provides for a more defined role and responsibilities for the custodians and registrars and a stricter supervision and regulation thereof by the BSP. It aims to provide the client with the following benefits:

- a. Full control and possession of the securities purchased;
- b. Independent validation of the existence of securities purchased;
- c. Regular reporting of securities holdings; and
- d. Capability to choose most competitive counter-parties in case of sale, pledge, transfer, and lending of securities.

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Moreover, Circular No. 392, which amends CBP Circular 437-74, seeks to address the changes in the legal framework brought by the developments in the market, i.e., where purchase of securities may be evidenced not only by transfer of certificates but also by electronic book-entry transfer of ownership in the books of the registrar for said security.

As an investor, therefore, of securities which is dematerialized or scripless, you have **the option** to require your dealer/broker to deliver the securities to you by requiring them to have the securities registered directly in **your name in the registry** of said securities **or** by requiring them to have the securities registered in the name of the BSP **accredited third party custodian** of your choice who in turn will credit your securities account with them.

The **registry** is a BSP-accredited bank or non-bank financial institution (NBFI) designated or appointed by the Issuer to (1) maintain the securities registry book; (2) record the (a) issuance of the securities and (b) subsequent transfers of ownership thereof; and (3) issue registry confirmation to the buyers/holders of security.

The **custodian**, on the other hand, is a BSP-accredited bank or NBFI designated by the investor to safekeep the security by allowing it to hold title to the security, either in a nominee or trustee capacity, to enable it to perform the following administrative functions/services related to investing in a security or various securities: i) Mark to market valuation of security that will enable the client to know the value of his investment at any period in time; ii) compute and collect the interest due on the security; iii) render statements on outstanding securities under safekeeping; iv) represents the client (per its instruction) in the events of default or breach of contract of the issuer; and v) lend the security of the clients as “agent” that will enable the client to earn additional income on the security.

The registrars and custodians underwent a rigorous evaluation process by the BSP to determine whether they have the following: i) adequate capital to cover for potential operating risks related to performing its custody functions; ii) competent management team to manage the company with responsibility and proper corporate ethics; iii) robust technology system to operate the custody business efficiently; and iv) favorable track record or significant experience in the custody business or related business. They will also undergo regular audit by the BSP to ensure that they comply with BSP rules and regulations and will be subject to penalties and administrative sanctions for any violation thereof.

As of date, BSP has accredited the following registrars and custodians: Bank of the Philippine Islands, CITIBANK N.A., Deutsche Bank, Hongkong and Shanghai Banking Corporation, Philippine Depository and Trust Corporation, and Standard Chartered Bank.

The Registry of Scripless Securities (RoSS) operated by the Bureau of Treasury (BTR) which is acting as a registry for government securities, is automatically accredited as securities registry. However, the BTR, as registry, cannot act as custodian of government securities pursuant to the opinion of the Secretary of Justice rendered on 17 January 2005 due to irreconcilable conflict of loyalties that is anathema to agency if the same institution were to act as registrar and custodian at the same time.

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The custodian shall render periodic reports on your account balances on a quarterly basis, or at such interval as you may require. Moreover, the custodian shall issue to you a confirmation of any transfer of ownership as it occurs, in either electronic or printed forms. Said reports shall be delivered/mailed directly at your address unless you give a written instruction directly to the custodian to deliver the said reports to your designated person/entity. You are, however, required to acknowledge in the written instruction that you are designating another person/entity to receive the periodic reports from the custodian, notwithstanding contrary advice of the BSP.

Please note that the abovementioned arrangements may change once the BSP issues more detailed implementing rules and guidelines to the abovementioned circulars. We will update you if and when these developments occur.

Please fill up and sign the required documentation of your chosen custodian and we will forward the same to them so that your securities account can be opened as soon as possible. You may, however, designate/appoint an agent for this purpose. In either case, the custody arrangement may or may not entail additional fees.

If you have any further questions, please call us so that we can refer the matter to the appropriate custodian/registrar.

Very truly yours,

(Circular No. 524 dated 31 March 2006 and as amended by M-2007-002 dated 23 January 2007)

DISPOSITION OF COMPLIANCE ISSUES ON APPENDIX 68
(Appendix to Sec. X441 and Subsecs. X235.5 & X238.1)

A. The Monetary Board, in its Resolution No. 581 dated 5 May 2006 approved a thirty (30) calendar day period from 05 June 2006 within which banks/non-banks will effect revisions to non-conforming SPAs issued by investor-clients to strictly conform to the limited authority provisions of Section 7 of *Appendix 68*, subject to the following conditions:

1. The clean-up of SPAs will cover those issued by clients prior to Circular No. 524 dated 31 March 2006;
2. Custodians will allow transfers of securities from proprietary accounts of dealers to their omnibus principal custody accounts within the period;
3. There will be no penalties imposed for dealer-banks and accredited securities custodians that allowed non-compliant SPAs prior to Circular No. 524 dated 31 March 2006 or those issued under Circular Letter dated 4 August 2005 if corrected within the thirty (30)-day period; and
4. Non-compliance with other provisions of *Appendix 68* are not covered/qualified to be corrected within the thirty (30)-day period and are therefore subject to the usual penalty/sanctions under existing regulations.

B. The Monetary Board, in its Resolution No. 876 dated 06 July 2006 approved the following disposition of compliance issues for the period of 05 July 2006 - 04 August 2006:

1. The sending by a dealing bank to all its clients of:
 - (a) a notice indicating a limitation on the authority of the dealing bank pursuant to Section 7 of *Appendix 68*; and
 - (b) compliant SPA for execution will be deemed substantial compliance only as of 05 July 2006. Proof thereof should be preserved for examination purposes.
2. Custodians will be deemed in substantial compliance as of 05 July 2006 if they have obtained confirmation from the

dealing banks that notifications on the limitation of the dealing bank's authority, together with a compliant SPA for the clients' signature, have been sent to all their clients. Absent confirmation from the dealing bank of the sending of notices and the revised SPA, the custodian should immediately freeze (i.e., no new movements in the security, except sale or disposition thereof) the account to be considered in substantial compliance.

3. Absent a compliant SPA, the dealing bank and custodian should "freeze" the account of the client. Accordingly, if a client wants to transact with securities, the dealing bank must require the submission of an executed compliant SPA before any new transaction can be entered into. Otherwise, the dealing bank will be subject to the appropriate penalties prescribed under Subsec. X441.29. However, for the period of 05 July 2006 - 04 August 2006, transactions by the dealing bank with its clients, absent a compliant SPA but to which an advice on the limitation of the authority of the dealing bank and a compliant SPA for signature have been sent, will be subject to a fine of ₱10,000.00 per transaction/day: *Provided*, That the total penalty arising from that class of violation for the said period shall not exceed ₱100,000.00, computed in accordance with Section 37 of R.A. No. 7653 (The New Central Bank Act). Furthermore, the Custodian will not be subject to any penalties for accepting securities subject of the transaction.

4. Starting on 05 August 2006, the penalties under Subsec. X441.29 shall be applied for any violation of the provisions of *Appendix 68*. Custodians shall be required to freeze the securities account for those without a compliant SPA from the investor.

(M-2006-009 dated 06 July 2006 and M-2006-002 dated 05 June 2006)

DELIVERY OF GOVERNMENT SECURITIES TO THE INVESTOR'S PRINCIPAL SECURITIES ACCOUNT WITH THE REGISTRY OF SCRIPLESS SECURITIES
(Appendix to Sec. X441, and Subsecs. X235.5 and X238.1)

The following are the guidelines on the delivery of government securities by the selling bank and/or NBFI under the supervision of the BSP to an investor's Principal Securities Account with the Registry of Scripless Securities (RoSS) through the Client Interface System facility as compliance with the requirement of effective delivery under Sec. X441 and Subsecs. X235.5, X238.1, X238.3 and X441.12:

(a) Banks/NBFIs, acting either as accredited government securities eligible dealers (GSEDs) or licensed government securities dealers, shall execute the attached Memorandum of Agreement (MOA) with the BTr regarding the creation of the Principal Securities Account with the RoSS on or before 31 January 2007. The MOA between the BTr and the GSED is attached as Annex A.

(b) If the dealing bank/NBFI is designated as the agent of the client/investor, the authority of the dealing bank/NBFI under the Special Power of Attorney (SPA) executed by the client/investor shall be limited to the opening of the Principal Securities Account with the RoSS and the execution of trade transactions (i.e., buying and selling instructions, including relaying of instructions to the BTr, as operator of the RoSS, to receive and deliver securities in order to consummate the buy/sell transaction).

(c) Banks/NBFIs shall require their clients/investors who have manifested the desire to have their own Principal Securities Account with the RoSS to execute (1) an SPA pursuant to Sec. X441 and Subsecs. X235.5, X238.1 and X238.3 and (2) the revised Investor's Undertaking (attached as Annex B) on or before 28 February 2007.

(d) Absent a compliant Investor's Undertaking and SPA as of 01 March 2007,

the dealing bank/NBFI should freeze the account of the client/investor (i.e., no new movements in the account, except sale/disposition upon written instruction by the client/investor): *Provided*, That starting 01 March 2007 no new Investors Principal Securities Account shall be created unless the investor submits a compliant Investor's Undertaking and SPA. Otherwise, the dealing bank/NBFI will be subject to the appropriate penalties prescribed under Sec. X441 and Subsecs. X235.5, X238.1, X238.3 and X441.12.

(e) The sub-accounts in the RoSS maintained by dealing banks/NBFI for their client/investor who either (1) declined in writing the delivery of his/its securities to a direct registry account under his/its name or a third-party custodian or (2) have not responded to the dealer's letter to the client/investor as regards the disposition of his/its securities shall be frozen. However, sale/disposition of securities in the sub-accounts shall be allowed upon written instruction by the client/investor to dispose the same: *Provided*, That in case of a client/investor who as of 04 November 2004 has not responded to the dealer's letter regarding the disposition of his/its securities, the dealer should be able to obtain from the said client/investor the written instruction regarding the client/investor's inability to take delivery of existing securities. For clarity, the sub-accounts maintained by the dealing banks/NBFIs shall not be considered a violation of Subsecs. X235.5, X238.1, X238.3 and X441.12: *Provided*, That (1) the same were created on or before 04 November 2004; and (2) no additional securities have been lodged thereon since 04 November 2004.

(M-2007-002 dated 23 January 2007)

MEMORANDUM OF AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

This agreement made and entered into this _____ at _____, Philippines by and between:

The **BUREAU OF THE TREASURY**, a duly constituted government bureau under the Department of Finance, Republic of the Philippines, with principal office at Palacio del Gobernador Building, Gen. Luna corner A. Soriano Avenue, Intramuros, Manila, represented herein by the Treasurer of the Philippines, _____, and hereinafter referred to as “**BTr**”;

-and-

_____, a domestic/
international banking/financial institution organized and existing pursuant to the laws of the Republic of the Philippines/*(country of incorporation)*, duly licensed by the Securities and Exchange Commission (SEC) to deal in securities, represented herein by _____ in her/his capacity as _____, and hereinafter referred to as the “**Dealer**”;

(the “BTr” and the “Dealer” may be referred to as a “Party” in the singular tense, as “Parties” in the plural/collective tense)

WITNESSETH: THAT

WHEREAS, the Registry of Scripless Securities (“RoSS”) is the official registry of government securities issued by the National Government through the Bureau of the Treasury;

WHEREAS, the RoSS is an electronic registry of recording ownership of or interest in and transfers of government securities;

WHEREAS, the delivery of government securities sold by the Dealer, on a without recourse basis, to the investor’s Principal Securities Account with the RoSS through the Client Interface System (“CIS”) Facility shall be sufficient compliance with the delivery requirement under Subsec. X238.1, of the Bangko Sentral ng Pilipinas (“BSP”) Manual of Regulations for Banks (MORB) and Circular No. 524 dated 31 March 2006.

WHEREAS, the Dealer is a government securities eligible dealer, accredited by the BTr to participate in the primary auction of government securities pursuant to Finance

Department Order No. 141-95, as amended, and/or a bank/financial institution licensed by the SEC to deal in government securities in the secondary market;

WHEREAS, investors of government securities purchase/trade the same in the secondary market through any of the dealers;

WHEREAS, recording of ownership of, or interest in government securities requires the creation/opening of a Principal Securities Account with the RoSS through the CIS Facility;

WHEREAS, to promote transparency, investor confidence and deepening of the government bond market, investors must be given adequate assistance in the opening/creation of his/its Principal Securities Account with the RoSS (“Name-on- Registry”);

NOW, THEREFORE, in view of the foregoing premises and the mutual covenants hereinafter provided, the parties hereby agree as follows:

Section 1. Obligations of BTr.

The BTr shall:

1. Receive instruction from the Dealer through the RoSS-CIS for the creation/opening of the Principal Securities Account, as indicated in the Special Power of Attorney executed by the investor in favor of the Dealer for that purpose;
2. Create/open in the RoSS a Principal Securities Account for the requesting investor of scripless government securities through which all transactions affecting said securities will be recorded;
3. Provide and forward to the investor an electronic confirmation of his/its RoSS Principal Securities Account Number and notices and statements of account under any of the modes indicated in the Investor’s Oath of Undertaking submitted to the BTr;
4. On relevant coupon/maturity payment dates and for payments made through the BSP, instruct the BSP to credit the regular demand deposit account (DDA) of the investor’s settlement bank: *Provided*, That if the coupon/maturity payment date falls on a Saturday, Sunday, or Holiday or on a day during which business operations of the BTr is suspended, payment/s shall be made by the BTr on the next business day, without adjustment in the amount of interest to be paid.
5. Ensure that all government securities bought by investors from the Dealer are accurately recorded under the investor’s Principal Securities Account or to the Securities Custody Account of the investor’s designated third-party custodian.
6. Furnish the investor with Statement(s) of Securities Account, at least quarterly and whenever there is a movement in the investor’s Principal Securities Account, through the investor’s preferred mode of receipt of notice and/or statement;

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7. Consistent with BTr Memoranda dated 28 December 2005, 12 January 2006 and 31 January 2006 and applicable BSP regulations, disallow any increase in the holdings of beneficial owners of securities recorded in the sub-account of the Dealer, if any, existing as of 02 February 2006, for beneficial owners of securities who have either (a) declined in writing the delivery of his/its securities to a direct registry account under his or its name or a third-party custodian or (b) not responded to the Dealer's letter to the investor as regards the disposition of his/its securities. Any withdrawal or sale of the securities, either partial or total, under the sub-account of the Dealer for the beneficial owners may only be allowed if the Dealer is authorized in writing by the client/Investor. Such written authority shall be furnished by the Dealer to the BTr prior to the execution of the transaction.

Sec. 2. Obligations of the Dealer

The Dealer shall:

1. Assist the investor to open his/its individual Principal Securities Account (Name-On-Registry) with the RoSS through the CIS facility;
2. Conduct the Know your Client ("KYC") screening of its investors/clients referred to the BTr for the creation of the Principal Securities Account (Name-On-Registry) with the RoSS. In this connection it shall: (a) issue a certification to the BTr that it has conducted the necessary "KYC" screening; (b) maintain client identification records; (c) report any suspicious transaction in accordance with the provisions of R.A. No. 9160, otherwise known as the "Anti-Money Laundering Act of 2001", as amended, and its implementing rules and regulations; and whenever necessary, (d) afford BTr unchallenged access to said KYC records/documents. The same KYC or customer identification documents shall likewise be made available to regulators for verification upon request.
3. Transmit the investor's instructions to the RoSS for the creation/opening of a Principal Securities Account. For this purpose, the Dealer shall submit and/or inform the investor to submit to the BTr his/her settlement account maintained in a settlement bank of his/her choice, through which all relevant payments on the securities will be made by the BTr;
4. Upon the creation of the investor's Principal Securities Account with the BTr's RoSS to which the securities subject of a sale will be credited, immediately furnish the investor with the BTr's electronic confirmation of its creation. The Dealer shall also provide to the investor the BTr electronic confirmation that includes a statement on the credited amount of securities;
5. Ensure that Special Power of Attorney (SPA) executed by client investors in their favor as agents of the former be limited, pursuant to BSP Circular No. 524;
6. Ensure that all government securities sold to investors are delivered to their appropriate Principal Securities Account with the RoSS, or to the account of the investor's designated custodian;

7. Undertake not to misuse the investor's RoSS Account No., which may come into its possession upon the creation of a Principal Securities Account for the investor or on previous transactions with the investor;

8. Acquaint/apprise investors on the rules and procedure prescribed by the BTr in connection with investment and trading of scripless government securities, including but not limited to coupon payment, redemption value/proceeds of the investor's securities, legal encumbrances, and other relevant information relative to investor's security holdings. As a minimum, investors must be apprised of the Revised RoSS Procedure on Buy and Sell of Securities and recording of transfers through the RoSS-CIS facility found in the BTr website, with particular emphasis on the feature of non-tagging of securities to GSEDs, or non-exclusivity of the selling GSEDs for subsequent transactions;

9. Whenever designated as authorized agent, provide BTr upon reasonable request, all evidence of authority to transact on the securities issued by investor to such authorized agent;

10. Whenever designated as authorized agent and/or settlement bank, ensure confidentiality and prompt delivery of all notices and statements of securities account/s to investors;

11. Ensure that all instructions transmitted to BTr concerning the securities account of clients-investors are legal, valid and duly authorized pursuant to an agreement, a special power of attorney, or any written authority executed by the client-investor in favor of the dealer; and

12. Disallow any increase in the securities holdings of clients recorded in its sub-account in the RoSS, with respect to clients who have either (a) declined in writing the delivery of his/its securities to a direct registry account under his or its name or a third-party custodian or (b) have not responded to the Dealer's letter to the investor as regards the disposition of his/its securities. The Dealer shall allow the client/investor to withdraw or sell, whether partial or total, from the said securities holdings recorded in the Dealer's sub-account only upon written request/instruction by the investor/client: *Provided*, That in case of investors who have not responded to the Dealer's letter regarding the disposition of his/its securities, the Dealer should be able to obtain from such investor a written advice that he is neither willing to take delivery nor have his securities delivered to a third-party custodian. The dealer shall furnish BTr such written request/instruction prior to the execution of the transaction.

Sec. 3. Cut Off Period. No transfer of securities shall be allowed (i) during the period of two (2) business days ending on (and including) the due date of any redemption payment of principal and (ii) during the period of two (2) business days ending on (and including) the due date of any coupon payment date (the "Closed Period"). BTr shall prevent any transfer of the securities to be recorded in the RoSS during any Closed Period. Bondholders of record as appearing in the RoSS as of the Closed Period will be treated by BTr as the beneficial owners of such securities for any relevant payment.

Sec. 4. Settlement Bank. Whenever the Dealer is designated by the investor as his/its settlement bank, it shall confirm receipt of payments from BTr intended for the investor and shall promptly and punctually credit the investor’s bank account all said relevant payments on the securities. Upon the crediting of the regular DDA of the Dealer with BSP for the applicable payments, the investor shall be considered as having been fully paid on his/its securities and the Dealer shall then be responsible to the investor. The BTr, its officers and employees and agents shall not be made liable for any claim, liability, or responsibility for damages or injury incurred by the investor on account of the Dealer’s failure to pay/credit the investor’s settlement account.

Sec. 5. Compliance with Anti-Money Laundering Law. The Dealer shall be responsible for compliance with the requirements of Anti-Money Laundering Law and other banking laws, rules and regulations relative to reporting of suspicious accounts and deposits.

Sec. 6. Limitation of Liability. The BTr, its officers, employees and agents shall not be held liable for any claim, liability or responsibility for damages or injury incurred by the investor on account of the loss of his/its securities holdings unless the loss or injury was caused by the act or omission of the BTr. Likewise, the BTr, its officers, employees and agents shall be rendered free and harmless from any liability on account of effecting instruction/s transmitted by the Dealer to the RoSS which the latter believed in good faith to have emanated from the Dealer.

Sec. 7. Sanctions for Fraudulent Transactions. In case the Dealer commits any fraudulent act or transaction in connection with government securities or violates any of its undertakings herein, the BTr shall have the right to impose administrative sanctions such as but not limited to dis-accreditation and/or suspension of accreditation as a government securities eligible dealer, and other administrative sanctions as may be prescribed by competent authorities without prejudice to civil or criminal prosecution in accordance with law.

Sec. 8. Amendment and Repeal. This agreement may be amended, modified or repealed by the parties in writing, by giving 30 days prior written notice.

Sec. 9. Effectivity. This agreement shall take effect immediately.

IN WITNESS WHEREOF, the parties have hereunto signed these presents this _____ at _____.

BUREAU OF THE TREASURY

[Dealer]

By:

By:

Treasurer of the Philippines

President & CEO

Signed in the presence of:

Republic of the Philippines)
_____) S.S

ACKNOWLEDGMENT

BEFORE ME, a Notary Public for and in the City of _____, personally appeared:

Name	CTC No.	Date & Place Issued
Bureau of the Treasury Rep. by the Treasurer of the Philippines	_____	_____
[Dealer] Rep. by _____	_____	_____

known to me to be the same persons who executed the foregoing instrument consisting of ____ () pages, including this page where this Acknowledgment is written, and acknowledge to me that the same is their free and voluntary act and deed and of the agency/institution they represent.

WITNESS MY HAND AND NOTARIAL SEAL this _____ at
_____, Philippines.

NOTARY PUBLIC

Doc. No.: _____
Page No.: _____
Book No.: _____
Series of _____

NOTE: TO BE SUBMITTED TO THE
BUREAU OF THE TREASURY

INVESTOR'S UNDERTAKING

I/We,

For Individual Investors
of legal age

Name:
Address:
Civil Status:

For Juridical Entity
authorized to do business
in the Philippines

Name:
Principal Office Address:
Place of Incorporation:
Name of Representative:
Capacity/Position of Representative:

- A. Hereby agree to execute, pursuant to BSP Circular 524, a limited Special Power of Attorney in favor of either the dealing Government Securities Eligible Dealer¹ (GSED) or Securities Dealer² for the creation of a Principal Securities Account with the RoSS or for the execution of trade transactions (i.e. buying and selling instructions, including relaying of instructions to “the CUSTODIAN” to receive or deliver securities in order to consummate the buy/sell transactions) and to be bound by the provisions of a written Authority or a special power of attorney, or any relevant agreement I/we have entered into concerning my/our government security holdings, thereby confirming my/our authority for BTr-RoSS to carry out and execute the acts or instructions referred to in the aforesaid documents;
- B. It is understood that the RoSS administered by the BTr is the official registry of ownership of or interest in government securities; that all government securities floated/originated by NG under its scripless policy are recorded in the RoSS as well as subsequent transfer of the same; and that I/we will abide by the rules and regulations of BTr-RoSS concerning government securities.

And further undertake as follows:

- 1. To create/open through the Client Interface System a Principal Securities Account with the RoSS to ensure that title of said scripless securities is officially recorded in my/our name and under my/our control.
- 2. That as a condition for the creation/opening of my/our Principal Securities Account with the RoSS, I/we have opened a bank account with (_____ as Settlement Bank) to which coupon and maturity proceeds and any other payments to be made on my/our government securities holdings will be credited; undertake to furnish the RoSS of said bank

¹ Accredited by the Bureau of the Treasury
² Licensed by the Securities and Exchange Commission

account number; and give notice at least three (3) business days prior to any coupon and/or maturity payment of any change in the Settlement Bank and/or bank account number.

3. That no transfer of securities shall be made (i) during the period of two (2) business days ending on (and including) the due date of any redemption payment of principal and (ii) during the period of two (2) business days ending on (and including) the due date of any coupon payment date (the “Closed Period”). I/We further acknowledge that the BTr shall prevent any transfer of the securities to be recorded in the RoSS during any Closed Period.
4. That in the case of outright sale transactions of government securities, including that of RTBs, I/we undertake to sell the same to any of the GSEDs or Securities Dealers, save those provided for under existing rules and regulations on government securities applicable to tax-exempt institutions, government-owned or controlled corporations and local government units. Otherwise, I/we shall have the said securities delivered to my/our agent/custodian for trading or any other transactions pursuant to a relevant written instruction/authority.
5. To receive notices and/or statements of account on a quarterly basis or whenever there is a movement in my Principal Securities Account from the RoSS through any of the following modes:
(Please indicate choice)

- ☐ Pick-up at the RoSS
☐ Registered Mail to Home/Office Address _____
☐ Deliver electronically to Agent
☐ Deliver electronically to Settlement Bank (for pick up)
☐ Email - email address_____

In the absence of an indicated choice, I/we understand that the BTr shall electronically deliver all Notices and Statements to my/our designated settlement bank.

Note: In addition to the indicated manner of receiving notice(s) and statement(s), Investor can directly secure from the BTr written copy of any notice, statement of account, or confirmation report, subject to prior notice to and in accordance with the procedures of the BTr.

I/We hereby agree to abide with the Schedule of Fees and the manner of collection, as may be prescribed by the BTr from time to time.

6. That I/we expressly agree and acknowledge that the crediting to the regular DDA of my/our settlement bank of coupons and/or redemption value due my/our scripless securities, shall constitute actual receipt of payment by me/us.
7. To hold the BTr, its officers, employees and agents free and harmless against all suits, actions, damages or claims arising from failure of my/our Settlement Bank to credit my/our bank account for coupons and maturity values on due date.

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- 8. That all instructions affecting my/our scripless securities which are transmitted to or received in good faith the RoSS from myself/ourselves or my/our designated agent/custodian are covered by relevant documentation indicating my/our express consent and authority.
- 9. That I/we expressly warrant and authorize the delivery of copies of all evidence of authority granted to my/our designated agent/custodian to transact on my/our scripless securities upon reasonable demand by BTr.
- 10. That I/we undertake to immediately notify the RoSS of any unauthorized trade of my/our scripless securities, and until receipt of such notice, transactions effected by BTr in good faith are deemed valid.
- 11. To render free and harmless the BTr, its officers, employees and agents for any claim or damages with respect to trade instructions carried out in good faith.
- 12. That while it is understood that BTr shall maintain the strict confidentiality of records in the RoSS, I/we hereby expressly waive and authorize BTr, to the extent allowed by law, to disclose relevant information in compliance with Anti-Money Laundering laws, rules and regulations.
- 13. To submit to the BTr the relevant special power of attorney or authorizations issued to my/our agent, upon demand of BTr.

IN WITNESS WHEREOF, I/We hereunto affix our hands this _____ day of _____ at _____, Philippines.

Conforme:

Settlement Bank

Name & Signature of Investor

ACKNOWLEDGMENT

BEFORE ME, a Notary Public for and in the City of _____, personally appeared:

Name:	CTC No.	Date:	Place of Issue:
_____	_____	_____	_____
(Investor or Representative of Juridical Entity)			

known to me to be the same person who executed the foregoing instrument and he/she acknowledged to me that the same is his/her free and voluntary act and deed (and the free act and deed of the entity they represent).

WITNESS MY HAND AND NOTARIAL SEAL this _____ at _____ ,
Philippines.

NOTARY PUBLIC

Doc. No.: _____
Page No.: _____
Book No.: _____
Series of _____

PROMPT CORRECTIVE ACTION FRAMEWORK
[Appendix to Sec. X193 (2008 - X106.4)]

In carrying out its primary objective of maintaining price stability conducive to a balanced and sustainable growth of the economy¹, the BSP must necessarily maintain stability of the financial system through preservation of confidence therein. While preservation of confidence in the financial system may call for closure of mismanaged banks and/or financial entities under its jurisdiction, such closure is not the only option available to the BSP. When a bank’s closure, for instance, is adjudged by the Monetary Board to have adverse systemic consequences, the State may act in accordance with law to avert potential financial system instability or economic disruption.²

It is recognized that the closure of a bank or its intervention can be a costly and painful exercise. For this reason, the BSP, as supervisor, can enforce PCA³ as soon as a bank’s condition indicates higher-than normal risk of failure.

PCA essentially involves the BSP directing the board of directors of a bank, prior to an open outbreak of crisis, to institute strong measures to restore the entity to normal operating condition within a reasonable period, ideally within one (1) year. These measures may include any or all of the following components:

- (1) Implementation of a capital restoration plan;
- (2) Implementation of a business improvement plan; and
- (3) Implementation of corporate governance reforms.

Capital restoration plan - this component contains the schedule for building up a bank’s capital base (primarily through an increase in Tier 1 capital) to a

level commensurate to the underlying risk exposure and in full compliance with minimum capital adequacy requirement. In conjunction with this plan, the BSP may also require any one (1), or a combination of the following:

- 1. Limit or curtail dividend payments to common stockholders;
- 2. Limit or curtail dividend payments to preferred stockholders; and
- 3. Limit or curtail fees and/or other payments to related parties.

Business improvement plan - this component contains the set of actions to be taken immediately to bring about an improvement in the entity’s operating condition, including but not limited to any one (1), or a combination of the following:

- 1. Reduce risk exposures to manageable levels;
- 2. Strengthen risk management;
- 3. Curtail or limit the bank’s scope of operations including those of its subsidiaries or affiliates where it exercises control;
- 4. Change or replace management officials;
- 5. Reduce expenses; and
- 6. Other measures to improve the quality of earnings.

Corporate governance reforms - this component contains the actions to be immediately taken to improve the composition and/or independence of the board of directors and to enhance the quality of its oversight over the management and operation of the entity. This also includes measures to minimize potential shareholder conflicts of interest detrimental to its creditors, particularly, depositors in a bank. This likewise lays down measures to provide an acceptable level of financial

¹ Section 3 of Republic Act No. 7653
² Section 17 and 18 of Republic Act No. 3591, as amended
³ Section 4.6 of Republic Act No. 8791

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transparency to all stakeholders. Such actions could include, but are not limited to, any one (1), or a combination of the following:

- 1. A change in the composition of the board of directors or any of the mandatory committees (under the MORB);
- 2. An enhancement to the frequency and/or depth of reporting to the board of directors;
- 3. A reduction in exposures to and/or a termination or reduction of business relationships with affiliates that pose excessive risk or are inherently disadvantageous to the supervised financial institution; and
- 4. A change of external auditor.

A bank may be subject to PCA whenever any or all of the following conditions obtain:

- (1) When either of the Total Risk-Based Ratio¹, Tier 1 Risk-Based Ratio, or Leverage Ratio² falls below ten percent (10%), six percent (6%) and five percent (5%), respectively, or such other minimum levels that may be prescribed for the said ratios under relevant regulations, and/or the combined capital account falls below the minimum capital requirement prescribed under Subsec. X106.1;
- (2) The CAMELS composite rating is less than “3” or a Management component rating of less than “3”;
- (3) A serious supervisory concern has been identified that places a bank at more-than-normal risk of failure in the opinion of the director of the Examination Department concerned, which opinion is confirmed by the Monetary Board. Such concerns could include, but are not limited, to any one (1) or a combination of the following:
 - a. Finding of unsafe and unsound activities that could adversely affect the interest of depositors and/or creditors;
 - b. A finding of repeat violations of law or the continuing failure to comply with Monetary Board Directives; and

c. Significant reporting errors that materially misrepresent the bank’s financial condition.

The initiation of PCA shall be recommended by the Deputy Governor, SES to the Monetary Board for approval. Any initiation of PCA shall be reported to the PDIC for notation. Upon PCA initiation, the BSP shall require the bank to enter into a MOU committing to the PCA plan. The MOU shall be subject to approval by the Deputy Governor, SES and confirmation by the Monetary Board.

In order to monitor compliance with the PCA, quarterly progress reports shall be made. The BSP reserves the right to conduct periodic on-site visits outside of regular examination to validate compliance with the PCA plan.

Subject to Monetary Board approval, sanctions may be imposed on any bank subject to PCA whenever there is unreasonable delay in entering into a PCA plan or when PCA is not being complied with. These may include any or all of the following:

- (1) monetary penalty on or curtailment or suspension of privileges enjoyed by the board of directors or responsible officers;
- (2) restriction on existing activities that the supervised financial institution may undertake;
- (3) denial of application for branching and other special authorities;
- (4) denial or restriction of access to BSP credit facilities; and
- (5) restriction on declaration of dividends.

On the other hand, if the bank subject to PCA promptly implements a PCA plan and substantially complies with its conditions, it may continue to have access to BSP credit facilities notwithstanding non-compliance with standard conditions of access to such facilities. The Deputy

¹ Otherwise known as Capital Adequacy Ratio (“CAR”)
² Total Capital /Total Assets

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Governor, SES shall recommend such exemption to the Monetary Board for approval.

In cases where a bank's problems are deemed to be exceptionally serious from the outset, or when a bank is unwilling to submit to the PCA or unable to substantially comply with an agreed PCA plan, the Deputy Governor, SES may immediately recommend to the Monetary Board more drastic actions as prescribed under Section 29 (conservatorship) and Section 30 (receivership) of R.A. No. 7653.

Subject to Monetary Board approval, the PCA status of a bank may be lifted: *Provided*, That the bank fully complies with the terms and conditions of its MOU and: *Provided, further*, That the Deputy Governor, SES has determined that the financial and operating condition of the bank no longer presents a risk to itself or the financial system. Such improved assessment shall be immediately reported to the PDIC.

(Circular No. 523 dated 23 March 2006, as amended by Circular Nos. 729 dated 08 July 2011, 664 dated 15 September 2009)

CONSUMER PROTECTION FOR ELECTRONIC BANKING

(Transferred to X705)

AUTOMATED TELLER MACHINE SAFETY MEASURES
[Appendix to Sec. X705 (2008 - X624)]

To minimize/prevent ATM frauds and crimes, banks should, at a minimum, implement the following security measures with respect to their ATM facilities:

1. Locate ATM's in highly visible areas;
2. Provide sufficient lighting at and around the ATMs;
3. Where ATM crimes (e.g., robbery, vandalism) are high in a specific area or location, banks should install surveillance camera or cameras which shall view and record all persons entering the facility. Such recordings shall be preserved by the banks for at least thirty (30) days;
4. Implement ATM programming enhancements like masking/non-printing of card numbers;
5. Educate customers by advising them regularly of risks associated with using the ATM and how to avoid these risks;
6. Conduct and document periodic security inspection at the ATM location, and make the pertinent information available to their clients;

7. Educate bank personnel to be responsive and sensitive to customer concerns and to communicate them immediately to the responsible bank officer; and

8. Post near the ATM facility a clearly visible sign which, at a minimum, provides the telephone numbers of the bank as well as other banks' hotline numbers for other cardholders who are allowed to transact business in the ATM, and police hotlines for emergency cases.

Banks must study and assess ATM crimes to determine the primary problem areas. Procedures for reporting ATM crime should also be established. Knowing what crimes have occurred will aid the banks in recognizing the particular crime problem and to what degree it exists so that they can implement specific prevention measures to mitigate the risk. In this connection, banks are encouraged to share information involving ATM fraud cases to deter and prevent proliferation of the crime.

(Circular No. 542 dated 01 September 2006)

INTERNET AND WIRELESS BANKING SECURITY MEASURES
[Appendix to Sec. X705 (2008 - X624)]

1. Network controls

a. Implement adequate security measures on the internal networks and network connections to public network or remote parties. Segregate internal networks into different segments having regard to the access control needed for the data stored in, or systems connected to, each segment.

b. Properly design and configure the servers and firewalls used for the e-banking services either internet-based or delivered through wireless communication networks (e.g., install firewalls between internal and external networks as well as between geographically-separate sites).

c. Deploy strong and stringent authentication and controls especially in remote access or wireless access to the internal network.

d. Implement anti-virus software, network scanners and analyzers, intrusion detectors and security alert as well as conduct regular system and data integrity checks.

e. Maintain access security logs and audit trails. These should be analyzed for suspicious traffic and/or intrusion attempts.

f. Ensure that wireless software for wireless communication network includes appropriate audit capabilities (e.g., recording dropped transactions).

g. Develop built-in redundancies for single points of failure which can bring down the entire network.
2. Operating Systems Controls

a. Harden operating systems by configuring system software and firewall to the highest security settings consistent with the level of protection required, keeping abreast of enhancements, updates and patches recommended by system vendors.

b. Change all default passwords for new systems immediately upon installation as they provide the most common means for intruders to break into systems.
3. Encryption

a. Implement encryption technologies that are appropriate to the sensitivity and importance of data to protect confidentiality of information while it is stored or in passage over external and internal networks.

b. Choose encryption technologies that make use of internationally recognized cryptographic algorithms where the strengths of the algorithms have been subjected to extensive tests.

c. Apply strong “end-to-end” encryption to the transmission of highly sensitive data (e.g., customer passwords) so that the data are encrypted all the way between customers’ devices and bank’s internal systems for processing the data. This would ensure that highly sensitive data would not be compromised even if the banks’ web servers or internal networks were penetrated.
4. Website and Mobile Banking Authentication

a. Authenticate official website to protect bank customers from spoofed or faked websites. Banks should determine what authentication technique to use to provide protection against these attacks.

b. For wireless applications, adopt authentication protocols that are separate and distinct from those provided by the wireless network operator.
5. Physical Security

a. House all critical or sensitive computers and network equipment in

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physically secure locations (e.g., away from environmental hazards, unauthorized entry and public disclosure, etc.).

b. Implement physical security measures such as security barriers (e.g., external walls, windows); entry controls (e.g., biometric door locks, manual or electronic logging, security guards) and physical protection facilities/devices (e.g., water and fire detectors, uninterruptible power supply [UPS], etc.) to prevent unauthorized physical access, damage to and interference with the e-banking services.

6. Development and Acquisition

a. Separate physical/logical environments for systems development, testing and production.

b. Provide separate environments for the development, testing, staging and production of internet facing web-based applications; connect only the production environment to the internet.

7. IT Personnel Training

Provide appropriate and updated training to IT personnel on network, application and security risks and controls so that they understand and can respond to potential security threats.

8. Service Providers

a. Perform due diligence regularly to evaluate the ability of the service providers (e.g., internet service provider, telecommunication provider) to maintain an adequate level of security and to keep abreast of changing technology.

b. Ensure that the contractual agreements with the service providers have clearly defined security responsibilities.

9. Independent Audit, Vulnerability Test and Penetration Testing

a. Conduct regular audit to assess the adequacy and effectiveness of the risk management process and the attendant controls and security measures.

b. Perform vulnerability test or assessment to evaluate the information security policies, internal controls and procedures, as well as system and network security of the bank. Assessment should also include latest technological developments and security threats, industry standards and sound practices.

c. Conduct penetration testing at least annually.

d. The audit and tests should be conducted by security professionals or internal auditors who are independent in the development, implementation or operation of the e-banking services, and have the required skills to perform the evaluation.

e. For e-banking services provided by an outside vendor or service provider, ensure that the above tests and audit are performed and the bank is provided with the results and actions taken on system security weaknesses.

10. Incident Response

Establish an incident management and response plan and test the predetermined action plan relating to security incidents.

(Circular No. 542 dated 01 September 2006)

ELECTRONIC BANKING CONSUMER AWARENESS PROGRAM
[Appendix to Sec. X705 (2008 - X624)]

To ensure security in their e-banking transactions and personal information, consumers should be oriented of their roles and responsibilities which, at a minimum, include the following:

1. Internet Products and Services

a. Secure Login ID and Password or PIN
(1) Do not disclose Login ID and Password or PIN.

(2) Do not store Login ID and Password or PIN on the computer.

(3) Regularly change password or PIN and avoid using easy-to-guess passwords such as names or birthdays. Password should be a combination of characters (uppercase and lowercase) and numbers and should be at least 6 digits in length.

b. Keep personal information private.
Do not disclose personal information such as address, mother's maiden name, telephone number, social security number, bank account number or e-mail address - unless the one collecting the information is reliable and trustworthy.

c. Keep records of online transactions.
(1) Regularly check transaction history details and statements to make sure that there are no unauthorized transactions.

(2) Review and reconcile monthly credit card and bank statements for any errors or unauthorized transactions promptly and thoroughly.

(3) Check e-mail for contacts by merchants with whom one is doing business. Merchants may send important information about transaction histories.

(4) Immediately notify the bank if there are unauthorized entries or transactions in the account.

d. Check for the right and secure website.

(1) Before doing any online transactions or sending personal information, make sure that correct website has been accessed. Beware of bogus or "look alike" websites which are designed to deceive consumers.

(2) Check if the website is "secure" by checking the Universal Resource Locators (URLs) which should begin with "https" and a closed padlock icon on the status bar in the browser is displayed. To confirm authenticity of the site, double-click on the lock icon to display security certificate information of the site.

(3) Always enter the URL of the website directly into the web browser. Avoid being re-directed to the website, or hyperlink it from a website that may not be as secure.

(4) If possible, use software that encrypts or scrambles the information when sending sensitive information or performing e-banking transactions online.

e. Protect personal computer from hackers, viruses and malicious programs.

(1) Install a personal firewall and a reputable anti-virus program to protect personal computer from virus attacks or malicious programs.

(2) Ensure that the anti-virus program is updated and runs at all times.

(3) Always keep the operating system and the web browser updated with the latest security patches, in order to protect against weaknesses or vulnerabilities.

(4) Always check with an updated anti-virus program when downloading a program or opening an attachment to ensure that it does not contain any virus.

(5) Install updated scanner softwares to detect and eliminate malicious programs

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capable of capturing personal or financial information online.

(6) Never download any file or software from sites or sources, which are not familiar or hyperlinks sent by strangers. Opening such files could expose the system to a computer virus that could hijack personal information, including password or PIN.

f. Do not leave computer unattended when logged-in.

(1) Log-off from the internet banking site when computer is unattended, even if it is for a short while.

(2) Always remember to log-off when e-banking transactions have been completed.

(3) Clear the *memory cache* and *transaction history* after logging out from the website to remove account information. This would avoid incidents of the stored information being retrieved by unwanted parties.

g. Check the site’s privacy policy and disclosures.

(1) Read and understand website disclosures specifically on refund, shipping, account debit/credit policies and other bank terms and conditions.

(2) Before providing any personal financial information to a website, determine how the information will be used or shared with others.

(3) Check the site’s statements about the security provided for the information divulged.

(4) Some websites’ disclosures are easier to find than others — look at the bottom of the home page, on order forms or in the “About” or “FAQs” section of a site. If the customer is not comfortable with the policy, consider doing business elsewhere.

h. Other internet security measures:

(1) Do not send any personal information particularly password or PIN via ordinary e-mail.

(2) Do not open other browser windows while banking online.

(3) Avoid using shared or public personal computers in conducting e-banking transactions.

(4) Disable the “file and printer sharing” feature on the operating system if conducting banking transactions online.

(5) Contact the banking institution to discuss security concerns and remedies to any online e-banking account issues.

2. Other Electronic Products

a. ATM and debit cards

(1) Use ATMs that are familiar or that are in well-lit locations where one feels comfortable. If the machine is poorly lit or is in a hidden area, use another ATM.

(2) Have card ready before approaching the ATM. Avoid having to go through the wallet or purse to find the card.

(3) Do not use ATMs that appear to have been tampered with or otherwise altered. Report such condition to the bank.

(4) Memorize ATM PIN and never disclose it to anyone. Do not keep those numbers or passwords in the wallet or purse. Never write them on the cards themselves. Avoid using easily available personal information like a birthday, nickname, mother’s maiden name or consecutive numbers.

(5) Be mindful of “shoulder surfers” when using ATMs. Stand close to the ATM and shield the keypad with hand when keying in the PIN and transaction amount.

(6) If the ATM is not working correctly, cancel the transaction and use a different ATM. If possible, report the problem to the bank.

(7) Carefully secure card and cash in the wallet, handbag, or pocket before leaving the ATM.

(8) Do not leave the receipt behind. Compare ATM receipts to monthly statement. It is the best way to guard against fraud and it makes record-keeping easier.

(9) Do not let other people use your card. If card is lost or stolen, report the incident immediately to the bank.

b. Credit cards

(1) Never disclose credit card information to anyone. The fraudulent use of credit cards is not limited to the loss or theft of actual credit cards. A capable criminal only needs to know the credit card number to fraudulently make numerous charges against the account.

(2) Endorse or sign all credit cards as soon as they are received from the bank.

(3) Like ATM card PINs, secure credit card PINs. Do not keep those numbers or passwords in the wallet or purse and never write them on the cards themselves.

(4) Photocopy both the front and back of all credit cards and keep the copies in a safe and secure location. This will facilitate in the immediate cancellation of the card if lost or stolen.

(5) Carry only the minimum number of credit cards actually needed and never leave them unattended.

(6) Never allow credit card to be used as reference (credit card number) or as an identification card.

(7) Never give your credit card account number over the telephone unless dealing with a reputable company or institution.

(8) When using credit cards, keep a constant eye on the card and the one handling it. Be aware of the “swipe and theft” scam using card skimmers. A skimmer is a machine that records the information from the magnetic stripe on a credit card to be downloaded onto a personal computer later. The card can be swiped on a skimmer by a dishonest person and that data can then be used to make duplicate copies of the credit card.

(9) Do not leave documents like bills, bank and credit card statements in an

unsecure place since these documents have direct access to credit card and/or deposit account information. Consider shredding sensitive documents rather than simply throwing them away. (Some people will go through the garbage to find this information).

(10) Notify the bank in advance of a change in address.

(11) Open billing statements promptly and reconcile card amounts each month.

(12) Do not let other people use your card. If card is lost or stolen, report the incident immediately to the bank.

c. Mobile Banking

(1) Do not disclose your Mobile Banking Pin (MPIN) to anyone.

(2) Regularly change the MPIN.

(3) Do not let other people use your mobile phone enrolled in a mobile banking service. If the phone is lost or stolen, report the incident immediately to the bank.

(4) Be vigilant. Refrain from doing mobile banking transactions in a place where you observe the presence of “shoulder surfers”.

(5) Keep a copy of the transaction reference number provided by the bank whenever you perform a mobile banking transaction as evidence that the specific transaction was actually executed.

Since customers may find it difficult to take in lengthy and complex advice, banks should devise effective methods and channels for communicating with them on security precautions. Banks may make use of multiple channels (e.g., banks’ websites, alert messages on customers mobile phone, messages printed on customer statements, promotional leaflets, circumstances when banks’ frontline staff communicate with their customers) to enforce these precautionary measures.

(Circular No. 542 dated 01 September 2006)

DISCLOSURE REQUIREMENTS
[Appendix to Sec. X705 (2008 - X624)]

1. General Requirement

Banks offering e-banking services have to adopt responsible privacy policies and information practices. They should provide disclosures that are clear and readily understandable, in writing, or in a form the consumers may print and keep.

Banks should also ensure that consumers who sign-up for a new banking service are provided with disclosures (e.g., pamphlet) informing them of their rights as a consumers. At a minimum, the following disclosures should be provided to protect consumers and inform them of their rights and responsibilities:

- a. Information on the duties of the banking institution and customers.
- b. Information on who will be liable for unauthorized or fraudulent transactions.
- c. Mode by which customers will be notified of changes in terms and conditions.
- d. Information relating to how customers can lodge a complaint, and how a complaint may be investigated and resolved.
- e. Disclosures that will help consumers in their decision-making (e.g., PDIC-insured, etc.)
- f. For internet environment, information that prompt in the bank's website to notify customers that they are leaving the banking institutions' website and hence they are not protected by the privacy policies and security measures of the banking institutions when they hyperlink to third party's website.

2. Disclosure Responsibility

a. Compliance officers should review bank's disclosure statements to determine whether they have been designed to meet the general and specific requirements set in this circular.

b. For banks that advertise deposit products and services on-line, they must verify that proper advertising disclosures are made (e.g. whether the product is insured or not by the PDIC; fees and charges associated with the product or services, etc.). Advertisements should be monitored to determine whether they are current, accurate, and compliant.

c. For banks that issue various products like stored value cards, e-wallets, debit cards and credit cards, they must provide information to consumers regarding the features of each of these products to enable consumers to meaningfully distinguish them. Additionally, consumers would find it beneficial to receive information about the terms and conditions associated with their usage. Example of these disclosures include: PDIC-insured or non-insured status of the product; fees and charges associated with the purchase, use or redemption of the product; liability for loss; expiration dates, or limits on redemption; and toll-free telephone number for customer service, malfunction and error resolution.

d. Whenever e-banking services are outsourced to third parties or service providers, banks should ensure that the vendors comply with the disclosure requirements of the BSP.

(Circular No. 542 dated 01 September 2006)

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**GUIDELINES FOR THE CHANGE IN THE MODE OF COMPLIANCE WITH THE
LIQUIDITY RESERVE REQUIREMENT
(Appendix to Subsecs. X253.2 & X405.5)**

(Deleted by Circular No. 753 dated 29 March 2012)

GUIDELINES ON SUPERVISION BY RISK
(Appendix to Sec. X173)

I. Background

It must be recognized that banking is a business of taking risks in order to earn profits. While banking risks historically have been concentrated in traditional banking activities, the financial services industry has evolved in response to market-driven, technological, and legislative changes. These changes have allowed FIs to expand product offerings, geographic diversity, and delivery systems. They have also increased the complexity of the FI's consolidated risk exposure. Because of this complexity, FIs must evaluate, control, and manage risk according to its significance. The FI's evaluation of risk must take into account how non-bank activities within a banking organization affect the FI. Consolidated risk assessments should be a fundamental part of managing the FI. Large FIs assume varied and complex risks that warrant a risk-oriented supervisory approach.

II. Statement of policy

The existence of risk is not necessarily a reason for concern. Likewise, the existence of high risk in any area is not necessarily a concern, so long as management exhibits the ability to effectively manage that level of risk. Under this approach, the BSP will not necessarily attempt to restrict risk-taking but rather ensure that FIs identify, understand, and control the risks they assume. As an organization grows more diverse and complex, the FI's risk management processes must keep pace. When risk is not properly managed, BSP will direct FI management to take corrective action such as reducing exposures, increasing capital, strengthening risk management processes or a combination of these actions. In all

cases, the primary concern of the BSP is that the FI operates in a safe and sound manner and maintains capital commensurate with its risks. Further guidance on risk management issues will be addressed in subsequent issuances that are part of the overall risk assessment program.

III. Guidelines for risk management

For purposes of the discussion of risk, the BSP will evaluate banking risk relative to its impact on capital and earnings. From a supervisory perspective, risk is the potential that events, expected or unanticipated, may have an adverse impact on the FI's capital or earnings.

The BSP-SES has defined eight (8) categories of risk for FI supervision purposes. These risks are: credit, market, interest rate, liquidity, operational, compliance, strategic, and reputation. These categories are not mutually exclusive; any product or service may expose the FI to multiple risks. In addition, they can be interdependent. Increased risk in one (1) category can increase risk in other categories.

Types and definitions of risk

1. *Credit risk* arises from a counterparty's failure to meet the terms of any contract with the FI or otherwise perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer, or borrower performance. It arises any time FI funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Credit risk is not limited to the loan portfolio.

2. *Market risk* is the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments.

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This risk arises from market-making, dealing, and position-taking in interest rate, foreign exchange, equity and commodities markets.

3. *Interest rate risk* is the current and prospective risk to earnings or capital arising from movements in interest rates. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting FI activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in FI products (options risk).

4. *Liquidity risk* is the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

5. *Operational risk* is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. Risk is inherent in efforts to gain strategic advantage, and in the failure to keep pace with changes in the financial services marketplace. Operational risk is evident in each product and service offered. Operational risk encompasses: product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

6. *Compliance risk* is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures,

or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain FI products or activities of the FI's clients may be ambiguous or untested. This risk exposes the FI to fines, payment of damages, and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and lack of contract enforceability.

7. *Strategic risk* is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

8. *Reputation risk* is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the FI's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the FI to litigation, financial loss, or a decline in its customer base. In extreme cases, FIs that lose their reputation may suffer a run on deposits. Reputation risk exposure is present throughout the organization and requires the responsibility to exercise an abundance of caution in dealing with customers and the community.

IV. FI management of risk

Because market conditions and company structures vary, there is no

single risk management system that works for all FIs. Each FI should tailor its risk management program to its needs and circumstances. Sound risk management systems, however, have several things in common; for example, they are independent of risk-taking activities. Regardless of the risk management program's design, each program should:

1. *Identify risk*: To properly identify risks, an FI must recognize and understand existing risks or risks that may arise from new business initiatives, including risks that originate in non-bank subsidiaries and affiliates. Risk identification should be a continuing process, and should occur at both the transaction and portfolio level.

2. *Measure risk*: Accurate and timely measurement of risk is essential to effective risk management systems. An FI that does not have a risk measurement system has limited ability to control or monitor risk levels. Further, the more complex the risk, the more sophisticated should be the tools that measure it. An FI should periodically conduct tests to make sure that the measurement tools it uses are accurate. Good risk measurement systems assess the risks of both individual transactions and portfolios. During the transition process in FI mergers and consolidations, the effectiveness of risk measurement tools is often impaired because of the technological incompatibility of the merging systems or other problems of integration. Therefore, the resulting FI must make a strong effort to ensure that risks are appropriately measured across the consolidated entity. Larger, more complex FIs must assess the impact of increased transaction volume across all risk categories.

3. *Monitor risk*: FIs should monitor risk levels to ensure timely review of risk positions and exceptions. Monitoring

reports should be frequent, timely, accurate, and informative and should be distributed to appropriate individuals to ensure action, when needed. For large, complex FIs, monitoring is essential to ensure that management's decisions are implemented for all geographies, products, and legal entities.

4. *Control risk*: The FI should establish and communicate risk limits through policies, standards, and procedures that define responsibility and authority. These control limits should be valid tools that management should be able to adjust when conditions or risk tolerances change. The FI should have a process to authorize exceptions or changes to risk limits when warranted. In merging or consolidating FIs, the transition should be tightly controlled; business plans, lines of authority, and accountability should be clear. Large, diversified FIs should have strong risk controls covering all geographies, products, and legal entities.

The Board must establish the FI's strategic direction and risk tolerances. In carrying out these responsibilities, the Board should approve policies that set operational standards and risk limits. Well-designed monitoring systems will allow the Board to hold management accountable for operating within established tolerances. Capable management and appropriate staffing are also essential to effective risk management. FI management is responsible for the implementation, integrity, and maintenance of risk management systems. Management also must keep the directors adequately informed. Management must:

- a. Implement the FI's strategy;
- b. Develop policies that define the FI's risk tolerance and ensure that they are compatible with strategic goals;
- c. Ensure that strategic direction and risk tolerances are effectively

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communicated and adhered to throughout the organization;

d. Oversee the development and maintenance of management information systems to ensure that information is timely, accurate, and pertinent.

V. Assessment of risk management

When assessing risk management systems, the BSP will consider the FI's policies, processes, personnel, and control systems. Significant deficiencies in any one of these areas will cause the BSP to expect the FI to compensate for these deficiencies in their overall risk management process.

1. *Policies* are statements of the FI's commitment to pursue certain results. Policies often set standards (on risk tolerances, for example) and recommend courses of action. Policies should express an FI's underlying mission, values, and principles. A policy review should always be triggered when an FI's activities or risk tolerances change.

2. *Processes* are the procedures, programs, and practices that impose order on the FI's pursuit of its objectives. Processes define how daily activities are carried out. Effective processes are consistent with the underlying policies, are efficient, and are governed by checks and balances.

3. *Personnel* are the staff and managers that execute or oversee processes. Good staff and managers perform as expected, are qualified, and competent. They understand the FI's mission, values, policies, and processes. Compensation programs should be designed to attract, develop, and retain qualified personnel. In addition, compensation should be structured to reward contributions to effective risk management.

4. *Control systems* include the tools and information systems (e.g., internal/external audit programs) that FI managers use to measure performance, make

decisions about risk, and assess the effectiveness of processes. Feedback should be timely, accurate, and pertinent.

VI. Supervision by Risk

Using the core assessment standards of the BSP as guide, an examiner will obtain both a current and prospective view of an FI's risk profile. When appropriate, this profile will incorporate potential material risks to the FI from non-bank affiliates' activities conducted by the FI. Subsidiaries and branches of foreign FIs should maintain sufficient documentation onsite to support the analysis of their risk management. This risk assessment drives supervisory strategies and activities. It also facilitates discussions with FI management and directors and helps to ensure more efficient examinations. The core assessment complements the RAS. Examiners document their conclusions regarding the quantity of risk, the quality of risk management, the level of supervisory concern (measured as aggregate risk), and the direction of risk using the RAS. Together, the core assessment and RAS give the appropriate department of the SES the means to assess existing and emerging risks in FIs, regardless of size or complexity.

Specifically, supervision by risk allocates greater resources to areas with higher risks. The appropriate department of the SES will accomplish this by:

1. Identifying risks using common definitions. The categories of risk, as they are defined, are the foundation for supervisory activities.

2. Measuring risks using common methods of evaluation. Risk cannot always be quantified in pesos. For example, numerous internal control deficiencies may indicate excessive operational risk.

3. Evaluating risk management to determine whether FI systems and

processes permit management to manage and control existing and prospective levels of risk.

The appropriate department of the SES will discuss preliminary conclusions regarding risks with FI management. Following these discussions, the appropriate department of the SES will adjust conclusions when appropriate. Once the risks have been clearly identified and communicated, the appropriate department of the SES can then focus supervisory efforts on the areas of greater risk within the FI, the

consolidated banking organization, and the banking system.

To fully implement supervision by risk, the appropriate department of the SES will also assign CAMELS ratings to the lead FI and all affiliated FIs. It may determine that risks in individual FIs are increased, reduced, or mitigated in light of the consolidated risk profile of the FI as a whole. To perform a consolidated analysis, it will obtain pertinent information from FIs and affiliates, and verify transactions flowing between FIs and affiliates.

(Circular No. 510 dated 03 February 2006)

GUIDELINES ON MARKET RISK MANAGEMENT
(Appendix to Sec. X175)

I. Background

The globalization of financial markets, increased transaction volume and volatility, and the introduction of complex products and trading strategies have made market risk management take on a more important role in risk management. FIs now use a wide range of financial products and strategies, ranging from the most liquid fixed income securities to complex derivative instruments and structured products. The risk dimensions of these products and strategies must be fully understood, monitored, and controlled by an FI.

II. Statement of policy

For purposes of these guidelines, FIs refer to banks and NBFIs supervised by the Bangko Sentral and their respective financial subsidiaries.

The level of market risk assumed by an FI is not necessarily a concern, so long as the FI has the ability to effectively manage the risk. Therefore, the Bangko Sentral will not restrict the level of risk assumed by an FI, or the scope of its financial market activities, so long as the FI is authorized to engage in such activities and:

- Understands, measures, monitors and controls the risk assumed,
- Adopts risk management practices whose sophistication and effectiveness are commensurate to the risk being monitored and controlled, and
- Maintains capital commensurate with the risk exposure assumed.

If the Bangko Sentral determines that an FI's risk exposures are excessive relative to the FI's capital, or that the risk assumed is not well managed, the Bangko Sentral will direct the FI to reduce its exposure to an appropriate level and/or strengthen its risk management systems.

In evaluating the above parameters, the Bangko Sentral expects FIs to have sufficient knowledge, skills and appropriate system and technology necessary to understand and effectively manage their market risk exposures. The principles set forth in these guidelines shall be used in determining the adequacy and effectiveness of an FI's market risk management process, the level and trend of market risk exposure and adequacy of capital relative to exposure. The Bangko Sentral shall consider the following factors:

1. The major sources of market risk exposure and the complexity and level of risk posed by the assets, liabilities, and off-balance-sheet activities of the FI;
2. The FI's actual and prospective level of market risk in relation to its earnings, capital, and risk management systems;
3. The adequacy and effectiveness of the FI's risk management practices and strategies as evidenced by:
 - The adequacy and effectiveness of Board and senior management oversight;
 - Management's knowledge and ability to identify and manage sources of market risk as measured by past and projected financial performance;
 - The adequacy of internal measurement, monitoring, and management information systems;
 - The adequacy and effectiveness of risk limits and controls that set tolerances on income and capital losses;
 - The adequacy and frequency of the FI's internal review and audit of its market risk management process.

Further, an FI's market risk management system shall be assessed under the FI's general risk management framework, consistent with the guidelines on supervision by risk as set forth under *Appendix 72*.

III. Market risk management process

An FI's market risk management process should be consistent with its general risk management framework and should be commensurate with the level of risk assumed. Although there is no single market risk management system that works for all FIs, an FI's market risk management process should:

1. *Identify market risk.* Identifying current and prospective market risk exposures involves understanding the sources of market risk arising from an FI's existing or new business initiatives. An FI should have procedures in place to identify and address the risk posed by new products and activities prior to initiating the new products or activities.

Identifying market risk also includes identifying an FI's desired level of risk exposure based on its ability and willingness to assume market risk. An FI's ability to assume market risk depends on its capital base and the skills/capabilities of its management team. In any case, market risk identification should be a continuing process and should occur at both the transaction and portfolio level.

2. *Measure market risk.* Once the sources and desired level of market risk have been identified, market risk measurement models can be applied to quantify an FI's market risk exposures. However, market risk cannot be managed in isolation. Market risk measurement systems should be integrated into an FI's general risk measurement system and results from models should be interpreted in coordination with other risk exposures. Further, the more complex an FI's financial market activities are, the more sophisticated the tools that measure market risk exposures arising from such complex activities should be.

3. *Control market risk.* Quantifying market risk exposures help an FI align existing exposures with the identified desired level of exposures. Controlling market risk

usually involves establishing market risk limits that are consistent with an FI's market risk measurement methodologies. Limits may be applied through an outright prohibition on exposures above a pre-set threshold, by restraining activities or deploying strategies that alter the risk-return characteristics of on- and off- balance sheet positions. Appropriate pricing strategies may likewise be used to control market risk exposures.

4. *Monitor market risk.* Ensuring that market risk exposures are adequately controlled requires the timely review of market risk positions and exceptions. Monitoring reports should be frequent, timely and accurate. For large, complex FIs, consolidated monitoring should be employed to ensure that management's decisions are implemented for all geographies, products, and legal entities.

IV. Definition and sources of market risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institution's overall portfolio, both on or off-balance sheet. Market risk arises from market-making, dealing, and position-taking in interest rate, foreign exchange, equity and commodities markets.

Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates.

Foreign exchange risk refers to the risk to earnings or capital arising from adverse movements in foreign exchange rates.

Equity risk is the risk to earnings or capital arising from movements in the value of an institution's equity-related holdings.

Commodity risk is the risk to earnings or capital due to adverse changes in the value of an institution's commodity-related holdings.

While there are generally four sources of market risk, as defined herein, the focus

of this Appendix is *interest rate risk* and *foreign exchange risk*. Nevertheless, the principles set forth in the market risk management process and sound risk management practices are generally applicable to all sources of market risk.

a. *Interest rate risk*

Interest rate risk is the risk that changes in market interest rates will reduce current or future earnings and/or the economic value of an FI. Accepting interest rate risk is a normal part of financial intermediation and is a major source of profitability and shareholder value. Excessive or inadequately understood and controlled interest rate risk, however, can pose a significant threat to an FI's earnings and capital. Thus, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of FIs.

1. Sources of interest rate risk

a. *Re-pricing risk*

This is the most common type of interest rate risk and arises from differences in the maturity (for fixed-rate instruments) and re-pricing (for floating-rate instruments) of an FI's assets, liabilities and off-balance sheet (OBS) positions. While such re-pricing mismatches are fundamental to the business of financial intermediation, they also expose an FI's earnings and underlying economic value to changes based on fluctuations in market interest rates.

b. *Basis risk*

Basis risk arises from imperfect correlations among the various interest rates earned and paid on financial instruments with otherwise similar re-pricing characteristics. A shift in the relationship between these rates or interest rates in different markets can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and OBS instruments of similar maturities or re-pricing frequencies.

c. *Yield curve risk*

Yield curve risk is the risk that rates of different maturities may change by a different magnitude. It arises from variations in the movement of interest rates across the maturity spectrum of the same index or market. Yield curves can steepen, flatten or even invert. Unanticipated shifts of the yield curve may have adverse effects on an FI's earnings or underlying economic value.

d. *Option risk*

Option risk is the risk that the payment patterns of assets and liabilities will change when interest rates change. Formally, an option gives the option holder the right, but not the obligation to buy, sell, or in some manner alter the cash flow of an instrument or financial contract. Options may be stand-alone instruments or may be embedded within otherwise standard instruments. Examples of instruments with embedded options include various types of bonds, notes, loans or even deposits which give a counterparty the right to prepay or even extend the maturity of an instrument or to change the rate paid. In some cases, the holder of an option can force a counterparty to pay additional notional, or to forfeit notional already paid.

The option holder's ability to choose to alter cash flows creates an asymmetric performance pattern. If not adequately managed, the asymmetrical payoff characteristics of instruments with optionality can pose significant risk particularly to those who sell the options, since the options held, both explicit and embedded, are generally exercised to the advantage of the holder and the disadvantage of the seller.

2. Measuring the effects of interest rate risk.

Changes in interest rates affect both earnings and the economic value of an FI. This has given rise to two separate, but complementary, perspectives for evaluating an FI's exposure to interest rate risk.

Exposure to earnings typically receives the most attention. Many FIs use a modified interest rate gap or earnings simulation model to forecast earnings over a running next twelve (12) month time horizon under a variety of interest rate scenarios. Given that a large portion of a typical FI's liabilities and even assets re-price in less than one (1) year, there is value in such a system. For example, earnings are a key measure in determining if the board of directors is creating value for the shareholders.

However, earnings over the next twelve (12) months do not present a complete picture of an FI's exposure to interest rate risk. Many FIs hold assets such as bonds and fixed rate loans with extended terms. The full effect of changes in interest rates on the value of these assets cannot be fully captured by a short-term earnings model. Thus, it is also important to consider a more comprehensive picture of the FI's exposure to interest rate risk through an assessment of the FI's economic value.

The BSP will not consider market risk to be "well managed" unless the FI has fully implemented an effective risk measurement system whose sophistication is commensurate with the nature and complexity of the risk assumed. Smaller FIs with non-complex single currency balance sheets may be able to use a single non-complex measurement methodology, such as re-pricing gap analysis to manage their interest rate risk. However, large commercial or universal banks with complex, multi-currency balance sheets, or FIs that accept large exposures of interest rate risk relative to capital will be expected to measure interest rate risk through a combination of earnings simulation and economic value. Trading activities should continue to be managed through the use of an effective, and independently validated Value-at-Risk (VaR) methodology.

a. *Earnings perspective*

An FI should consider how changes in interest rates may affect future earnings.

The focus of analysis under the earnings perspective is the impact of changes in interest rates on accrual or reported earnings. Volatility in earnings should be monitored and controlled because reduced earnings or outright losses can threaten the financial stability of an FI by undermining its capital adequacy. Further, unexpected volatility in earnings can undermine an FI's reputation and result in an erosion of public confidence.

Fluctuations in interest rates generally have the greatest impact on reported earnings through changes in net interest income (i.e., the difference between total interest income and total interest expense). Thus, the BSP will expect FIs to adopt systems that are capable of estimating changes to net interest income under a variety of interest rate scenarios. For example, non-complex FIs with traditional business lines and balance sheets could potentially limit their simulations to a single ± 100 basis point parallel rate shock. However, FIs that hold significant levels of derivatives and structured products relative to capital should incorporate more severe rate movements (e.g. ± 100 , 200 and 300 basis points) to determine what happens if strike prices are breached or "events" are triggered. Further, the BSP will expect an FI to employ alternative scenarios such as changes to the shape of the yield curve if the FI is exposed to significant levels of yield curve or basis risk.

Changes in market interest rates may also affect the volume of activities that generate fee income and other non-interest income. Thus, FIs should incorporate a broader focus on overall net income – incorporating both interest and non-interest income and expenses – if the FI reports significant levels of interest rate sensitive non-interest income.

b. *Economic value perspective*

The economic value of an FI can be viewed as the present value of an FI's

expected net cash flows, defined as the expected cash flows from assets minus the expected cash flows from liabilities plus the expected net cash flows on OBS positions. As such, it provides a more comprehensive view of the potential long-term effects of changes in interest rates than is offered by the earnings perspective.

While a variety of models are available, the BSP expects that economic value models will incorporate all significant classes of assets, liabilities and OBS. As with earnings at risk, the FI should incorporate a variety of interest rate scenarios to ensure that any strike prices, caps, limits, or “events” are breached in the simulation. Also, FIs with significant levels of basis or yield curve risk are expected to add scenarios such as alternative correlations between interest rates and/or a flatter or steeper yield curve.

Managing earnings and economic exposures

Management must make certain tradeoffs when immunizing earnings and economic value from interest rate risk. When earnings are immunized, economic value becomes more vulnerable, and vice versa. The economic value of equity, like that of other financial instruments, is a function of the discounted net cash flows it is expected to earn in the future. If an FI has immunized earnings, such that expected earnings remain constant for any change in interest rates, the discounted value of those earnings will be lower if interest rates rise. Hence, its economic value will fluctuate with rate changes. Conversely, if an FI fully immunizes its economic value, its periodic earnings must increase when rates rise and decline when interest rates fall.

b. Foreign exchange risk

Foreign exchange risk (FX risk) is the risk to earnings or capital arising from changes in foreign exchange rates.

In contracting to meet clients’ foreign currency needs or simply buying and

selling foreign exchange for its own account, an FI undertakes a risk that exchange rates might change subsequent to the time the contract is consummated. Foreign exchange risk may also arise from maintaining an open foreign exchange (FX) position. Thus, managing FX risk includes monitoring an FI’s net FX position.

An FI has a net position in a foreign currency when its assets, including spot and future contracts to purchase, and its liabilities, including spot and future contracts to sell, in that currency are not equal. An excess of assets over liabilities is called a net “long” position and liabilities in excess of assets, a net “short” position.

It should be noted that when engaging in FX activities, FIs are also exposed to other risks including liquidity and credit risks, particularly related to the settlement of FX contracts. FIs should have an integrated approach to risk management in relation to its FX activities: FX risk should be reviewed together with other risks to determine the FI’s overall risk profile. Liquidity and settlement risks related to FX activities are outside the scope of these guidelines. Nevertheless, future guidelines may be issued on these risk areas.

V. Sound market risk management practices

When assessing an FI’s market risk management system, the BSP expects an FI to address the four (4) basic elements of a sound risk management system:

1. Active and appropriate Board and senior management oversight;
2. Adequate risk management policies and procedures;
3. Appropriate risk measurement methodologies, limits structure, monitoring and management information systems; and
4. Comprehensive internal controls and independent audits.

The specific manner in which an FI applies these elements in managing its market risk will depend upon the

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complexity and nature of its activities, as well as the level of market risk exposure assumed. What constitutes adequate market risk management practices can therefore vary considerably. Regardless of the systems used, the BSP will not consider market risk to be well managed unless all four of the above elements are deemed to be at least “satisfactory”.

As with other risk factor categories, banking groups (banks and subsidiaries/affiliates) should monitor and manage market risk exposures of the group on a consolidated and comprehensive basis. At the same time, however, FIs should fully recognize any legal distinctions and possible obstacles to cash flow movements among affiliates and adjust their risk management practices accordingly. While consolidation may provide a comprehensive measure in respect of market risk, it may also underestimate risk when positions in one affiliate are used to offset positions in another affiliate. This is because a conventional accounting consolidation may allow theoretical offsets between such positions from which an FI may not in practice be able to benefit because of legal or operational constraints.

A. Active and appropriate board and senior management oversight¹

Effective board and senior management oversight of an FI’s market risk activities is critical to a sound market risk management process. It is important that these individuals are aware of their responsibilities with regard to market risk management and how market risk fits within the organization’s overall risk management framework.

Responsibilities of the board of directors

The board of directors has the ultimate responsibility for understanding the

nature and the level of market risk taken by the FI. In order to carry out its responsibilities, the Board should:

1. Establish and guide the FI’s strategic direction and tolerance for market risk. While it is not possible to provide a comprehensive list of documents to consider, the BSP should see a clear and documented pattern whereby the Board reviews, discusses and approves strategies and policies with respect to market risk management. In addition, there should be evidence that the Board periodically reviews and discusses the overall objectives of the FI with respect to the level of market risk acceptable to the FI.

2. Identify senior management who has the authority and responsibility for managing market risk and ensure that senior management takes the necessary steps to monitor and control market risk consistent with the approved strategies and policies. The BSP should be able to discern a clear hierarchal structure with a clear assignment of responsibility and authority.

3. Monitor the FI’s performance and overall market risk profile, ensuring that the level of market risk is maintained within tolerance and at prudent levels supported by adequate capital. The Board should be regularly informed of the market risk exposure of the FI and any breaches to established limits for appropriate action. Reporting should be timely and clearly presented. In assessing an FI’s capital adequacy for market risk, the Board should consider the FI’s current and potential market risk exposure as well as other risks that may impair the FI’s capital, such as credit, liquidity, operational, strategic, and reputation risks.

¹ This section refers to a management structure composed of a board of directors and senior management. The BSP is aware that there may be differences in some FIs as regards the organizational framework and functions of the board of directors and senior management. For instance, branches of foreign banks have board of directors located outside of the Philippines and are overseeing multiple branches in various countries. In this case, “board-equivalent” committees are appointed. Owing to these differences, the notions of the board of directors and the senior management are used in these guidelines not to identify legal constructs but rather to label two decision-making functions within a FI.

4. Ensure that the FI implements sound fundamental principles that facilitate the identification, measurement, monitoring and control of market risk. The board of directors should encourage discussions among its members and senior management – as well as between senior management and others in the FI – regarding the FI’s market risk exposures and management process.

5. Ensure that adequate resources, both technical and human resources, are devoted to market risk management. While board members need not have detailed technical knowledge of complex financial instruments, legal issues or sophisticated risk management techniques, they have the responsibility to ensure that the FI has personnel available who have the necessary technical skills to evaluate and control market risk. This responsibility includes ensuring that there is continuous training of personnel on market risk management and providing competent technical staff for the internal audit function.

Responsibilities of senior management

Senior management is responsible for ensuring that market risk is adequately managed for both long-term and day-to-day basis. In managing the FI’s activities, senior management should:

1. Develop and implement policies, procedures and practices that translate the board’s goals, objectives and risk tolerances into operating standards that are well understood by personnel and that are consistent with the board’s intent. Senior management should also periodically review the organization’s market risk management policies and procedures to ensure that they remain appropriate and sound.

2. Ensure adherence to the lines of authority and responsibility that the board has established for measuring, managing, and reporting market risk exposures.

3. Maintain appropriate limits structure, adequate systems for measuring market risk, and standards for measuring performance.

4. Oversee the implementation and maintenance of management information and other systems to identify, measure, monitor, and control the FI’s market risk.

5. Establish effective internal controls over the market risk management process.

6. Ensure that adequate resources are available for evaluating and controlling market risk. Senior management of FIs, including branches of foreign banks, should ensure that analysis and market risk management activities are conducted by competent staff with technical knowledge and experience consistent with the nature and scope of the FI’s activities. There should be sufficient depth in staff resources to manage these activities and to accommodate the temporary absence of key personnel and normal succession.

In evaluating the quality of oversight, the BSP shall evaluate how the board and senior management carry out the above functions/responsibilities. Further, sound management oversight is highly related to the quality of other areas/elements of an FI’s risk management system. Thus, even if board and senior management exhibit active oversight, the FI’s policies, procedures, measurement methodologies, limits structure, monitoring and information systems, controls and audit must be considered adequate before quality of board and senior management can be considered at least “satisfactory”.

Lines of responsibility and authority

FIs should clearly define the individuals and/or committees responsible for managing market risk and should ensure that there is adequate separation of duties in key elements of the risk management process to avoid potential conflicts of interest.

Management should ensure that sufficient safeguards exist to minimize the potential that individuals initiating risk-taking

positions may inappropriately influence key control functions of the market risk management process. FIs should therefore have risk measurement, monitoring, and control functions with clearly defined duties that are sufficiently independent from position-taking functions of the FI and which report risk exposures directly to the board of directors.

The nature and scope of safeguards to minimize potential conflicts of interest should be in accordance with the size and structure of an FI. Larger or more complex FIs should have a designated independent unit responsible for the design and administration of the FI’s market risk measurement, monitoring and control functions.

B. Adequate risk management policies and procedures

An FI’s market risk policies and procedures should be clearly defined, documented and duly approved by the board of directors. Policies and procedures should be consistent with the nature and complexity of the FI’s activities. When reviewing banking groups, the BSP will assess whether adequate and effective policies and procedures have been adopted and implemented across all levels of the organization.

Policies and procedures should delineate lines of responsibility and accountability and should clearly define authorized instruments, hedging strategies, position-taking opportunities, and the market risk models used to quantify market risk. Market risk policies should also identify quantitative parameters that define the acceptable level of market risk for the FI. Where appropriate, limits should be further specified for certain types of instruments, portfolios, and activities. All market risk policies should be reviewed periodically and revised as needed. Management should define the specific procedures to be used for identifying,

reporting and approving exceptions to policies, limits, and authorizations.

It is important that FIs identify market risk, as well as other risks, inherent in new products and activities and ensure these are subject to adequate procedures and controls before the new products and activities are introduced or undertaken. Specifically, new products and activities should undergo a careful pre-acquisition review to ensure that the FI understands their market risk characteristics and can incorporate them into its risk management process. Major hedging or risk management initiatives should be approved in advance by the board or its appropriate delegated committee.

Proposals and the subsequent new product/activity review should be formal and written. For purposes of managing market risk inherent in new products, proposals should, at a minimum, contain the following features:

1. Description of the relevant product or strategy;
2. Use/purpose of the new product/activity;
3. Identification of the resources required and unit/s responsible for establishing sound and effective market risk management of the product or activity;
4. Analysis of the reasonableness of the proposed activities in relation to the FI’s overall financial condition and capital levels; and
5. Procedures to be used to measure, monitor, and control the risks of the proposed product or activity.

C. Appropriate risk measurement methodologies, limits structure, monitoring, and management information system

Market risk measurement models/methodologies

It is essential that FIs have market risk measurement systems that capture all material sources of market risk and that assess the effect of changes in market risk

factors in ways that are consistent with the scope of their activities. Depending upon the size, complexity, and nature of activities that give rise to market risk, the ability to capture all material sources of market risk in a timely manner may require an FI's market risk measurement system to be interfaced with other systems, such as the treasury system or loan system. The assumptions underlying the measurement system should be clearly understood by risk managers and senior management.

Market risk measurement systems should:

1. Assess all material market risk associated with an FI's assets, liabilities, and OBS positions;
2. Utilize generally accepted financial concepts and risk measurement techniques; and
3. Have well-documented assumptions and parameters.

There are a number of methods/techniques for measuring market risks. Complexity ranges from simple marking-to-market or valuation techniques to more advanced static simulations using current holdings to highly sophisticated dynamic modeling techniques that reflect potential future business activities. In designing market risk measurement systems, FIs should ensure that the degree of detail regarding the nature of their positions is commensurate with the complexity and risk inherent in those positions.

At a minimum, smaller non-complex FIs should have the ability to mark-to-market or revalue their investment portfolio and construct a simple re-pricing gap. When using gap analysis, the precision of interest rate risk measurement depends in part on the number of time bands into which positions are aggregated. Clearly, aggregation of positions/cash flows into broad time bands implies some loss of precision. In addition, the use of reasonable and valid assumptions is important for a measurement system to be precise. In

practice, the FI must assess the significance of the potential loss of precision in determining the extent of aggregation and simplification to be built into the measurement approach. Assumptions and limitations of the measurement approach, such as the loss of precision, should be documented.

On the other hand, banks holding an expanded derivatives license and FIs engaging in options or structured products with embedded options cannot capture all material sources of market risk by using static models such as the re-pricing gap. These FIs should have interest rate risk measurement systems that assess the effects of rate changes on both earnings and economic value. These systems should provide meaningful measures of an FI's current levels of interest rate risk exposure, and should be capable of identifying any excessive exposures that might arise. Pricing models and simulation techniques will probably be required.

There is also a question on the extent to which market risk should be viewed on a whole institution basis or whether the trading book, which is marked to market, and the accrual book, which is often not, should be treated separately. As a general rule, it is desirable for any measurement system to incorporate market risk exposures arising from the full scope of an FI's activities, including both trading and non-trading sources. A single measurement system can facilitate analysis of market risk exposure. However, this does not preclude different measurement systems and risk management approaches being used for similar or different activities. For example, a bank with expanded derivatives license will use pricing models as basic tools in valuing position from its derivatives activities and structured products. In addition, the bank should use simulation models to assess the potential effects of changes in market risk factors by simulating the future path of market risk factors and their impact on cash flows from these activities.

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Different methodologies may also be applied to the trading and accrual books. Regardless of the number of models or measurement systems used, management should have an integrated view of market risk across products and business lines.

Regardless of the measurement system used, the BSP will expect the FI to ensure that input data are timely and correct, assumptions can be supported and are valid, the methodologies used produce accurate results, and the results can be easily understood by senior management and the board.

(1) Model input. All market risk measurement methodologies require various types of inputs, including hard data, readily observable parameters such as asset prices, and both quantitatively and qualitatively-derived assumptions. This applies equally to simple gap as well as complex simulation models.

The integrity and timeliness of data is a key component of the market risk measurement process. The BSP expects that adequate controls will be established to ensure that all material positions and cash flows from on- and off- balance sheet positions are incorporated into the measurement system on a consistent and timely basis. Inputs should be verified through a process that validates data integrity. Assumptions and inputs should be subject to control and oversight review. Any manual adjustments to underlying data should be documented, and the nature and reasons for the adjustments should also be clearly understood.

Critical to model accuracy is the validity of underlying assumptions. Assumptions regarding maturity of deposits, for example, are critical in measuring interest rate risk. The treatment of positions where behavioral maturity is different from contractual maturity requires the use of assumptions and may complicate the measurement of interest rate risk exposure, particularly when using the

economic value approach. The validity of correlation assumptions to aggregate market risk exposures is likewise important as breakdowns in correlations may significantly affect the validity of model results. Key assumptions should therefore be subject to rigorous documentation and review. Any significant changes should be approved in advance by the board of directors.

(2) Model risk. While accuracy is key to an effective market risk measurement system, methodologies cannot be expected to flawlessly predict potential losses arising from market risk. The use of models introduces the potential for model risk. Thus, model risk is the risk of loss arising from inaccurate or incorrect quantification of market risk exposures due to weaknesses in market risk methodologies. It may arise from relying on assumptions that are inconsistent with market realities, from employing input parameters that are unreliable, or from calibrating, applying and implementing models incorrectly.

Model risk is more likely to arise for instruments that have non-standard or option-like features. The use of proprietary models that employ unconventional techniques that are not widely agreed upon by market participants is likewise more sensitive to model risk. Even the use of standard models may lead to errors if the financial tools are not appropriate for a given instrument.

The BSP expects FIs to implement effective policies and procedures to manage model risk. The scope of policies and procedures will depend upon the type and complexity of models developed or purchased. However, FIs holding an expanded license or significant levels of complex investments including structured products, should at a minimum implement the following controls:

a. Model development/acquisition, implementation and revisions. The BSP expects larger, complex FIs to adopt policies

governing development/acquisition, implementation and revision of market risk models. These policies should clearly define the responsibilities of staff involved in the development/acquisition process. FIs should ensure that modeling techniques and assumptions are consistent with widely accepted financial theories and market practices. Policies and procedures should be duly approved by the board of directors and properly documented. An inventory of the models in use should be maintained along with documentation explaining how they operate.

The BSP also expects that revisions to models will be performed in a controlled environment by authorized personnel and changes should be made or verified by a control function. Written policies should specify when changes to models are acceptable and how those revisions should be accomplished.

b. Model validation. Before models are authorized for use, they should be validated by individuals who are neither directly involved in the development process nor responsible for providing inputs to the model. Independent model validation is a key control in the model development process and should be specifically addressed in an FI's policies. Further, the BSP expects that the staff validating the models will have the necessary technical expertise.

A sound validation process should rigorously and comprehensively evaluate the sensitivity of the model to material sources of model risk and includes the following:

1. Tests of internal logic and mathematical accuracy;
2. Development of empirical support for the model's assumptions;
3. Back-testing. The BSP expects FIs to conduct backtesting of model results. Back-testing is a method of periodically evaluating the accuracy and predictive capability of an FI's market risk measurement system by monitoring and comparing actual movements

in market prices or market risk factors with projections produced by the model. To be more effective, back-testing should be conducted by parties independent of those developing or using the model. Policies should address the scope of the back-testing process, frequency of back-testing, documentation requirements, and management responses. Complex models should be back-tested continually while simple models can be back-tested periodically. Significant discrepancies should prompt a model review.

4. Periodic review of methodologies and assumptions. The BSP expects that FIs will periodically review or reassess their modeling methodologies and assumptions. Again, the frequency of review will depend on the model but complex models should be reviewed at least once a year, when changes are made, or when a new product or activity is introduced. Model review could also be prompted when there is a need for the model to be updated to reflect changes in the FI or market. The review process should be performed by an independent group as it is considered to be part of the risk control and audit function.

The use of vendor models can present special challenges, as vendors often claim proprietary privilege to avoid disclosing information about their models. Thus, FIs may be constrained from performing validation procedures related to internal logic, mathematical accuracy and model assumptions. However, vendors should provide adequate information on how the models were constructed and validated so that FIs have reasonable assurances that the model works as intended.

c. Stress testing. The underlying statistical models used to measure market risk summarize the exposures that reflect the most probable market conditions. Regardless of size and complexity of activities, the BSP expects FIs to supplement their market risk measurement models with stress tests. Stress testing are simulations that show how a

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portfolio or balance sheet might perform during extreme events or highly volatile markets.

Stress testing should be designed to provide information on the kinds of conditions under which the FI's strategies or positions would be most vulnerable. Thus stress tests must be tailored to the risk characteristics of the FI. Possible stress scenarios might include abrupt changes in the general level of interest rates, changes in the relationships among key market rates (i.e., basis risk), changes in the slope and the shape of the yield curve (i.e., yield curve risk), changes in the liquidity of key financial markets, or changes in the volatility of market rates.

In addition, stress scenarios should include conditions under which key business assumptions and parameters break down. The stress testing of assumptions used for illiquid instruments and instruments with uncertain contractual maturities are particularly critical to achieving an understanding of the FI's risk profile. When conducting stress tests, special consideration should be given to instruments or markets where concentrations exist. FIs should consider also "worst case" scenarios in addition to more probable events.

Further, the BSP will expect FIs with material market risk exposure, particularly from derivatives and/or structured products to supplement their stress testing with an analysis of their exposure to "interconnection risk." While stress testing typically considers the movement of a single market factor (e.g., interest rates), interconnection risk considers the linkages across markets (e.g., interest rates and foreign exchange rates) and across the various categories of risk (e.g., credit, and liquidity risk). For example, stress from one market may transmit shocks to other markets and give rise to otherwise dormant risks, such as liquidity risk. Evaluating

interconnected risk involves assessing the total or aggregate impact of singular events.

Guidelines for performing stress testing should be detailed in the risk management policy statement. Management and the board of directors should periodically review the design, major assumptions, and the results of such stress tests to ensure that appropriate contingency plans are in place.

(3) Model output. Reports should be provided to senior management and the board as a basis for making decisions. Report content should be clear and straightforward, indicating the purpose of the model, significant limitations, the quantitative level of risk estimated by the simulation, a comparison to Board approved limits and a qualitative discussion regarding the appropriateness of the FI's current exposures. Sophisticated simulations should be used carefully so that they do not become "black boxes" producing numbers that have the appearance of precision but may not be very accurate when their specific assumptions and parameters are revealed.

Market limits structure

The FI's board of directors should set the institution's tolerance for market risk and communicate that tolerance to senior management. Based on these tolerances, senior management should establish appropriate risk limits, duly approved by the Board, to maintain the FI's exposure within the set tolerances over a range of possible changes in market risk factors such as interest rates.

Limits represent the FI's actual willingness and ability to accept real losses. In setting risk limits, the board and senior management should consider the nature of the FI's strategies and activities, past performance, and management skills. Most importantly, the board and senior management should consider the level of the FI's earnings and capital and ensure that

both are sufficient to absorb losses equal to the proposed limits. Limits should be approved by the board of directors. Furthermore, limits should be flexible to changes in conditions or risk tolerances and should be reviewed periodically.

An FI's limits should be consistent with its overall approach to measuring market risk. At a minimum, FIs using simple gap should establish limits on mismatches in each time bucket on a stand-alone and cumulative basis. In addition, limits should be adopted to control potential losses in the investment portfolio to a pre-set percentage of capital.

Larger, more complex FIs should establish limits on the potential impact of changes in market risk factors on reported earnings or/and the FI's economic value of equity. Market risk limits may include limits on net and gross positions, volume limits, stop-loss limits, value-at-risk limits, re-pricing gap limits, earnings-at-risk limits and other limits that capture either notional or (un)expected loss exposures. In assigning interest rate risk limits under the earnings perspective, FIs should explore limits on the variability of net income as well as net interest income in order to fully assess the contribution of non-interest income to the interest rate risk exposure of the FI. Such limits usually specify acceptable levels of earnings volatility under specified interest rate scenarios.

For example, interest rate risk limits may be keyed to specific scenarios of movements in market interest rates such as an increase or decrease of a particular magnitude. The rate movements used in developing these limits should represent meaningful stress situations taking into account historic rate volatility and the time required for management to address exposures. Limits may also be based on measures derived from the underlying statistical distribution of interest rates, such as earnings at risk or economic value-at-risk techniques. Moreover, specified scenarios should take

account of the full range of possible sources of interest rate risk to the FI including re-pricing, yield curve, basis, and option risks. Simple scenarios using parallel shifts in interest rates may be insufficient to identify such risks. This is particularly important for FIs with significant exposures to these sources of market risk.

The form of limits for addressing the effect of rates on an FI's economic value of equity should be appropriate for the size and complexity of its underlying positions. For FIs engaged in traditional banking activities, relatively simple limits may suffice. However, for FIs with significant holdings of long-term instruments, options, instruments with embedded options, or other structured instruments, more detailed limit systems may be required.

Depending on the nature of an FI's holdings and its general sophistication, limits can also be identified for individual business units, portfolios, instrument types, or specific instruments. The level of detail of risk limits should reflect the characteristics of the FI's holdings including the various sources of market risk the FI is exposed to.

The BSP also expects that the limits system will ensure that positions that exceed predetermined levels receive prompt management attention. Limit exceptions should be communicated to appropriate senior management without delay. Policies should include how senior management will be informed and what action should be taken by management in such cases. Particularly important is whether limits are absolute in the sense that they should never be exceeded or whether, under specific circumstances, breaches of limits can be tolerated for a short period of time. The circumstances leading to a tolerance of breaches should be clearly described.

Market risk monitoring and reporting

An accurate, informative, and timely management information system is

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essential for managing market risk exposures both to inform management and to support compliance with board policy. Reporting of risk measures should be done regularly and should clearly compare current exposure to policy limits. In addition, past forecasts or risk estimates should be compared with actual results to identify any modeling shortcomings.

Reports detailing the market risk exposure of the FI should be reviewed by the board on a regular basis. While the types of reports prepared for the board and for various levels of management will vary based on the FI's market risk profile, they should at a minimum include the following:

1. Summaries of the FI's aggregate exposures;
2. Reports demonstrating the FI's compliance with policies and limits;
3. Summary of key assumptions, for example, non-maturity deposit behavior, prepayment information, and correlation assumptions;
4. Results of stress tests, including those assessing breakdowns in key assumptions and parameters; and
5. Summaries of the findings of reviews of market risk policies, procedures, and the adequacy of the market risk measurement systems, including any findings of internal and external auditors and retained consultants.

D. Risk controls and audit

Adequate internal controls ensure the integrity of an FI's market risk management process. These internal controls should be an integral part of the institution's overall system of internal control and should promote effective and efficient operations, reliable financial and regulatory reporting, and compliance with relevant laws, regulations, and institutional policies. An effective system of internal control for market risk includes:

1. A strong control environment;
2. An adequate process for identifying and evaluating risk;

3. The establishment of control activities such as policies, procedures, and methodologies;

4. Adequate information systems;

5. Continual review of adherence to established policies and procedures; and

6. An effective internal audit and independent validation process.

Policies and procedures should specify the approval processes, exposure limits, reconciliations, reviews, and other control mechanisms designed to provide a reasonable assurance that the institution's market risk management objectives are achieved. Many attributes of a sound risk management process, including risk measurement, monitoring, and control functions, are actually key aspects of an effective system of internal control. FIs should ensure that all aspects of the internal control system are effective, including those aspects that are not directly part of the risk management process.

An important element of an FI's internal control system is regular evaluation and review. The BSP expects that FIs will establish a process to ensure that its personnel are following established policies and procedures, and that its procedures are actually accomplishing their intended objectives. Such reviews and evaluations should also address any significant change that may impact the effectiveness of controls, and that appropriate follow-up action was implemented when limits were breached. Management should ensure that all such reviews and evaluations are conducted regularly by individuals who are independent of the function they are assigned to review. When revisions or enhancements to internal controls are warranted, there should be a mechanism in place to ensure that these are implemented in a timely manner.

Independent reviews of the market risk measurement system should also include assessments of the assumptions,

parameters, and methodologies used. Such reviews should seek to understand, test, and document the current measurement process, evaluate the system’s accuracy, and recommend solutions to any identified weaknesses. If the measurement system incorporates one or more subsidiary systems or processes, the review should include testing aimed at ensuring that the subsidiary systems are well-integrated and consistent with each other in all critical respects. The results of this review, along with any recommendations for improvement, should be reported to senior management and/or the board.

The BSP expects that FIs with complex risk exposures should have their measurement, monitoring, and control functions reviewed on a regular basis by an independent party (such as an internal or external auditor). In such cases, reports written by external auditors or other outside parties should be available to the BSP. It is essential that any independent reviewer ensures that the FI’s risk measurement system is sufficient to capture all material elements of market risk, whether arising from on- or off-balance-sheet activities. Among the items that an audit should review and validate are:

1. The appropriateness of the FI’s risk measurement system(s) given the nature, scope, and complexity of its activities.
2. The accuracy and completeness of the data inputs - This includes verifying that balances and contractual terms are

correctly specified and that all major instruments, portfolios, and business units are captured in the model. The review should also investigate whether data extracts and model inputs have been reconciled with transactions and general ledger systems.¹

3. The reasonableness and validity of scenarios and assumptions – This includes a review of the appropriateness of the interest rate scenarios as well as customer behaviors and pricing/volume relationships to ensure that these assumptions are reasonable and internally consistent.²

4. The validity of the risk measurement calculations - The scope and formality of the measurement validation will depend on the size and complexity of the FI. At large FIs, internal and external auditors may have their own models against which the FI’s model is tested. FIs with more complex risk profiles and measurement systems should have the model or calculations audited or validated by an independent source. At smaller and less complex FIs, periodic comparisons of actual performance with forecasts may be sufficient.³

The frequency and extent to which an FI should re-evaluate its risk measurement methodologies and models depend, in part, on the particular market risk exposures created by holdings and activities, the pace and nature of market rate changes, and the pace and complexity of innovation with respect to measuring and managing market risk.

¹ It is acceptable for parts of the reconciliation to be automated; e.g., routines may be programmed to investigate whether the balances being extracted from various transaction systems match the balances recorded on the FI’s general ledger. Similarly, the model itself often contains various audit checks to ensure, for example, that maturing balances do not exceed original balances.

² Key areas of review include the statistical methods that were used to generate scenarios and assumptions (if applicable), and whether senior management reviewed and approved key assumptions. The review should also compare actual pricing spreads and balance sheet behavior to model assumptions. For some instruments, estimates of value changes can be compared with market value changes. Unfavorable results may lead the FI to revise model relationships.

³ The validity of the model calculations is often tested by comparing actual with forecasted results. When doing so, FIs can compare projected net income results with actual earnings. Reconciling the results of economic valuation systems can be more difficult because market prices for all instruments are not always readily available, and the FI does not routinely mark all of its balance sheet to market. For instruments or portfolios with market prices, these prices are often used to benchmark or check model assumptions.

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VI. Capital adequacy

In addition to adequate risk management systems and controls, capital has an important role to play in mitigating and supporting market risk. FIs must hold capital commensurate with the level of market risk they undertake. As part of sound market risk management, FIs must translate the level of market risk they undertake whether as part of their trading or non-trading activities, into their overall evaluation of capital adequacy. Where market risk is undertaken as part of an FI’s trading activities, existing capital adequacy ratio requirements shall prevail.

The BSP will periodically evaluate the market risk measurement system for the accrual book to determine if the FI’s capital is adequate to support its exposure to market risk and whether the internal measurement systems of the FI are adequate. In performing this assessment, the BSP may require information regarding the market risk exposure of the FI, including re-pricing gaps, earnings and economic value simulation estimates, and the results of stress tests. This information will typically be found in internal management reports.

If an FI’s internal measurement system does not adequately capture the level of market risk, the BSP may require an FI to

improve its system. In cases where an FI accepts significant market risk in its accrual book, the BSP expects that a portion of capital will be allocated to cover this risk.

When performing these evaluations, the BSP will determine if:

(a) All material market risk associated with an institution’s assets, liabilities, and OBS positions in the accrual book are captured by the risk management systems;

(b) Generally accepted financial concepts and risk measurement techniques are utilized. For larger, complex FIs, internal systems must be capable of measuring risk using both an earnings and economic value approach.

(c) Data inputs are adequately specified (commensurate with the nature and complexity of an FI’s holdings) with regard to rates, maturities, re-pricing, embedded options, and other details;

(d) The system’s assumptions (used to transform positions into cash flows) are reasonable, properly documented, and stable over time.¹

(e) Market risk measurement systems are integrated into the institution’s daily risk management practices. The output of the systems should be used in characterizing the level of market risk to senior management and board of directors.

(Circular No. 544 dated 15 September 2006)

¹ This is especially important for assets and liabilities whose behavior differs markedly from contractual maturity or re-pricing, and for new products. Material changes to assumptions should be documented, justified, and approved by management.

GUIDELINES ON LIQUIDITY RISK MANAGEMENT
(Appendix to Sec. X176)

I. Background

The on-going viability of institutions, particularly financial organizations, is heavily influenced by their ability to manage liquidity. Innovations in investment and funding products, growth in off-balance sheet activities and continuous competition for consumer funds have affected the way FI do business and intensified the need for proactive liquidity risk management. FIs need to fully understand, measure and control the resulting liquidity risk exposures.

II. Statement of Policy

For purposes of these guidelines, FI include banks, NBFIs supervised by the Bangko Sentral and their financial subsidiaries. The Bangko Sentral recognizes the liquidity risk inherent in FI activities and how these activities expose an FI to multiple risks which may increase liquidity risk.

The Bangko Sentral will not restrict risk-taking activities as long as FIs are authorized to engage in such activities and:

1. Understand, measure, monitor and control the risk they assume;
2. Adopt risk management practices whose sophistication and effectiveness is commensurate to the risk assumed; and
3. Maintain capital commensurate with their risk exposures.

The principles set forth in these guidelines shall be used to determine the level and trend of liquidity risk exposure and adequacy and effectiveness of an FI's liquidity risk management process. In evaluating the adequacy of an FI's liquidity position, the Bangko Sentral shall consider the FI's current level and prospective sources of liquidity as compared to its funding needs. Further, the Bangko Sentral will evaluate the adequacy of funds management

practices relative to the FI's size, complexity, and risk profile.

In general, liquidity risk management practices should ensure that an institution is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and to fulfill the legitimate funding needs of its community. Practices should reflect the ability of the institution to manage unplanned changes in funding sources, as well as react to changes in market conditions that affect the ability to quickly liquidate assets with minimal loss. In addition, funds-management practices should ensure that liquidity is not consistently maintained at a high cost, from concentrated sources, or through undue reliance on funding sources that may not be available in times of financial stress or adverse changes in market conditions.

In evaluating the above parameters, the Bangko Sentral shall consider the following factors:

1. The actual and potential level of liquidity risk posed by the FI's products and services, balance sheet structure and off-balance sheet activities;
2. The cost of an FI's access to money markets and other alternative sources of funding;
3. The diversification of funding sources (on and off-balance sheet);
4. The adequacy and effectiveness of board and senior management oversight, particularly the Board's ability to recognize the effects of interrelated risk areas, such as market and reputation risks, to liquidity risk;
5. The reasonableness of liquidity risk limits and controls in relation to earnings, as affected by the cost of access to money markets and other alternative sources of funding, and capital;
6. The adequacy of measurement methodologies, monitoring and management information systems;

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7. The adequacy of foreign currency liquidity management;

8. The appropriateness and reasonableness of contingency plans for handling liquidity crises;

9. The adequacy of internal controls and audit of liquidity risk management process.

The sophistication of liquidity risk management shall depend on the size, nature and complexity of an FI's activities. However, in all instances, FIs are expected to measure their liquidity position on an ongoing basis, analyze net funding requirements under alternative scenarios, diversify funding sources and adopt contingency funding plans.

An FI's liquidity risk management system shall be assessed under the FI's general risk management framework, consistent with the guidelines on supervision by risk as set forth under *Appendix 72*. If an FI's risk exposures are deemed excessive relative to the FI's capital, or that the risk assumed is not well managed, the BSP will direct the FI to reduce its exposure and/or strengthen its risk management system.

III. Liquidity Risk Management Process

Liquidity risk management process should be tailored to an FI's structure and scope of operations and application can vary across institutions. Regardless of the structure, an FI's liquidity risk management process should be consistent with its general risk management framework and should be commensurate with the level of risk assumed. At a minimum, the process should:

1. *Identify liquidity risk*. Proper identification of liquidity risk requires that management understand both existing risk and prospective risks from new products and activities. It involves determining the volume and trends of liquidity needs and the sources of liquidity available to meet these needs. Identifying liquidity risk necessitates expressing the FI's desired level of risk exposure based on its ability and willingness to assume risk which may primarily depend

on the FI's capital base and access to funds providers. Liquidity risk identification should be a continuing process and should occur at both the transaction, portfolio and entity level.

2. *Measure liquidity risk*. Adequate measurement systems enable FIs to quantify liquidity risk exposures on a per entity basis and across the consolidated organization. A relatively large organization with extensive scope of operations would generally require a more robust management information system to properly measure risk in a timely and comprehensive manner.

3. *Control liquidity risk*. The FI should establish policies and standards on acceptable product types, activities, counterparties and set risk limits on a transactional, portfolio and aggregate/consolidated basis to control liquidity risk. In setting limits, the FI should recognize any legal distinctions and possible obstacles to cash flow movements among affiliates or across separate books. Lines of authority and accountability should be clearly defined to ensure liquidity risk exposures remain reasonable and within the risk tolerance expressed by the board.

4. *Monitor liquidity risk*. Monitoring liquidity risk requires timely review of liquidity risk positions and exceptions, including day-to-day liquidity management. Monitoring reports should be frequent, timely, and accurate and should be distributed to appropriate levels of management.

IV. Definition of Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

In terms of capital markets and trading activities, FIs face two (2) types of liquidity risk: *funding liquidity risk* and *market liquidity risk*. *Funding liquidity risk* refers to the inability to meet investment and funding requirements arising from cash flow mismatches without incurring unacceptable losses or costs. This is synonymous with the general definition of liquidity risk.

Market liquidity risk, on the other hand, refers to the risk that an institution cannot easily eliminate or offset a particular position because of inadequate liquidity in the market. The size of the bid/ask spread of instruments in a market provides a general indication of its depth, hence its liquidity, under normal circumstances. Market liquidity risk is also associated with the probability that large transactions may have a significant effect on market prices in markets that lack sufficient depth. In addition, market liquidity risk is associated with structured or complex investments as the market of potential buyers is typically small. Finally, FIs are exposed to the risk of an unexpected and sudden erosion of market liquidity. This could be the result of sharp price movement or jump in volatility, or internal to the FI such as that posed by a general loss of market confidence. Understanding market liquidity risk is particularly important for institutions with significant holdings of instruments traded in financial markets.

Market and liquidity risks are highly interrelated, particularly during times of uncertainty when there is a high correlation between the need for liquidity and market volatility. Likewise, an FI's exposure to other risks such as reputation, strategic, and credit risks, can likewise significantly affect an institution's liquidity risk. It is therefore important that an FI's liquidity risk

management system is consistent with its general risk management framework.

V. Sound Liquidity Risk Management Practices

When assessing an FI's liquidity risk management system, the BSP shall consider how an FI address the four basic elements of a sound risk management system:

1. Active and appropriate board and senior management oversight;
2. Adequate risk management policies and procedures;
3. Appropriate risk measurement methodologies, limits structure, monitoring and management information system; and
4. Comprehensive internal controls and independent audits

Evaluation of the adequacy of the FI's application of the above elements will be relative to the FI's risk profile. FIs with less complex operations may generally use more basic practices while larger, and/or more complex institutions will be expected to adopt more formal and sophisticated practices. Large organizations should likewise take a comprehensive perspective to measuring and controlling liquidity risk by understanding how subsidiaries and affiliates can raise or lower the consolidated risk profile.

A. Active and appropriate Board and senior management oversight¹

Effective liquidity risk management requires that the Board and senior management be fully informed of the level of liquidity risk assumed by the FI and ensure that the activities undertaken are within the prescribed risk tolerance. Senior management should have a thorough understanding of how other risks such as credit, market, operational and reputation risks impact the FI's overall liquidity strategy.¹

¹ This section refers to a management structure composed of a board of directors and senior management. The BSP is aware that there may be differences in some financial institutions as regards the organizational framework and functions of the board of directors and senior management. For instance, branches of foreign banks have board of directors located outside of the Philippines and are overseeing multiple branches in various countries. In this case, "board-equivalent" committees are appointed. Owing to these differences, the notions of the board of directors and the senior management are used in these guidelines not to identify legal constructs but rather to label two decision-making functions within a financial institution.

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Responsibilities of the board of directors

The Board has the ultimate responsibility for understanding the nature and level of liquidity risk assumed by the FI and the processes used to manage it.

The board of directors should:

1. Establish and guide the FI’s strategic direction and tolerance for liquidity risk by adopting a formal written liquidity/funding policy that specifies quantitative and qualitative targets;
2. Approve policies that govern or influence the FI’s liquidity risk, including reasonable risk limits and clear guidelines which are adequately documented and communicated to all concerned;
3. Identify the senior management staff who has the authority and responsibility for managing liquidity risk and ensure that this staff takes the necessary steps to monitor and control liquidity risk;
4. Monitor the FI’s performance and overall liquidity risk profile in a timely manner by requiring frequent reports that outline the liquidity position of the FI along with information sufficient to determine if the FI is complying with established risk limits;
5. Mandate and track the implementation of corrective action in instances of breaches in policies and procedures;
6. Establish, review and to the extent possible, test contingency plans for dealing with potential temporary and long-term liquidity disruptions; and
7. Ensure that the FI has sufficient competent personnel, including internal audit staff, and adequate measurement systems to effectively manage liquidity risk.

Responsibilities of senior management

Senior management is responsible for effectively executing the liquidity strategy and overseeing the daily and long-term management of liquidity risk. In managing the FI’s activities, senior management should:

1. Develop and implement procedures and practices that translate the Board’s goals, objectives, and risk tolerances into operating standards that are transmitted to and well understood by personnel. Operating standards should be consistent with the Board’s intent;
 2. Plan for adequate sources of liquidity to meet current and potential funding needs and establish guidelines for the development of contingency funding plans;
 3. Adhere to the lines of authority and responsibility that the Board has established for managing liquidity risk;
 4. Oversee the implementation and maintenance of management information and other systems that identify, measure, monitor, and control the FI’s liquidity risk; and
 5. Establish effective internal controls over the liquidity risk management process.
- In evaluating the quality of oversight provided by the Board and senior management, the BSP will evaluate how the Board and senior management carry out the above functions/responsibilities. Further, sound management practices are highly related to the quality of other areas/elements of risk management system. Thus, even if Board and senior management exhibit active oversight, the FI’s policies, procedures, measurement methodologies, limits structure, monitoring and information systems, controls and audit should be adequate before quality of Board and senior management can be considered “satisfactory”.

Lines of Responsibility and Authority

Management of liquidity risk generally requires collaboration from various business areas of the FI, thus a clear delineation of responsibilities is necessary. The management structure should clearly define the duties of senior level committees, members of which have authority over the units responsible for executing liquidity-related transactions. There should be a clear

delegation of day-to-day operating responsibilities to particular departments such as the Treasury Department.

To ensure proper management of liquidity risk, the FI should designate an independent unit responsible for measuring, monitoring and controlling liquidity risk. Said unit should take a comprehensive approach and directly report to the board of directors or a committee thereof.

B. Adequate risk management policies and procedures

An FI's liquidity risk policies and procedures should be comprehensive, clearly defined, documented and duly approved by the board of directors. Policies and procedures should cover the FI's liquidity risk management system in order to provide appropriate guidance to management. These policies should be applied on a consolidated basis and, as appropriate, at the level of individual affiliates, especially when recognizing legal distinctions and possible obstacles to cash movements among affiliates.

Liquidity risk policies should identify the quantitative parameters used by the FI to define the acceptable level of liquidity risk such as risk limits and financial ratios as well as describe the measurement tools and assumptions used. Qualitative guidelines should include description of the FI's acceptable products and activities, including off-balance sheet transactions, desired composition of assets and liabilities, and approach towards managing liquidity in different currencies, geographies and across subsidiaries and affiliates. Where appropriate, a large FI should apply these policies on a consolidated basis to address risk exposures resulting from inter-connected funding structures and operations among members of an FI's corporate group.

It is essential that policies include the development of a formal liquidity risk

measurement system that addresses business-as-usual scenarios and a contingency funding plan that addresses a variety of stress scenarios. FIs should likewise have specific procedures for addressing breaches in policies and implementation of corrective actions.

Management should periodically review its liquidity risk policies and ensure that these remain consistent with the level and complexity of the FI's operations. Policies should be updated to incorporate effects of new products/activities, changes in corporate structure and in light of its liquidity experience.

C. Appropriate risk measurement methodologies, limits structure, monitoring, and management information system

Liquidity risk measurement models/ methodologies

An FI should have a measurement system in place capable of quantifying and capturing the main sources of liquidity risk in a timely and comprehensive manner. Liquidity management requires ongoing measurement, from intra-day liquidity to long-term liquidity positions. Depending on its risk profile, an FI can use techniques of simple calculations, static simulations based on current holdings or sophisticated models. What is essential is that the FI should be able to identify and avoid potential funding shortfalls such that the FI can consistently meet investment, funding and/or strategic targets.

FIs with simple operations can generally use a static approach to liquidity management. Static models are based on positions at a given point in time. While an exact definition of "simple operations" will not be provided, the BSP expects that banks using a static approach to liquidity management would limit their operations to core banking activities such as accepting plain vanilla deposits and making traditional loans. Such banks would not have active Treasury Departments, would not hold or

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offer structured products and would not be exposed to significant levels of FX risk. Board reporting could be less frequent than in more complex banks but in no event should be less than quarterly.

Complex FIs, on the other hand, will be expected to adopt more robust approaches such as a dynamic maturity/liquidity gap reporting or even simulation modeling. At a minimum, universal banks should use maximum cash outflow/liquidity or maturity gap models. FIs engaged in holding or offering significant levels of structured products and/or derivatives will be expected to have the capability to model the cash flows from these instruments under a variety of scenarios. Specifically, scenarios should be designed to measure the effects of a breach of the triggers (strike price) on these instruments.

Where the FI's organizational structure and business practices indicate cash flow movements and liquidity support among corporate group members, the FI should adopt consolidated risk measurement tools to help management assess the group's liquidity risk exposure. Depending on the degree of inter-related funding, non-complex measurement and monitoring systems may be acceptable. However, large, complex FIs that display a high degree of inter-related and inter-dependent funding will be expected to utilize more sophisticated monitoring and management systems. These systems should enable the Board of the consolidated entity to simulate and anticipate the funding needs of the FIs on both a consolidated basis and in each of its component parts.

Liquidity risk measurement methodologies/models should be documented and approved by the board and should be periodically independently reviewed for reasonableness and tested for accuracy and data integrity. Assumptions used in managing liquidity should be periodically revisited to ensure that these remain valid.

Liquidity models require projecting all relevant cash flows. As such, FIs engaged in complex activities should have the capability to model the behavior of all assets, liabilities, and off-balance sheet items both under normal/business-as usual and a variety of stressed conditions. Stressed conditions may include liquidity crisis confined within the institution, or a systemic liquidity crisis, in which all FIs are affected. For FIs operating in a global environment, cash flow projections should reflect various foreign-currency funding requirements.

When projecting cash flows, management should also estimate customer behavior in addition to contractual maturities. Many cash flows are uncertain and may not necessarily follow contractual maturities. Cash flows may be influenced by interest rates and customer behavior, or may simply follow a seasonal or cyclical pattern. When modeling liquidity risk, it is important that assumptions be documented. Assumptions should be reasonable and should be based on past experiences or with consideration of the potential impact of changes in business strategies and market conditions. Measurement tools should include a sufficient number of time bands to enable effective monitoring of both short- and long-term exposures. This expectation applies not only to complex simulation modeling, but to the construction of simple liquidity GAP models as well.

To sufficiently measure an FI's liquidity risk, management should analyze how its liquidity position is affected by changes in internal (company-specific) and external (market-related) conditions. Management will need to assess how a shift from a normal scenario to various levels of liquidity crisis can affect its ability to source external funds and at what cost, liquidate certain assets at expected prices within expected timeframes, or hasten the need to settle obligations (e.g., limited ability to roll-over deposits).

Management should, at a minimum, consider stress scenarios where securities are sold at prices lower than anticipated and credit lines are partially or wholly cancelled.

Regardless of the liquidity risk models used, an FI should adopt an appropriate contingency plan for handling liquidity crisis. Well before a liquidity crisis occurs, management should carefully plan how to handle administrative matters in a crisis. Management credibility, which is essential to maintaining the public's confidence and access to funding, can be gained or lost depending on how well or poorly some administrative matters are handled. A contingency funding/liquidity plan ensures that an FI is ready to respond to liquidity crisis.

The sophistication of a contingency plan should be commensurate with the FI's complexity and risk exposure, activities, products and organizational structure. The plan should identify the types of events that will trigger the contingency plan, quantify potential funding needs and sources and provide the specific administrative policies and procedures to be followed in a liquidity crisis.

Specifically, the contingency plan should:

1. Clearly identify, quantify and rank all sources of funding by preference including, but not limited to:
 - Reducing assets
 - Modifying the liability structure or increasing liabilities
 - Using off-balance-sheet sources, such as securitizations
 - Using other alternatives for controlling balance sheet changes
2. Consider asset and liability strategies for responding to liquidity crisis including, but not limited to:
 - Whether to liquidate surplus money market assets
 - When (if at all) HTM securities might be liquidated
 - Whether to sell liquid securities in the repo markets

- When to sell longer-term assets, fixed assets, or certain lines of business
- Coordinating lead bank funding with that of the FI's other banks and non-bank affiliates
- Developing strategies on how to interact with non-traditional funding sources (e.g., whom to contact, what type of information and how much detail should be provided, who will be available for further questions, and how to ensure that communications are consistent)

3. Address administrative policies and procedures that should be used during a liquidity crisis:

- The responsibilities of senior management during a funding crisis
- Names, addresses, and telephone numbers of members of the crisis team
- Where, geographically, team members will be assigned
- Who will be assigned responsibility to initiate external contacts with regulators, analysts, investors, external auditors, press, significant customers, and others
- How internal communications will flow between management, ALCO, investment portfolio managers, traders, employees, and others
- How to ensure that the ALCO receives management reports that are pertinent and timely enough to allow members to understand the severity of the FI's circumstances and to implement appropriate responses.

The above outline of the scope of a good contingency plan is by no means exhaustive. FIs should devote significant time and consideration to scenarios that are most likely, given their activities. Regardless of the strategies employed, an FI should consider the effects of such strategies on long-term liquidity positions and take appropriate actions to ensure that level of risk exposures shall remain or be brought down within the risk tolerance of the Board.

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Limits structure

The Board and senior management should establish limits on the nature and amount of liquidity risk they are willing to assume. In setting limits, management should consider the nature of the FI's strategies and activities, its past performance, the level of earnings and capital available to absorb potential losses and costs of an FI's access to money markets and other alternative sources of funding.

Limits can take various forms. FIs should address limits on types of funding sources and uses of funds, including off-balance sheet positions. In addition, policies should set targets for minimum holdings of liquid assets relative to liabilities. Complex FIs, or FIs engaged in complex activities should set maximum cumulative cash-flow mismatches over particular time horizons and establish counterparty limits. Such limits should be applied to all currencies to which the FI has a significant exposure. In particular, FIs should take into consideration any legal distinctions and possible obstacles to cash flow movements between the RBU and the FCDU.

When evaluating a bank's liquidity position, the BSP will consider low levels of liquid assets relative to liabilities, and significant negative funding gaps to be indicative of high liquidity risk exposure. Further, negative cash-flow mismatches in the short term time buckets will receive heightened scrutiny by the BSP and should also receive the attention of senior management and the board of directors.

Before accepting negative funding gaps, or setting limits that allow negative funding gaps, the board and senior management should consider the FI's ability to fund these negative gaps. Factors include, but are not limited to: the availability of on-balance sheet liquidity, the amount of firm credit lines available

from commercial sources that can be drawn to fund the shortfall, and the amount of unencumbered on-balance sheet assets that can be sold without excessive loss and in a reasonable time-frame.

Further, actual positions and limits should reflect the outcome of possible stress scenarios caused by internal and external factors, particularly those related to reputation risk. Stress scenarios should consider the possibility that securities may be sold at a greater discount and/or may take more time to sell than expected or that credit lines and other off-balance sheet sources of funding may be cancelled or may be unavailable at reasonable cost.

Management should define specific procedures for the prompt reporting and documentation of limit exceptions and the management approval and action required in such cases.

Liquidity risk monitoring and reporting

An adequate management information system is critical in the risk monitoring process. The system should be able to provide the Board, senior management and other personnel with timely information on the FI's liquidity position in all the major currencies it deals in, on an individual and aggregate basis, and for various time periods.

Effective liquidity risk monitoring requires frequent routine liquidity reviews and more in-depth and comprehensive reviews on a periodic basis. In general, monitoring should include sufficient information and a clear presentation such that the reader can determine the FI's ongoing degree of compliance with risk limits. For example, reports should address funding concentrations, funding costs, projected funding needs and available funding sources.

Monitoring and board reporting should be robust. It is not unreasonable to expect complex FIs or FIs engaged in complex

activities to monitor liquidity on a daily basis. Board reporting should be no less frequent than monthly. However, the BSP would expect Board-level committees or sub-committees to receive more frequent reporting.

Comprehensive and accurate internal reports analyzing an FI's liquidity risk should be regularly prepared and reviewed by senior management and submitted to the board of directors.

D. Risk controls and audit

An FI should have adequate internal controls in place to protect the integrity of its liquidity risk management process. Fundamental to the internal control system is for the Board to prescribe independent reviews to evaluate the effectiveness of the risk management system and check compliance with established limits, policies and procedures.

An effective system of internal controls for liquidity risk includes:

1. A strong internal control environment;
2. An adequate process for identifying and evaluating liquidity risk;
3. Adequate information systems; and
4. Continual review of adherence to established policies and procedures.

To ensure that risk management objectives are achieved, management needs to focus on the following areas: appropriate approval processes, limits monitoring, periodic reporting, segregation of duties, restricted access to information systems and the regular evaluation and review by independent competent personnel.

Internal audit reviews should cover all aspects of the liquidity risk management process, including determining the appropriateness of the risk management system, accuracy and completeness of measurement models, reasonableness of assumptions and stress testing methodology. Audit staff should have the skills commensurate with the sophistication of the FI's risk management systems. Audit results should be promptly reported to the board. Deficiencies should be addressed in a timely manner and monitored until resolved/corrected.

E. Foreign currency liquidity management

The principles described in this Appendix also apply to the management of any foreign currency to which the FI maintains a significant exposure. Specifically, management should ensure that its measurement, monitoring and control systems account for these exposures as well. Management needs to set and regularly review limits on the size of its cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. In addition, an FI should consider effects of other risk areas, particularly settlement risks from its off-balance sheet activities. An FI should also conservatively assess its access to foreign exchange markets when setting up its risk limits. As with overall liquidity risk management, foreign currency liquidity should be analyzed under various scenarios, including stressful conditions.

(Circular No. 545 dated 15 September 2006)

GUIDELINES ON TECHNOLOGY RISK MANAGEMENT
(Appendix to Sec. X177)

I. Background

Banks using technology-related products, services, delivery channels, and processes can be exposed to all types of risks enumerated under the Bangko Sentral risk supervision framework more particularly operational, strategic, reputation, and compliance risk. With banks’ increased reliance on technology, it is important for the banks to understand how specific technologies operate and how their use or failure may expose banks to risk. The Bangko Sentral expects banks to have the knowledge and skills necessary to understand and effectively manage their technology-related risks. The Bangko Sentral will evaluate technology-related risks in terms of the categories of risks identified in its risk assessment system.

II. Description of technology related risks

Operational risk - This is the risk to earnings or capital arising from problems with service or product delivery. This risk is a function of internal controls, information systems, employee integrity, and operating processes. Operational risk exists in all products and services.

Technology can give rise to operational risk in many ways. Operational risk often results from deficiencies in system design, implementation, or ongoing maintenance of systems or equipment. For example, incompatible internal and external systems and incompatible equipment and software expose a bank to operational risk. Operational risk can increase when a bank hires outside contractors to design products, services, delivery channels, and processes that do not fit with the bank’s systems or customer demands. Similarly, when a bank uses vendors to perform core bank functions, such as loan underwriting and credit scoring, and does not have adequate controls in place to monitor the activities of

those vendors, operational risk may increase. Also, when banks merge with other banks or acquire new businesses, the bank’s combined computer systems may produce inaccurate or incomplete information or otherwise fail to work properly. The failure to establish adequate security measures, contingency plans, testing, and auditing standards also increases operational risk.

Strategic risk - This is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. This risk is a function of the compatibility of an organization’s strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.

Use of technology can create strategic risk when management does not adequately plan for, manage, and monitor the performance of technology-related products, services, processes, and delivery channels. Strategic risk may arise if management fails to understand, support, or use technology that is essential for the bank to compete or if it depends on a technology that is not reliable. In seeking ways to control strategic risk, a bank should consider its overall business environment, including: the knowledge and skills of senior management and technical staff; its existing and planned resources; its ability to understand and support its technologies; the activities and plans of suppliers of technology and their ability to support the technology; and the anticipated life cycle of technology-related products and services.

Reputation risk - This is the risk to earnings or capital arising from negative public opinion. This affects the institution’s ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the institution to litigation, financial loss, or damage to its reputation. Reputation risk exposure is present throughout the organization and that is why banks have the responsibility to exercise an abundance of caution in dealing with its customers and community. This risk is present in activities such as asset management and regulatory compliance.

Reputation risk arises whenever technology-based banking products, services, delivery channels, or processes may generate adverse public opinion such that it seriously affects a bank’s earnings or impairs capital. Examples may include: flawed security systems that significantly compromise customer privacy; inadequate contingency and business resumption plans that affect a bank’s ability to maintain or resume operations and to provide customer services following system failures; fraud that fundamentally undermines public trust; and large-scale litigation that exposes a bank to significant liability and results in severe damage to a bank’s reputation. Adverse public opinion may create a lasting, negative public image of overall bank operations and thus impair a bank’s ability to establish and maintain customer and business relationships.

Compliance risk - This is the risk to earnings or capital arising from violations of, or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of the bank’s clients may be ambiguous or untested. Compliance risk exposes the institution to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to a

diminished reputation, reduced franchise value, limited business opportunities, lessened expansion potential, and the lack of contract enforceability.

Compliance risk may arise in many different ways. For example, it may arise when a bank fails to comply with applicable disclosure requirements or when it discloses information to outside party that it is required to keep confidential. Compliance risk also may arise when a bank does not have systems in place to ensure compliance with mandatory reporting statutes. The use of technology to automate lending decisions also could expose a bank to compliance risks if the programs are not properly tested or if the quality of the data is not verified. For example, the use of credit scoring models to automate lending decisions could expose a bank to compliance risk if the data upon which the program rely are flawed or if the program design itself is flawed.

As banks move increasingly from paper to electronic-based transactions and information exchanges, they need to consider how laws designed for paper-based transactions apply to electronic-based transaction and information exchanges. Some new technologies raise unexpected compliance issues. Transactions conducted through the internet also can raise novel questions regarding jurisdictional authority over those transactions. Therefore, banks should be careful to monitor and respond to changes to relevant laws and regulations arising from these developments.

III. Technology risk management process

The technology risk management process is designed to help the bank to identify, measure, monitor, and control its risk exposure. The process involves three (3) essential elements, namely:

1. Planning
2. Implementing
3. Measuring and monitoring performance

It is the responsibility of bank's board of directors and a senior management committee to ensure that an effective planning process exists, that technology is implemented properly with appropriate controls, and that measurement and monitoring efforts effectively identify ways to manage risk exposure. The process should be more complex for larger institutions, particularly for those with major technology-related initiatives.

For each IT project, the bank should adopt specific milestones and corresponding timelines up to the full implementation of the IT project.

A. Planning

Technology planning often involves strategic, business, and project planning;

- Strategic plan establishes the overall role of technology as it relates to the bank's mission and assesses the type of technology that a bank needs to fulfill that role;
- Business plan integrates the new technology into existing lines of business and determines the level of technology best suited to meet the needs of particular business lines;
- Project plan establishes resource needs, time lines, benchmarks, and other information necessary to convert the business plan into operation.

The review and planning cycle may vary depending on the type of institution and its uses of different types of technologies. Proper planning minimizes the likelihood of computer hardware and software systems incompatibilities and failures, and maximizes the likelihood that a bank's technology is flexible enough to adapt to future needs of the bank and its customers.

Because technology is constantly changing, bank management should periodically assess its uses of technology as part of its overall business planning. Such an enterprise-wide and ongoing approach helps to ensure that all major technology

projects are consistent with the bank's overall strategic goals. Planning should consider issues such as:

- Cost of designing, developing, testing and operating the systems whether internally or externally;
- Ability to resume operations swiftly and with all data intact in the event of system failure or unauthorized intrusions;
- Adequacy of internal controls, including controls for third party providers; and
- Ability to determine when a specific risk exposure exceeds the ability of an institution to manage and control that risk.

In cases when specialized expertise is needed to design, implement, and service new technologies, vendors may provide a valuable means to acquire expertise and resources that a bank cannot provide on its own. However, in planning on whether and how to contract for its technology needs, a bank should assess how it will manage the risks associated with these new relationships. Without adequate controls, the use of vendors to design or support new bank technologies and systems could increase a bank's exposure to risk. While a bank can outsource many functions, management remains responsible for the performance and actions of its vendors while the vendors are performing work for the bank.

To have an effective planning process for technology-related applications, bank's planning process should at least have the following basic components:

1. *Involvement of the board of directors and senior management*

The board of directors and a senior management committee play an important role in managing bank's IT risks. Both should have knowledge of and involvement in the technology planning process.

The board of directors and the senior management committee should review, approve, and monitor technology projects that may have a significant impact on the

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bank’s operations, earnings or capital. In addition, senior management is expected to have more involvement in and more knowledge about the day to day operations of these projects than the board of directors. At least one (1) key senior manager should have knowledge and skills to evaluate critically the design, operation and oversight of technology projects. The board should be fully informed by the senior management committee, on an ongoing basis, of the risks that technology projects may pose to the bank.

Banks that use technology extensively, particularly large banks, should have sufficient expertise and knowledge among managers and staff to provide critical review and oversight of technology projects and to manage risks associated with them. Projects should be coordinated to ensure that they adhere to appropriate policies, standards, and risk management controls. In addition, senior managers with knowledge of the bank’s technology initiatives should report periodically to the board of directors on technology-related initiatives.

2. *Gathering and analysis of relevant information*

Banks should consider existing systems, consumer expectations, and competitive forces in their planning for new or enhanced uses of technology. In the process of gathering and analyzing information, a bank should:

a. Make an inventory of the existing systems and operations. A bank should review their existing systems to determine whether they satisfy current and projected bank needs. They should also evaluate how new technologies will fit into existing systems and whether additional changes to those systems will be necessary to accommodate the new technologies.

b. Review industry standards. Bank management should assess current and developing industry standards in determining whether to implement

specific technologies. Technical standards help to ensure that systems are compatible and inter-operable.

c. Determine when to deploy new technology. Timing is critical because there are risks in deploying new technologies too slowly or too rapidly.

3. *Assessment and Review*

Bank management should carefully assess its technology needs and review its options within the context of overall planning. Management should consider whether the necessary resources, time, and project management expertise is available to successfully complete any new technology proposal. Prior to adopting new technologies, bank management should identify weaknesses or deficiencies in the bank’s ability to use them. Management should also consider whether staff can operate both new and existing systems simultaneously. These considerations will help management to choose the type and level of technology best suited to support its key business needs and objectives.

Banks should be cautious in establishing project objectives and should ensure that the objectives are neither too ambiguous nor too ambitious. Management should control the bank’s risk exposure through practical planning. This planning may include dividing projects into manageable segments and establishing specific decision points as to whether a project should be modified or terminated. Planning should also establish contingency and exit plans in the event a new project does not proceed as planned.

Management should assess and, where possible, attempt to quantify the costs and benefits of adopting new technology when reviewing its options. As part of this assessment, management should evaluate the risks, financial consequences, and likelihood that certain risks may occur. This review should also include assessment of the cost to start, run, and terminate a project.

B. *Implementation*

Proper implementation of projects and initiatives is needed to convert plans into better products and services, delivery channels, and processes. Banks should establish the necessary controls to avoid operational failures and unauthorized intrusions which could result in increased losses and damaged reputation. At a minimum, management should establish technology standards that set the direction for the bank in terms of the overall structure or architecture of its technology systems.

Management should establish priorities to ensure proper coordination and integration of projects among managers, work units, and team members. It should provide clearly defined expectations, including user and resource requirements, cost estimates, project benchmarks, and expected deliver dates. Proper project monitoring by all relevant parties is important. Project managers should inform the senior management committee of obstacles as early as possible to ensure that proper controls are in place and corrective action can be taken to manage risk exposure.

Proper project implementation should include the following:

a. *Controls*

Controls comprises of policies, procedures, practices and organizational structures designed to provide reasonable assurance that business objectives will be achieved and undesired events will be prevented or detected and corrected. Banks should adopt adequate controls based on the degree of exposure and the potential risk of loss arising from the use of technology. Controls should include clear and measurable performance goals, the allocation of specific responsibilities for key project implementation, and independent mechanisms that will both measure risks and minimize excessive risk-taking. These controls should be re-evaluated periodically.

Bank information system security controls are particularly important. Security measures should be clearly defined with measurable performance standards. Responsible personnel should be assigned to ensure a comprehensive security program. Bank management should take necessary steps to protect mission-critical systems from unauthorized intrusions. Systems should be safeguarded, to the extent possible, against risks associated with fraud, negligence, and physical destruction of bank property. Control points should include facilities, personnel, policies and procedures, network controls, system controls, and vendors. For example, security access restrictions, background checks on employees, separation of duties, and audit trails are important precautions to protect system security within the bank and with vendors. As technologies and systems change or mature, security controls may need to change periodically as well.

b. *Policies and procedures*

Bank management should adopt and enforce appropriate policies and procedures to manage risk related to bank's use of technology. The effectiveness of these policies and procedures depends greatly on whether they are in practice among bank personnel and vendors. Testing compliance with these policies and procedures often helps banks correct problems before they become serious. Clearly written and frequently communicated policies can establish clear assignments of duties, help employees to coordinate and perform their tasks effectively and consistently, and aid in the training of new employees. Bank management should ensure that policies, procedures, and systems are current and well-documented.

c. *Expertise and training*

Bank management should ensure that key employees and vendors have the expertise and skills to perform necessary

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functions and that they are properly trained. Management should allocate sufficient resources to hire and train employees and to ensure that there is succession planning particularly for the critical officers of the bank. Training may include technical course work, attendance at industry conferences, participation in industry working groups, as well as time allotment for appropriate staff to keep abreast of important technological and market developments. Training also includes customer orientations to ensure that bank's customers understand how to use or access bank's technology products and services and that they are able to do so in an appropriate and sound manner.

d. Testing

Bank management should thoroughly test new technology systems and products. Testing validates that equipment and systems function properly and produce the desired results. As part of the testing process, management should verify whether new technology systems operate effectively with the bank's existing systems and, where appropriate, should include vendors. Pilot programs or prototypes can be helpful in developing new technology applications before they are used on a broad scale. Testing should be conducted periodically to help manage risk exposure.

e. Contingency planning and business resumption planning

Bank's systems should be designed to reduce bank's vulnerability to system failures, unauthorized intrusions, and other problems. Bank should have back-up systems in place and they should be maintained and tested on a regular basis to make sure that they will be readily available when the need arises. The risk of equipment failure and human error is possible in all systems. This risk may result from sources both within and beyond bank's control. System failures and unauthorized intrusions may result from design defects, insufficient system capacity, and destruction of a

facility by natural disasters or fires, security breaches, inadequate staff training, or uncontrolled reliance on vendors.

A bank should have business continuity plans in place before the bank implements new technology. They should establish a bank's course of action in the event of a system failure or unauthorized intrusions and should be integrated with all other business continuity plans for bank operations. The plan may address data recovery, alternate data-processing capabilities, emergency staffing, and customer service support. Management should establish a communication plan that designates key personnel and outlines a program for employee notification. The plan should include a public relations and outreach strategy to respond promptly to customer and media reaction to system failure or unauthorized intrusions. Management should also plan for how it may respond to events outside the bank that may substantially affect customer confidence, such as an operational failure experienced by a competitor that relies on similar technology.

Additional reference should also be made to BSP Memorandum dated 22 January 2004 and 03 April 2003 on Back-up Operations Centers and Data Recovery Sites and Updated Business Continuity Plan, respectively.

f. Proper oversight of outsourcing activities

Bank management should ensure that all necessary controls are in place to manage risks associated with outsourcing and external alliances. Management should ensure that vendors have the necessary expertise, experience, and financial strength to fulfill their obligations. They also should ensure that the expectations and obligations of each party are clearly defined, understood and otherwise enforceable. Management should make certain that the bank has audit rights for vendors so that the bank can

monitor performance under the vendor contract.

The key elements of proper project implementation apply whether a bank relies on employees, vendors, or both to develop and implement projects. Failure to establish necessary controls may result in compromised security, substandard service, and the installation of incompatible equipment, system failure, uncontrolled costs, and the disclosure of private customer information. If a bank joins or forms alliances with other banks or companies, management should perform adequate due diligence to ensure that the joint-venture partners are competent and have the financial strength to fulfill their obligations. Adequate bank resources will be required to monitor and measure performance under the terms of any third-party agreement. Additional reference should be made to Sec. X162 on Outsourcing.

C. Measurement and monitoring

As part of both planning and monitoring, banks must establish clearly defined measurement objectives and conduct periodic reviews to ensure that goals and standards established by bank management are met. Goals and standards should include an emphasis on data integrity, which is essential to any effective use of technology. Information should be complete and accurate both before and after it is processed. This is a particular concern in any significant merger with other institutions or acquisition of other businesses. Control of technology projects is complex because of the difficulty in measuring progress and determining actual costs. It is important that bank management establish benchmarks that are appropriate for particular applications. Ultimately, the success of technology depends on whether it delivers the intended results.

Management should monitor and measure the performance of technology related products, services, delivery

channels, and processes in order to avoid potential operational failures and to mitigate the damage that may arise if such failures occur. Bank management should establish controls that identify and manage risks so that the bank can adequately manage them. To ensure accountability, management should specify which managers are responsible for the business goals, objectives, and results of specific technology projects or systems and should establish controls, which are independent of the business unit, to ensure that risks are properly managed. Technology processes should be reviewed periodically for quality and compliance with control requirements.

Auditing

Auditors provide an important control mechanism for detecting deficiencies and managing risks in the implementation of technology. They should be qualified to assess the specific risks that arise from specific uses of technology. Bank management should provide auditors with adequate information regarding standards, policies, procedures, applications, and systems. Auditors should consult with bank management during the planning process to ensure that technology-related systems are audited thoroughly and in a cost-effective manner.

Quality assurance

Bank management should establish procedures to ensure that quality assurance efforts take place and that the results are incorporated into future planning in order to manage and limit excessive risk taking. These procedures may include, for example, internal performance measures, focus groups and customer surveys. Bank should conduct quality assurance reviews whenever it engages in a significant combination with another institution or acquires another business.

(Circular No. 511 dated 03 February 2006)

AUTHORIZATION FORM FOR QUERYING THE BANGKO SENTRAL
WATCHLIST FILES FOR SCREENING APPLICANTS AND CONFIRMING
APPOINTMENTS OF DIRECTORS AND OFFICIALS
(Appendix to Subsec. X143.5)

A U T H O R I Z A T I O N

I, _____, after being sworn in accordance with law, do hereby authorize the following, pursuant to the provisions of Subsec. X143.5(c), of the MORB:

- a) _____ (Name of Bank) _____, to conduct a background investigation on myself relative to my application for or appointment to the position of (position) in _____ (Name of Bank) _____ which include, among others, inquiring from the Watchlist Files of the BSP; and
- b) The BSP to disclose its findings pertinent to the aforementioned inquiry on the said watchlist files to _____ (Name of Bank) _____.

With the above authorization, I hereby waive my right to the confidentiality of the information that will be obtained as a result of the said inquiry, provided that disclosure of said information will be limited for the purpose of ascertaining my qualification or non-qualification for the said position.

IN WITNESS WHEREOF, I have hereunto set my hand this _____.

(Signature Over Printed Name)

SIGNED IN THE PRESENCE OF:

(Witness)

(Witness)

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ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES } S.S.
_____CITY }

BEFORE ME, this ____ day of _____ 200 ____ in _____
personally appeared the following person:

Name	Community Tax Certificate	Place	Date
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known to me to be the same person who executed the foregoing instrument and he
acknowledged to me to be the same person who executed the foregoing instrument and
he acknowledged to me that the same is his free act and deed.

This instrument, consisting of two (2) pages, including the page on which this
acknowledgment is written, has been signed on the left margin of each and every page
thereof by _____, and his witnesses, and sealed with my notarial seal.

IN WITNESS WHEREOF, I have hereunto set my hand, the day, year and place
above written.

Notary Public

Doc. No.: _____
Page No.: _____
Book No.: _____
Series of 200 _____

(CL-2006-046 dated 21 December 2006, as amended by CL-2007-001 dated 04 January 2007)

FINANCIAL REPORTING PACKAGE
[Appendix to Subsection X191.2 (2008 - X162.16)]

The *Financial Reporting Package (FRP)* is a set of financial statements for prudential reporting purposes composed of the Balance Sheet, Income Statement and Supporting Schedules. The FRP is primarily designed to align the BSP reportorial requirements with the (1) provisions of the Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS) and (2) Basel 2 Capital Adequacy Framework. It is also designed to meet BSP statistical requirements.

Organization of the Instructions of the FRP

This instruction is divided into the following sections:

- (1) The General Instructions, which describe the overall reporting requirements;
- (2) Structure of the FRP;
- (3) Manual of Accounts, which provides in the order presented in the Balance Sheet and the Income Statement the definitions of the accounts in the FRP;
- (4) Line Item Instructions for the Balance Sheet; Income Statements and Supporting Schedules; and
- (5) Report Formats, for solo and consolidated reports

In determining the required treatment of particular transactions or in determining the definitions of the various items, the General Instructions, the Structure of the FRP, Manual of Accounts and Line Item Instructions must be used jointly. A single section does not necessarily give the complete instructions for accomplishing the main report and schedules.

GENERAL INSTRUCTIONS

Who must Report on What Forms/ Schedules

All banks are required to prepare the FRP. The FRP shall be prepared on a solo and consolidated basis. Solo basis shall refer to the combined financial statements of the head office and branches/other offices. Consolidated basis shall refer to the combined financial statements of parent bank and subsidiaries consolidated on a line by line basis. Only banks with financial allied subsidiaries, excluding insurance subsidiaries, shall submit the report on consolidated basis.

The solo and consolidated FRP shall be prepared on a quarterly basis, except for the solo balance sheet and the following selected schedules which shall be prepared on a monthly basis.

- (1) Schedule 1 : Checks and Other Cash Items
- (2) Schedule 2 : Due from Other Banks
- (3) Schedule 3 : Financial Assets Held for Trading
- (4) Schedule 4a : Derivatives Held for Trading, Matrix of Counterparty and Type of Derivative Contracts
- (5) Schedule 5 : Financial Assets Designated at Fair Value Through Profit or Loss
- (6) Schedule 6 : Available for Sale Financial Assets
- (7) Schedule 7 : Held to Maturity Financial Assets
- (8) Schedule 8 : Unquoted Debt Securities Classified as Loans
- (9) Schedule 9 : Investment in Non Marketable Equity Securities

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- (10) Schedule 10 : Interbank Loans Receivables
- (11) Schedule 11 : Loans and Receivables – Others
- (12) Schedule 11a : Loans and Receivables – Others, Classified as to Status to 11a4
- (13) Schedule 11b : Restructured Loans and Receivables, Classified as to Status to 11b4
- (14) Schedule 11d : Loans and Receivables – Others, at Amortized Cost, Classified as to Type of Business/ Industry to 11d4
- (15) Schedule 11f : Schedule of Agri-Agra, Microfinance and SME Loans and Receivables Classified as to Counterparty
- (15) Schedule 12 : Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse and Securities Lending and Borrowing Transactions, By Counterpart
- (16) Schedule 15 :Equity Investment in Subsidiaries, Associates and Joint Ventures
- (17) Schedule 19 :Other Assets
- (19) Schedule 20 :Breakdown of Due from/to HO/Branches/ Agencies Abroad – Philippine Branch of a Foreign Bank
- (20) Schedule 22 :Deposit Liabilities Classified as to Type of Deposit
- (21) Schedule 23 :Due to Other Banks
- (18) Schedule 24 :Bills Payable
- (19) Schedule 28 : Other Liabilities

The solo and consolidated FRP shall be prepared on a quarterly basis, except for the solo balance sheet and the following selected schedules which shall be prepared

on a monthly basis.
All schedules shall be available to any type of reporting bank. Hence, schedules that do not apply to a particular bank should only be left blank when submitted.

Frequency of Reporting

The solo FRP, shall be submitted quarterly within fifteen (15) banking days after the end of the reference quarter. The solo balance sheet and the selected schedules listed above shall be submitted monthly within fifteen (15) banking days after the end of the reference month. The consolidated FRP, on the other hand, shall be submitted quarterly within thirty (30) banking days after end of reference quarter.

The following schedules or columns of particular schedules of the solo and/or consolidated FRP, however, are required to be submitted and/or accomplished only annually (i.e. end December of each year):

- (1) Schedule 6b : Available for Sale to 6b(3) Financial Assets ("Collateral and Other Credit Enhancements Received as Security for the Related Impaired and Past Due Assets" column)
- (2) Schedule 6c : Available for Sale to 6c(3) Financial Assets Movements in Allowances for Credit Losses
- (3) Schedule 7b : Fair Value of Held to Maturity Financial Assets
- (4) Schedule 7c : Held to Maturity to 7c(3) Financial Assets ("Collateral and Other Credit Enhancements Received as Security for the Related Impaired and Past Due Assets" column)

- (5) Schedule 7d : Held to Maturity
to 7d(3) Financial Assets
Movements in
Allowances for Credit
Losses
- (6) Schedule 8a : Fair Value of Unquoted
Debt Securities
Classified as Loans
- (7) Schedule 8b : Unquoted Debt
to 8b(3) Securities Classified as
Loans (“Collateral and
Other Credit
Enhancements
Received as Security
for the Related
Impaired and Past Due
Assets” column)
- (8) Schedule 8c : Unquoted Debt
to 8c(3) Securities Classified as
Loans Movements in
Allowances for Credit
Losses
- (9) Schedule 11e : Loans and
to 11e(3) Receivables-Others
Classified as to Status
Per PAS 39
- (10) Schedule 15a : Investment in
Subsidiaries,
Associates and Joint
Ventures
(Fair Value Column)
- (11) Schedule 18 : Tax Assets and
Liabilities
- (12) Schedule 26 : Fair Value of Financial
Liabilities

Rules of Consolidation

In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated on a line-by-line basis in accordance with PAS 27 "Consolidated and Separate Financial Statements", while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Financial/non-financial allied/non-allied associates shall be accounted for using the

equity method in accordance with the provisions of PAS 28 "Investments in Associates".

For purposes of preparing solo financial statements, financial/non-financial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall also be accounted for using the equity method.

For purposes of preparing consolidated reports, the "Peso accounts", "Foreign accounts", "FCDU/EFCDU" and "Foreign Offices", and their supporting schedules shall not be filled-up/accomplished.

Amounts Reported

All amounts reported in the FRP must be in absolute figures including two (2) decimal places, except for "Losses" columns/rows which shall be reported in negative figures, i.e., enclosed in parentheses.

STRUCTURE OF THE FRP

(1) The FRP is designed to reflect the two (2) types of books as follows¹: (1) regular banking book, which shall be comprised of (a) peso accounts; and (b) foreign accounts and (2) FCDU/EFCDU as allowed under Circular No. 1389 dated 13 April 1993, as amended. Transactions in the foreign regular and FCDU/EFCDU books shall be recorded at their foreign currency amounts and their local currency equivalent using the Philippine Dealing System (PDS) Peso/US Dollar closing rate and the New York US Dollar/Third Currencies closing rate.

(2) The FRP generally groups transactions into the different counterparties of the reporting bank. Foreign offices and branches of local banks abroad shall classify their counterparties from the perspective of the Head Office. Counterparties are broadly classified as to residents and non-residents

¹ Provide Columns (in US\$ and Peso Equivalent) for foreign accounts, where applicable.

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and further sub-classified into the different sectors and institutional units defined as follows:

(a) *Residents* – This refers to individuals or institutional units that have a center of economic interest in the economic territory of the Philippines.

(a.1) Government

(i) *National Government* – This refers to the Philippine National Government and its agencies such as departments, bureaus, offices, and instrumentalities, but excluding local government units and government-owned and controlled corporations.

(ii) *Local Government Units (LGUs)* – This refers to the Philippine government units below the level of national government, such as city, provincial and municipal governments.

(iii) *Government-Owned and Controlled Corporations (GOCCs)* – This refers to any agency organized as a stock or non-stock corporation vested with functions relating to public needs whether governmental or proprietary in nature, and owned by the government directly or indirectly or through its instrumentalities either wholly, or where applicable as in the case of stock corporations to the extent of at least fifty-one percent (51%) of its capital stock: *Provided, That* GOCCs may be further categorized by the DBM, the Civil Service Commission and the COA for the purpose of the exercise and discharge of their respective powers, functions and responsibilities with respect to such corporations.

- *Social Security Institutions (SSIs)* – This refers to the social security agencies such as the Employees Compensation Commission (ECC), Government Service Insurance System (GSIS), Philippine Health Insurance Corporation (PhilHealth) and Social Security System (SSS).

- *Other FIs* – This refers to GOCCs that are primarily engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation but are not classified as banks such as the Home Guaranty Corporation (HGC), Trade and Investment Development Corporation (TIDCORP) and Small Business Corporation (SBC)

- *Non-FIs* – This refers to GOCCs that may not be classified as a social security institution nor other FIs.

(a.2) BSP

(a.3) Banks

- *UBs/KBs* – This refers to UBs and KBs as defined under existing laws and regulations.

- *Government Banks* – This refers to UBs/KBs owned or controlled by the national government such as the DBP, the LBP and the Al-Amanah Islamic Investment Bank of the Philippines.

- *Non-Government Banks* – This refers to private UBs/KBs, which are neither owned nor controlled by the national government, including branches of foreign banks licensed as UBs/KBs operating in the Philippines.

(ii) *Other Banks* – This refers to banks other than UBs/KBs i.e., TBs, RBs and Coop. Banks.

(a.4) Private Corporations

(i) *Financial* - This refers to private corporations that are primarily engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation but are not classified as banks. This shall include among others, insurance corporations, pension funds that are constituted as separate from the units that have created them, NSSLAs and QBs. Except in the case of “Loans and Receivables – Interbank Loans and Receivables” where QBs shall be a separate line item.

(ii) *Non-Financial* – This refers to private corporations whose principal activity is the production of goods or non-financial services for sale.

(b) *Non-Residents* – This refers to individuals or institutional units that have a center of economic interest outside the economic territory of the Philippines.

(b.1) Central Government/Central Bank – *Central Government* refers to the central government of a foreign country which is regarded as such by a recognized banking supervisory authority in that country. *Central Bank* refers to the national FI (or institutions) that exercises control over key aspects of the financial system and carries out such activities as issuing currency, managing international reserves, and providing credit to other depository corporations.

(b.2) *Public Sector Entities* – This refers to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

(b.3) Banks

(i) *Off-Shore Banking Units (OBUs)* – This refers to a branch, subsidiary or affiliate of a foreign banking corporation which is duly authorized by the BSP to transact offshore banking business in the Philippines.

(ii) *Other Banks* – This refers to the non-resident banks other than OBUs.

(b.4) Corporations – This refers to non-resident corporations.

(c) *Multilateral Agencies* – This refers to the World Bank Group comprised of the IBRD and the IFC, ADB, AfDB, the EBRD, the IADB, the EIB, the NIB; the CDB, the CEDB and such others as may be recognized by the BSP.

(3) The supporting schedules in the FRP contain an Additional Information section which requires disclosure of

information necessary for validating compliance with other BSP requirements and for statistical purposes. Among the information required to be disclosed are the following:

(a) Classification as to Original Term, which shall be reported only for solo reports

(a.1) Short Term (1 year or less)

(a.2) Medium Term (> 1 year to 5 years)

(a.3) Long Term (> 5 years)

(b) Geographic Regions of Non-Resident Counterparties

(b.1) Advanced Economies – Australia; Austria; Belgium; Canada; Cyprus; Denmark; Finland; France; Germany; Greece; Hong Kong SAR; Iceland; Ireland; Israel; Italy; Japan; Korea; Luxembourg; Netherlands; New Zealand; Norway; Portugal; Singapore; Slovenia; Spain; Sweden; Switzerland; Taiwan Province of China; United Kingdom and United States

(b.2) Regions Excluding Advanced Economies

(i) Africa – Algeria; Morocco; Tunisia and Sub-Sahara

Of which; Sub-Sahara – South Africa; Djibouti; Ethiopia; Sudan; Burundi; Congo, Democratic Republic of; Kenya; Rwanda; Tanzania; Uganda; Angola; Botswana; Comoros; Lesotho; Madagascar; Malawi; Mauritius; Mozambique, Republic of; Namibia; Seychelles; Swaziland; Zambia; Zimbabwe; Cape Verde; Gambia, The; Ghana; Guinea; Mauritania; Nigeria; Sao Tome and Principe; Sierra Leone; Benin; Burkina Faso; Cameroon; Central African Republic; Chad; Congo, Republic of; Cote d’Ivoire; Equatorial Guinea, Gabon; Guinea – Bissau; Mali; Niger; Senegal; and Togo.

(ii) Central and Eastern Europe - Albania; Bulgaria; Croatia; Czech Republic; Estonia; Hungary; Latvia; Lithuania; Macedonia, FYR; Malta; Poland; Romania; Slovak Republic and Turkey.

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- (iii) Commonwealth of Independent States – Armenia; Azerbaijan; Belarus; Georgia; Kazakhstan; Kyrgyz Republic; Moldova; Mongolia; Russia; Tajikistan; Turkmenistan; Ukraine and Uzbekistan.
- (iv) Developing Asia – Bangladesh; Bhutan; Cambodia; China; Fiji; India; Indonesia; Kiribati; Lao PDR; Malaysia; Maldives; Myanmar; Nepal; Pakistan; Papua New Guinea; Samoa; Solomon Islands; Sri Lanka; Thailand; Tonga; Vanuatu and Vietnam.
- (v) Middle East – Bahrain; Iran I.R.; Kuwait; Libya; Oman; Qatar; Saudi Arabia; United Arab Emirates; Yemen, Republic of; Egypt; Jordan; Lebanon and Syrian Arab Republic.
- (vi) Western Hemisphere – Mexico; Argentina; Brazil; Bolivia; Chile; Colombia; Ecuador; Paraguay; Peru; Uruguay; Venezuela; Costa Rica; El Salvador;

Guatemala; Honduras; Nicaragua; Panama; Antigua and Barbuda; Bahamas, The; Barbados; Belize; Dominica; Dominican Republic; Grenada; Guyana; Haiti; Jamaica; St. Kitts and Nevis; St. Lucia; St. Vincent and the Grenadines; Suriname and Trinidad and Tobago.

Definition of the other items and instructions for filling-out the Additional Information section of each supporting schedule are presented in the Line Item Instructions.

(Circular No. 512 dated 03 February 2006, as amended by M-2011-052 dated 16 September 2011, M-2010-045 dated 14 December 2010, Circular Nos. 701 dated 13 December 2010, 691 dated 23 June 2010, M-2010-032 dated 27 September 2010, M-2010-021 dated 20 July 2010, M-2010-016 dated 16 June 2010, M-2009-035 dated 28 September 2009, Circular No. 658 dated 23 June 2009, M-2008-036 dated 28 November 2008, M-2008-012 dated 14 March 2008, M-2008-011 dated 07 March 2008, Circular No. 601 dated 13 February 2008, M-2007-044 dated 27 December 2007 and Circular No. 568 dated 08 May 2007)

GUIDELINES FOR TRUST DEPARTMENTS’ PLACEMENTS IN THE SPECIAL
DEPOSIT ACCOUNT FACILITY OF THE BANGKO SENTRAL
(Appendix to Subsec. X409.2)

The following are the guidelines governing the trust departments’ placements in the SDA facility of BSP.

1. Access to the subject BSP facility shall be granted upon receipt by the BSP Treasury Department (BSP-TD) of a letter of request (*Appendix 78 Annex 1*) for account opening together with the following requirements:
 - a. Internal approvals allowing the trust department to invest in the BSP SDA facility;
 - b. A list of authorized signatories;
 - c. A list of authorized traders; and
 - d. Contact details for the front and back offices.
2. The trust department shall use a depository institution that is a PhilPASS member when placing its funds in the SDA facility. On transaction date, the trust department shall instruct said depository institution to debit their account in favor of their SDA with the BSP. Similarly, the trust department shall specify a PhilPASS member to which its principal and interest will be credited at maturity of the SDA placement.
3. Trading hours shall be from 10:00 am to 3:00 pm for all business days. All trades shall settle on trade date.
4. Applicable tenors and pricing shall be based on published rates (i.e., in Bloomberg’s CBPHI and Reuters BANGKO page).
5. The existing tiering scheme, as detailed below shall be applied to the SDA placements of the trust departments separately from the placements of their bank proper.

<u>Tier</u>	<u>Tiered Rate</u>
Amounts less than or equal to P5.0 billion	BSP published rate

<u>Tier</u>	<u>Tiered Rate</u>
Amounts in excess of P5.0 billion up to P10.0 billion	BSP published rate less 2%
Amounts in excess of P10.0 billion	BSP published rate less 4%

6. The minimum placement is P10.0 million with the additional amounts in increments of P1.0 million.
7. Trust departments may place only once per tenor per day
8. Trust departments may pre-terminate their SDA placements, either fully or partially. If the holding period of the SDA placement when it is rate pre-terminated is less than fifty percent (50%) of the original tenor of the said placement, the applicable interest rate for the pre-terminated amount will be the rate dealt on value date less two percent (2%) p.a. If the holding period is fifty percent (50%) or more of the original tenor, the applicable interest rate for the pre-terminated amount will be the rate dealt on value date less one percent (1%) p.a. The pre-termination rate shall apply only to the amount pre-terminated.
9. The income from the SDA is subject to a twenty percent (20%) final withholding tax
10. Depository institution shall generally follow the existing settlement process for SDA placements with BSP of banks. The trust department will be required to send the transaction confirmation directly to the BSP-TD back office. A sample confirmation is attached as *Appendix 78 Annex 1* and *Annex 2*.
11. Trust departments may request a statement from the BSP-TD for their outstanding SDA placement as of a specified date.

(M-2007-011 dated 08 May 2007)

(Institution’s Letterhead)

Date: _____

Mrs. Ma. Ramona GDT Santiago
Managing Director
Treasury Department
Bangko Sentral ng Pilipinas

Dear Madam:

Pursuant to Monetary Board Resolution Nos. 433 and 518 dated 19 April 2007 and 3 May 2007, allowing trust departments to place their funds in the BSP’s Special Deposit Account (SDA) facility, the trust department of (name of institution) respectfully request the creation of an account for the said facility.

Please find attached the following documents, as required:

- a. Internal approvals allowing the trust department to invest in the SDA facility;
- b. A list of authorized signatories;
- c. A list of authorized traders; and
- d. Contract details for the front and back offices.

For your kind attention.

Very truly yours,

(AUTHORIZED SIGNATORY)1

(AUTHORIZED SIGNATORY)2

(Institution’s Letterhead)

Date:_____

TREASURY DEPARTMENT
Treasury Services Group - Domestic
Bangko Sentral ng Pilipinas

Gentlemen:

This is to confirm our **Special Deposit Account** placement to yourselves as follows:

VALUE DATE	
TERM	
MATURITY DATE	
RATE	
PRINCIPAL AMOUNT	
GROSS INTEREST	
WITHHOLDING TAX	
NET MATURITY VALUE	

On value date, our funds will come from Regular Demand Deposit account of (name of depository bank).

Accordingly, please **CREDIT** the Regular Demand Deposit Account of (name of depository bank) on maturity date the amount of _____ PESOS (P_____), representing full payment of the principal plus interest (net of applicable withholding tax) thereon.

Very truly yours,

(AUTHORIZED SIGNATORY)1

(AUTHORIZED SIGNATORY)2

**SPECIAL DEPOSIT ACCOUNT PLACEMENTS OF TRUST DEPARTMENTS/
ENTITIES AS AGENT FOR TAX-EXEMPT INSTITUTIONS AND ACCOUNTS**
(Appendix to Subsection X409.2)

Section 1. Placement of tax-exempt accounts in the SDA facility should comply with existing minimum placement and incremental requirements for the SDA facility.

Sec. 2. On transaction date, the trust department/entity must inform the BSP the exact amount of the tax-exempt placement in the SDA and submit the following supporting documents:

- a. Copy of the relevant ruling from the BIR, duly certified by the latter, affirming the exemption from taxes of the income earned by concerned TELs or accounts from their investments;
- b. Copy of the board resolution duly certified by the corporate secretary authorizing the placement (directly for managed funds or indirectly through designated trustee bank/FI in the case of managed trust funds) in the SDA facility;

c. Copy of the covering trust agreement; and

d. Certification from the trust department that such placements, for as long as these are outstanding, are owned by the specified TELs and are accordingly exempt from said twenty percent (20%) final withholding tax (FWT). Shown in Annex 1.

Advance copies may be sent through facsimile (facsimile number 523-3348) or electronic mail of BSP-Treasury Back Office personnel (jsiguenza@bsp.gov.ph).

Absent the supporting documents by end of the business day, the tax-exempt placement will be cancelled.

Sec. 3. For outstanding tax-exempt SDA placements as of 01 November 2007, trust departments must submit the documents specified in *Item "2"* hereof on or before 04 December 2007 to avail of the exemption from withholding tax.

(M-2007-038 dated 29 November 2007)

(Trust Entity/Department’s Letterhead)

Date: _____

Ms. Ma. Ramona GDT Santiago
Managing Director
Treasury Department
Bangko Sentral ng Pilipinas
A. Mabini corner P. Ocampo Sts.
Manila 1004

Dear Ms. Santiago:

This refers to the placement/s amounting to ***(Peso Amount)*** placed in the BSP’s SDA facility at ***(SDA rate)*** % per annum for value ***(Value date)*** to mature on ***(Maturity date)***.

This is to certify that the above placement/s is/are transacted on behalf of the following Tax-Exempt Institutions (TEI) or tax-exempt funds and interest income thereon are exempt from the twenty percent (20%) final withholding tax based on the corresponding BIR rulings:

Tax Exempt Institutions	Basis (BIR Ruling No. and date)	Amount
1.		
2.		
3.		
(rows may be increased depending on number of placements)		
TOTAL		

This is to further certify that above placements will be owned by the specified TEIs/tax-exempt funds for as long as these placements are outstanding.

In the event that the BSP is assessed for deficiency final withholding tax on the above placements by the Bureau of Internal Revenue (BIR), (Bank name) shall be liable for and pay such deficiency taxes and surcharges, and/or indemnify/reimburse the BSP for such deficiency taxes and surcharges that the latter may eventually pay to the BIR as a result thereof. Further, (Bank name) hereby authorizes the BSP to automatically debit its regular demand deposit account with the BSP for payment or reimbursement of any such deficiency taxes and surcharges.

Sincerely yours,

HEAD OF TRUST DEPARTMENT

SUBSCRIBED AND SWORN to before me this ____ day of _____ 2007 at _____, affiant exhibiting to me his Community Tax Certificate/Passport No. _____, issued at _____, on _____.

Notary Public

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 200____

**GUIDELINES ON THE PROHIBITION AGAINST
NON-RESIDENTS¹ FROM INVESTING IN THE SDA FACILITY**
(Appendix to Sections 1390, 2390 and Subsection X409.2)

The SDA facility is a monetary policy instrument deployed by the Bangko Sentral for the purpose of managing excess domestic liquidity in the financial system. It should not be made available for opportunistic investment activities funded from non-resident sources. Further, placement in SDA facility is contractual in nature and thus, shall be governed by the intent of the contracting parties. In keeping with the nature of this facility, all banks and trust departments/entities, which are counterparties of the Bangko Sentral, are required to comply with the following conditions:

- 1. Banks shall not invest in the SDA facility funds obtained, directly or indirectly, from non-residents.
- 2. Investments of trust departments/entities in the SDA facility shall not be sourced directly or indirectly, from funds of non-residents.

A bank or trust department/entity is required to submit to the BSP's Treasury Department a notarized Letter of Undertaking (LOU) (Annex "A")

committing to the above conditions to be qualified as a counterparty of the Bangko Sentral SDA facility.

It is the responsibility of a bank or trust department/entity to have in place the appropriate internal policies and monitoring and assurance mechanisms consistent with its LOU.

The Bangko Sentral reserves the right to verify compliance with the above conditions. Whenever the Bangko Sentral has reason to believe that a bank or trust department/entity is unable or unwilling to comply with the terms and conditions for the access to the SDA facility, the Bangko Sentral may limit, suspend, or deny access by the bank, its trust department or a trust entity to the SDA facility.

The bank or trust department/entity shall report to the appropriate department of the SES all existing SDA placements not consistent with this guidelines. Such placements shall not be renewed and shall be terminated upon maturity.

(M-2012-034 dated 13 July 2012)

¹ As defined under Section 1 of the Manual of Regulations on Foreign Exchange Transactions

(Institution’s Letterhead)

Date: _____

The Treasury Department
Bangko Sentral ng Pilipinas
A. Mabini St., Malate
Manila 1004

Letter of Undertaking

Pursuant to Memorandum No. M-2012- 034 dated 13 July 2012 which provides the prohibition against non-residents from investing in the Special Deposit Account (SDA) facility of the Bangko Sentral ng Pilipinas (BSP), _____ (Name of Institution) and its trust department (if applicable) hereby undertake not to invest in the SDA facility funds obtained, directly or indirectly, from non-residents.

The _____ (Name of Institution) and its trust department (if applicable) shall put in place appropriate internal policies and monitoring and assurance mechanisms consistent with the above conditions. Further, it shall make available pertinent information and documents requested by the BSP to verify compliance with the terms and conditions on its access to the BSP's SDA facility.

(Trust Officer, if applicable)
Signature Over Printed Name

(Treasurer)
Signature Over Printed Name

(President or Equivalent Position)
Signature Over Printed Name

SUBSCRIBED AND SWORN TO BEFORE ME this ____ day of _____, 2012,
affiants exhibiting to me their _____, to wit:

Notary Public

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of _____;

**GUIDELINES IN DETERMINING COMPLIANCE WITH CEILINGS
ON EQUITY INVESTMENTS**
(Appendix to Secs. X378, X380, 1381, and X383, Subsecs. X379.1, 1381.1, and 1381.2)

The following are the guidelines in determining compliance with ceilings on equity investments prescribed under Sections/Subsections X378¹, X379.1, X380, 1381, 1381.1, 1381.2 and X383, in view of the adoption of the PFRS/PAS:

a. Components of equity investment. Equity securities booked under the Designated at Fair Value Through Profit or Loss (DFVPL), Available-For-Sale, Investment in Non-Marketable Equity Securities (INMES) and Equity Investments in Subsidiaries/Associates/Joint Ventures categories shall all be considered in computing for compliance with the ceilings on equity investments prescribed under Sec. X383 and Subsec. X379.1: *Provided*, That Underwritten equity securities booked under the Available-For-Sale category shall be excluded from total equity investments for a period of two (2) years from the date of acquisition thereof: *Provided, further*, That upon prescription of the two (2) year period, such equity securities shall be booked according to intention and shall then be included in the computation of compliance with the prescribed ceilings.

For this purpose, the following financial instruments shall likewise be included in the computation of compliance with the prescribed ceilings:

(1) Equity securities including those accounted for as debt instruments booked under the Held for Trading (HFT) category, which remain unsold for more than one (1) year.

(2) Mandatorily redeemable preferred shares and preferred shares of similar nature that are accounted for as debt instruments, which may also be booked under the HTM or Unquoted Debt Securities Classified as Loans (UDSCL) categories.

(3) Investments in Hybrid Tier 1 securities that are issued in the form of perpetual preferred shares.

b. Shares of stock acquired in settlement of loans. Shares of stock of another corporation acquired in settlement of loans shall be excluded from total equity investments for purposes of determining compliance with the prescribed ceilings on equity investments under Secs. X378, X380, 1381 and X383 and Subsecs. X379.1, 1381.1 and 1381.2: *Provided*, That confirmation of the Monetary Board shall be required in the following cases within thirty (30) days from the date of acquisition thereof:

(1) Acquisition of shares of stock of non-allied enterprises by banks without universal banking authority, otherwise prohibited in Sec. 1381;

(2) Acquisition of shares of stock of non-allied enterprises other than those specified under Subsec. 1381.1 by banks with universal banking authority, otherwise requiring prior Monetary Board approval;

(3) Acquisition of shares of stock of non-allied enterprises by UBs in excess of limits provided in Subsec. 1381.2;

(4) Acquisition of shares of stock of venture capital corporation in excess of limits provided in Subsec. X379.1;

(5) Acquisition of shares of stock of financial allied enterprises by banks, in excess of limits provided in Sec. X378;

(6) Acquisition of shares of stock of non-financial allied enterprises by TBs and RBs in excess of limit provided in Sec. X380; and

(7) Acquisition of shares of stock in excess of limits provided in Sec. X383;

Provided, further, That said confirmation shall be subject, among others, to the

¹ amended by Circular No. 530 dated 19 May 2006

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condition that such shares of stock shall be disposed of within a reasonable period not to exceed five (5) years from the date of acquisition thereof.

c. Basis of computation. Compliance with the prescribed ceilings on equity investments shall be determined at each time additional equity securities are acquired or shall be considered in the computation as in the case of prescription of the two (2) year period for underwritten equity securities or in the case of equity securities booked under the HFT category, which remain unsold for more than one (1) year. Further, this shall be computed using the carrying amount of the equity securities, which shall be the fair value (marked-to-market amount) for those investments booked under HFT, DFVPL and Available- For-Sale, amortized cost for those investments booked under HTM and UDSCl or the cost and adjusted cost for those booked under INMES and Equity Investment in Subsidiaries/Associates/Joint Ventures, respectively, net of Allowance for Credit Losses where applicable.

For this purpose, adjusted cost shall refer to the acquisition cost of Investments in Subsidiaries/Associates/Joint Ventures adjusted for the investor's share of the profit or loss of investee after the date of acquisition and other adjustments to the carrying amount of the investment.

d. Transitory Provisions. Banks with acquired shares of stock in settlement of loans that fall under any of the following cases, which have not been previously

confirmed by the Monetary Board, shall seek confirmation by the Monetary Board of such acquisition not later than ninety (90) banking days from 05 October 2007.

(1) Those without universal banking authority with acquired shares of stocks of non-allied enterprises in settlement of loans prohibited in Sec. 1381;

(2) Those with universal banking authority with acquired shares of stock non-allied enterprises in settlement of loans other than those specified under Subsec. 1381.1;

(3) Those with universal banking authority with acquired shares of stock of non-allied enterprises in settlement of loans that are in excess of limits prescribed in Subsec. 1381.2;

(4) Those with acquired shares of stock of financial allied enterprises in settlement of loans that are in excess of limits provided in Sec. X378; and

(5) TBs and RBs with acquired shares of stock of non-financial allied enterprises in settlement of loans that are in excess of limit provided in Sec. X380.

Provided, That said confirmation shall be subject, among others, to the condition that such shares of stock shall be disposed of within a reasonable period not to exceed five (5) years from 05 October 2007.

e. Sanctions. Any violation of the provisions of this Appendix shall subject the bank and the director/s and/or officer/s concerned to the sanctions provided under Section 37 of R.A. No. 7653.

(Circular No. 581 dated 14 September 2007, as amended by Circular No. 671 dated 27 November 2009)

**GUIDELINES AND PROCEDURES GOVERNING CURRENCY DEPOSITS AND
WITHDRAWALS OF BANKS FOR CREDIT TO AND DEBIT FROM THEIR
DEMAND DEPOSIT ACCOUNTS WITH THE BANGKO SENTRAL**
[Appendix to Section X950 (2008 - X610)]

Currency notes/coins are classified as fit, unfit and mutilated pursuant to Sec. X950. The BSP Cash Department (CD) and Regional Offices/Branches shall accept all types of currency notes/coins for deposit except mutilated currency notes/coins, which must be presented directly for determination of redemption/exchange value to CD or the nearest BSP Regional Office/Branch in accordance with Subsec. X950.6(f).

Banks are encouraged to arrange direct exchange of their accumulated excess fit currency notes/coins with other banks to optimize circulation of said notes/coins and to deposit only unfit currencies to their DDAs with BSP.

To facilitate the expeditious receipt of banks' cash deposits and servicing of their cash withdrawals by BSP, all banks, including their provincial branches shall observe the following guidelines and procedures when making cash deposits and/or withdrawals with BSP CD or any of the BSP Regional Offices/Branches:

a. Receiving/releasing of banks' cash deposits/withdrawals shall start at 9:00 A.M. and end at 2:00 P.M.

b. Banks should pre-sort all their currency notes/coins for fitness to ensure that only pre-counted fit or unfit currency is deposited with BSP to effect an expeditious servicing of banks' cash withdrawals and retirement of unfit currency notes pursuant to the "Clean Note Policy" of BSP under Subsec. X950.5.

c. The BSP shall accept fit and unfit note deposits only after conducting package and bundle count. Fit notes need not be verified piece-by-piece by the BSP before the same shall be re-issued to service cash withdrawals of banks.

d. Bank deposits of fit currency notes referred to in Item "c" above not withdrawn by the banks shall be verified piece-by-piece by the BSP on scheduled dates.

e. The BSP shall accept coin deposits in standard quantity per denomination in containers prescribed by BSP.

CURRENCY DEPOSITS

f. Head Offices/Cash Centers of banks in Metro Manila or their designated cash center/main branch in the provinces shall make direct deposits of currency notes and coins with the BSP CD or the nearest BSP Regional Office/Branch, respectively. The currency notes shall be duly classified as fit or unfit in accordance with the "Currency Guide for Bank Tellers, Money Counters and Cash Custodians" prepared by BSP CD, and by denomination pursuant to Subsec. X950.5 (a).

g. In areas where there are no BSP Regional Offices/Branches, provincial branches of banks shall arrange with their respective Head Offices the shipment of their unfit notes/coins for deposit with BSP CD. Cost of shipment and other related expenses to be incurred shall be solely for the account of the bank concerned.

h. Banks shall provide securely sealed transparent plastic bags prescribed by the BSP for their deposits at BSP CD; separately for the fit and unfit notes. Each plastic bag shall have uniform capacity of twenty (20) full bundles accompanied by a deposit slip for each type/category. The deposit slip for each type/category of currency notes shall be clearly labeled as "FIT" or "UNFIT" as the case may be.

At the BSP Regional Offices/Branches, banks shall provide securely sealed portable metal sheet or GI sheet boxes measuring

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15" in length x 12" in width x 14" in height for their deposits, separately for the fit and unfit notes. Each prescribed container shall have uniform capacity of twenty (20) full bundles, accompanied by a deposit slip for each type/category. The deposit slip for each type/category of currency notes shall be clearly labeled as "Fit" or "Unfit" as the case may be.

i. To facilitate handling of cash deposits, notes and coins shall be arranged and placed in prescribed containers in the following manner:

- (1) Fit and Unfit Currency Notes
 - (a) Notes of a single denomination must be arranged face and top up in packages of 100 pieces each:
 - (b) The wrapper of each package shall be plainly marked with:
 - (i) the denomination and amount of currency in the package;
 - (ii) the date of verification;
 - (iii) the printed name(s) and signature(s) of depositing bank's employee(s) who performed the verification; and
 - (iv) the name of the depositing bank,
 - (c) Pins, clips and staple wires, if any, must be removed prior to deposit in order to avoid possible injury to employees and damage to equipment;
 - (d) Individual packages of 100 notes each shall be strapped/bundled in standard units as follows:

Denomination	Standard Unit No. of Package (Per 1 Bundle)	Value
1000-Piso	10	P 1,000,000.00
500-Piso	10	500,000.00
200-Piso	10	200,000.00
100-Piso	10	100,000.00
50-Piso	10	50,000.00
20-Piso	10	20,000.00

(e) Notes of different denominations shall not be mixed in a single package/

bundle/container subject to the provisions of Item i(1)(h);

(f) Bundled notes shall be packed in sealed plastic containers in uniform quantity of twenty (20) complete bundles per denomination (each bundle containing 1,000 notes in ten equal packages, each package containing 100 notes) subject to the provisions of Item i(1)(h);

g. A packing list/tag of the currency in each plastic container shall be placed inside the container. Another tag shall be attached to the container; and

h. The regional offices/branches may however accept deposit of bundled notes packed in sealed containers in uniform quantity of twenty (20) complete bundles of one or various denominations.

- (2) Coins
 - (a) The coin container bearing the name of the bank shall be prescribed by the BSP;
 - (b) A tag shall be attached to each bag indicating the denomination, quantity, amount, and date deposited:
 - (c) Individual bags shall contain standard quantities per denomination as follows:

Denomination	Quantity (Pieces)	Value
10-Piso	1,200	P12,000.00
5-Piso	1,500	7,500.00
1-Piso	2,000	2,000.00
25-Sentimo	3,000	750.00
10-Sentimo	4,500	450.00
5-Sentimo	5,000	250.00
1-Sentimo	5,000	50.00

j. Upon delivery of the currency notes/coins to the BSP CD/Regional Office/Branch, the representative of the depositing bank shall witness the package and bundle count for notes and bag count for coins made by the BSP CD/Regional Office/Branch Accountable Officer concerned. If found in order, said BSP officer shall acknowledge receipt of the currency note/coin deposits.

k. Deposits of currency notes at BSP CD need not be taken out of the container since contents are seen and can be counted through the transparent plastic bag. For deposits at BSP Regional Offices/Branches, the bundles of currency notes shall be returned by the authorized bank representative to the containers, duly sealed with the depositor banks logo and padlocked with the key/s controlled by the said representatives.

l. The CD/Regional Office/Branch shall schedule piece-by-piece verification of cash deposits at a later date or whenever it deems necessary, to be duly witnessed by the bank’s authorized representatives.

m. The CD/Regional Offices/Branches of BSP may refuse acceptance of cash deposits that do not conform to the foregoing guidelines and procedures.

CURRENCY WITHDRAWALS

n. The Cash Department (CD) shall service cash withdrawals of banks from their respective unverified fit currency deposits and/or from verified/new currencies in stock.

The regional offices/branches shall service cash withdrawals of banks from their respective unverified fit currency deposits, unverified fit deposits of other banks or from verified/new currencies in stock.

o. Only authorized representative of the depositor-bank shall open the sealed container(s) of unverified fit currency note deposits from which the BSP shall service the cash withdrawal of a bank. It is understood that said representative, who upon at least one (1) day notice, shall make himself available to service the withdrawals of another bank, shall have all the keys to the containers’ padlock of the bank’s

currency fit note deposits whenever assigned to BSP CD/Regional Office/Branch to effect cash withdrawals.

p. At BSP CD, cash withdrawals of banks shall be effected using the Electronic Cash Withdrawal System. A Cash Order Slip (COS), shall be sent by banks through FAX to CD not later than 12:00 noon one (1) day prior to actual cash withdrawal. Cash withdrawal shall be settled through the PhilPaSS before release of the cash withdrawal to banks.

q. At the BSP Regional Offices/Branches, cash withdrawal shall be made using the Integrated Regional Information System (IRIS). BSP demand deposit checks presented by banks for withdrawal after 12:00 noon shall be accepted for processing purposes only and the servicing thereof shall be effected the following banking day.

r. The authorized representative of the withdrawing bank shall conduct:

(1) bag/bundle/package count of the notes and bag count of the coins withdrawn from the bank’s unverified fit currency note/coin deposits; and

(2) box/bundle/package/piece count of the notes and bag count of the coins withdrawn from reissued/new currency note/coin witnessed by authorized representative of the BSP.

Any overage/shortage found in the verification of cash withdrawn from reissued currency verified by BSP CD/Regional Office/Branch shall be for the account of BSP. The BSP shall not honor any shortage/overage found after the authorized bank representatives shall have left the BSP teller’s counter/cash withdrawal area.

(M-2007-027 dated 19 September 2007, as amended by M-2009-021 dated 16 June 2009)

**APPRAISAL AND LOAN VALUATION FRAMEWORK
FOR RIGHTS-BASED SECURE TENURE ARRANGEMENTS
AS COLLATERAL SUBSTITUTES
(Appendix to Subsec. X361.5)**

In the appraisal of real properties or rights offered as collateral substitutes under the housing microfinance program, the form of the secure tenure instrument must be considered. Generally, two (2) appraisal methodologies or approaches may be applied: the market value must be determined using the market data or sales comparison approach for properties under freehold and right to occupy and/or build (in respect of the housing unit or improvement to be used as collateral substitute), and for properties under Lease agreement and usufruct, the value of the Leasehold interest of the borrower must be determined.

Market value

Market value is the most probable price that a property should obtain in a competitive and open market under all conditions requisite of a fair sale, with the buyer and seller each acting prudently and knowledgeably, and assuming that the price is not affected by undue stimulus. In determining the market value of the property, the appraiser must use the Market Data or Sales Comparison approach. This approach attempts to compare the subject property’s value with similar properties and adjust its value according to the presence or absence of value determining characteristics. This approach is based upon the principles of supply and demand and upon the principle of substitution.

Valuation of leasehold

A leasehold is the real right of the lessee acquired from an owner (the lessor) of a piece of real estate to occupy and use it for a fixed term or period at a stipulated rental rate, and subject to conditions set forth in a written document of lease. The lease may include the right of the lessee to improve the land, mortgage the building, sublet all or part of the property, and assign or sell his leasehold.

The task of the appraiser is to estimate the present worth or “market value” of the imputed rental income of the lessee derived from the property over and above the rent required to be paid by him to the lessor under the terms of the lease and his interest in any improvements made by him. In evaluating a leasehold, the appraiser must have a thorough knowledge of all the salient terms and conditions of the primary or main lease and any subleases, for these affect the value of the leasehold considerably, such as:

- a. Rental. If the rental to be paid under the terms of the lease is below the rental prevailing in the market, the leasehold may have a substantial value. Where the rental actually paid is the prevailing rental value of the property, the leasehold may have no value. Prevailing rental rates refer to the rental rates of comparable properties within comparable locations.
- b. Term of Lease. A long-term lease or the right of the lessee to renew the lease at the expiration of the original term of the lease may add value to the leasehold.
- c. Payment for Improvement
- d. Option to Purchase
- e. Leasehold Restrictions

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Loan Valuation Based on Appraisal
Valuation Framework or Methodology

The valuation of properties under the housing microfinance loan program will be based on prevailing market values of real estate properties (freehold and right to

occupy and/or build) or prevailing rental rates (leasehold/usufruct). The standard practice of participating banks in determining the loan to collateral ratios shall be adopted.The following terms provided in the table below may be applied:

FORM OF SECURE TENURE OR PROPERTY RIGHT	NATURE AND DESCRIPTION OF ACCEPTABLE INSTRUMENT	TERMS AND CONDITIONS	APPRAISAL METHODOLOGY	LOAN VALUATION
Usufruct	<i>Usufruct agreement or contract</i> – Duly executed contract executed by the owner of the property granting the usufructuary/ beneficiary/ client the right to use, possess, and enjoy the real property including its fruits and other rights or benefits	The Term of Lease must not be less than the term of the loan.	Valuation of Leasehold Interest	70% of the appraised value of the collateral
Lease	<i>Lease agreement or contract</i> – Duly executed contract granting the lessee the right to use and possess the real property for a fixed long-term period in consideration of rental payments	The Term of Lease must not be less than the term of the loan	Valuation of Leasehold Interest	70% of the appraised value of the collateral
Freehold	<i>OCT/TCT</i> – Torrens title issued by the Register of Deeds evidencing absolute ownership of real property <i>Interim Title, Contract to Sell or Conditional Sale</i> – Duly executed contract or other legal instrument issued by the appropriate government agency indicating full payment for the purchase of the property or its conditional sale or conveyance to be perfected upon full payment of the purchase price and/or the fulfillment of other conditions	Adjustment of appraisal value due to documentary nature or status of instrument must be taken into account	Market Data Approach	90% of the appraised value of the collateral

FORM OF SECURE TENURE OR PROPERTY RIGHT	NATURE AND DESCRIPTION OF ACCEPTABLE INSTRUMENT	TERMS AND CONDITIONS	APPRAISAL METHODOLOGY	LOAN VALUATION
Right to occupy and/or build	(1) Certification validly issued by the appropriate government agency stating that the borrower/client has the right to occupy, build and/or acquire the property he/she is possessing being an eligible beneficiary of a public or private social housing program or a Presidential proclamation, or (2) certification or written acknowledgment from the owner of the property that the borrower/client has the owner's consent and permission to occupy and build on such property	Adjustment of appraisal value due to documentary nature or status of instrument must be taken into account	Market Data Approach (as to the improvement or housing unit)	70% of the appraised value of the collateral

(MAB-2008-015 dated 19 March 2008)

FORMAT CERTIFICATION ON DEPOSIT/CASH DELIVERY SERVICES
(Appendix to Sec. X266)

Name of Bank

CERTIFICATION

We, _____, Executive Vice President (or its equivalent position) and _____, Compliance Officer, certify that the (Name of Bank) shall render deposit pick-up/cash delivery services beyond regular banking hours/days to the following clients:

Servicing Banking Unit ^{1/}	Client Name and Address ^{2/}	Deposit Pick-up/Cash Delivery services	
		Days	Hours

1/ The name of the branch or banking unit that will render the Deposit Pick-up/Cash Delivery Services
2/ Name and address of client requesting deposit pick-up/cash delivery services

We further certify that in the performance of deposit pick-up/cash delivery services to the above clients, the (Name of Bank) shall comply with all the conditions provided under Section X266 of the Manual of Regulations for Banks on Deposit Pick-up/Cash Delivery Services.

This certification executed on _____ is being submitted in compliance with the requirements of abovementioned regulation.

Signed:

Signed:

(Name of Executive Vice President)
Position:

(Name of Compliance Officer)
Position:

Subscribed and sworn to before me, this _____ day of _____, affiants exhibiting their valid identifications indicated below:

<u>Name</u>	<u>Government ID/Passport No.</u>	<u>Date/Place Issued</u>
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Notary Public

(Circular No. 614 dated 14 July 2008)

**BASIC STANDARDS IN THE ADMINISTRATION OF TRUST, OTHER FIDUCIARY
AND INVESTMENT MANAGEMENT ACCOUNTS**
(Appendix to Subsec. X401)

I. Introduction

Trust and other fiduciary business and investment management activities have evolved with the changes in the financial market and advancement in technology. These innovations have allowed trust entities to expand the scope of trust products and services offered to customers, thus increasing their exposure to various risks. As trust entities grow more diverse, necessarily policies and procedures as well as risk management practices must keep pace. The basic standards would provide common processes for an efficient operation and administration of trust, other fiduciary and investment management activities across the trust industry.

II. Statement of policy

It is the policy of the BSP to provide adequate level of protection to investors who, under a fiduciary arrangement, engage the services or avail of products of trust entities which are required to observe prudence in the exercise of their fiduciary responsibility. Along this line, the BSP prescribes basic standards for the efficient administration and operation of trust and other fiduciary business and investment management activities.

III. Standards

The basic standards in the administration of trust, other fiduciary and investment management accounts are meant to address the significant areas of operations and provide minimum set of requirements and procedures:

A. Account acceptance and review processes

1. Pre-acceptance account review

This review must document that the trust entity (TE) can effectively administer

the account. It shall be covered by a written policy which shall contain, among other things, the types of trust, other fiduciary and investment management accounts that are desirable and consistent with the TE's risk strategies and the specific conditions for accepting new accounts, and approved by the Trust Committee, or the Trust Officer, or subordinate officer of the trust department, authorized by the board of directors or its functional oversight equivalent, in the case of foreign banks and institutions.

The review process entails the thorough and complete review of the client's/account's characteristics and investment profile, including the assets/properties to be contributed/delivered. Non-financial/non-traditional assets (i.e., real estate and the like) which are more likely to be illiquid shall be carefully reviewed prior to acceptance to ensure that the TE only accepts accounts which hold assets it may be able to properly manage.

Prior to the acceptance of a fiduciary account, the TE shall review the underlying instrument (trust agreement or contract) for potential conflicts of interest. If such conflict exists, the TE shall take appropriate action to address such condition before the account is accepted.

In cases where the TE is chosen as a successor trustee or investment manager, the TE shall perform a review and evaluation of all assets to be delivered to the TE to determine how these would serve the client's objectives, whether the TE can properly handle such assets and to assess any possible issue/problem which may arise with respect to such assets before acceptance of such assets and/or assumption of the trust, fiduciary or investment management relationship.

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2. Establishment and post-acceptance review

Acceptance policies for new accounts shall, at a minimum, include the following processes and/or requirements:

(a) *Account opening process.* This process defines the TE's policies and procedures for client/account identification, consistent with the TE's KYC policy for compliance with anti-money laundering regulations; identification of the needs of the client; the objective(s) of the engagement; the vehicle to be used; and the account's investment parameters. The trust officer or other authorized personnel of the trust department shall conduct the account opening process for trust, fiduciary and investment management accounts. In the case of UIT Funds, only authorized branch managers/officers as well as UIT marketing personnel, who have all successfully undergone the required certification/accreditation/licensing process, may perform said process for UIT Fund clients. The account opening process shall at least involve the following:

(a) As a general rule, client profiling shall be performed for all UIT Fund and regular trust, other fiduciary and investment management accounts via a duly acknowledged Client Suitability Assessment (CSA), which aims to provide the TE with information leading to the prudent design of investment packages, suited to a particular client or investment account. The CSA, however, shall not be required for the following trust and other fiduciary accounts:

- (i) court trust;
- (ii) legislated and quasi-judicial trust;
- (iii) trust under indenture;
- (iv) facility/loan agency;
- (v) transfer agency;
- (vi) depository and reorganization;
- (vii) escrow;
- (viii) custodianship;
- (ix) safekeeping; and
- (x) institutional trust – pre-need plans.

The profiling process, to be documented through a CSA Form signed by the concerned parties, shall be undertaken on a per client basis, which shall emphasize the level of risk tolerance of the client.

- CSA

The TE shall obtain adequate information from the client to determine the appropriateness of the fiduciary product/service to be provided and ensure the suitability of the investment product/portfolio/strategy to be recommended to each client. It shall provide prospective clients with client suitability questionnaire and require them to accomplish the same prior to the acceptance of the account and execution of a transaction.

For this purpose, the TE shall make an assessment of the client's level of financial sophistication and consider factors relevant to the creation and management of, or participation in, an investment portfolio, such as but not limited to, the specific needs and unique circumstances of the client and/or beneficiary/(ies), basic characteristics of the clients' investment and experience, financial constraints, risk tolerance, tax considerations and regulatory requirements.

The same CSA process shall be applied by the TE for directional accounts.

- Minimum information required for CSA:

i. Personal/Institutional data. Minimum personal/institutional information that are unique to a natural or juridical client, which shall also cover demographics and KYC information; the identity of beneficiaries, where applicable, and approximate portion of total assets administered/managed.

ii. Investment objective. A clear statement or definition of the client's investment goals/purposes to be achieved through a particular trust, fiduciary or investment product or service. The client may opt to open several accounts, each one (1) with specific investment objectives

separate and distinct from the other accounts.

iii. Investment experience. A list of various types of investment the prospective client is familiar with, acquired from actual/personal investment experience, or of similar investment circumstances.

iv. Knowledge and financial situation. For complex transactions where the level of risk involved is greater, the TE must take into account the knowledge, experience and financial situation of the client or potential client to assess the level of investment sophistication. This may include the careful assessment whether the specific type of financial instrument/service/portfolio/strategy is in line with the client's disclosed financial capacity.

Such assessment is necessary as there are significant risks involved on financial investments (e.g., derivatives), the type of transaction (e.g. sale of options), the characteristics of the order (e.g., size or price specifications) or the frequency of the trading.

v. Investment time frame and liquidity requirement. The TE is able to organize the portfolio in a manner that will provide for anticipated liquidity requirement through redemption of principal contribution or earnings.

vi. Risk tolerance. Allow the TE to classify clients in accordance with its own pre-set internal risk classification.

Based on the results of the CSA, classification of clients by the TE may include, but need not be limited to the following:

i. *Conservative*. Client wants an investment strategy where the primary goal is to prevent the loss of principal at all times, and where the client prefers investment grade and highly liquid assets, government securities, Republic of the Philippines' bonds (ROPs), deposits with local banks/branches of foreign banks operating in the

Philippines, and deposits with FIs in any foreign country: *Provided*, That said FI has at least an investment grade credit rating from a reputable international credit rating agency. For purposes of investing in a UIT Fund, a client wants an investment strategy where the primary objective is to prevent the loss of principal at all times and where the fund is invested in deposits with local banks/branches of foreign banks operating in the Philippines and with FI in any foreign country: *Provided*, That said FI has at least an investment grade credit rating from a reputable international credit rating agency.

ii. *Moderate*. Client wants a portfolio which may provide potential returns on investment that are higher than the regular traditional deposit products and client is aware that a higher return is accompanied by a higher level of risk. Client is willing to expose the funds to a certain level of risks in consideration for higher returns.

iii. *Aggressive*. Client wants a portfolio which may provide appreciation of capital over time and client is willing to accept higher risks involving volatility of returns and even possible loss of investment in return for potential higher long-term results.

- Investment policy statement

The TE shall have in place a method by which suitability of investment is determined based on the results of the CSA and formulated via an Investment Policy Statement (IPS). It shall communicate to prospective clients the results of the assessment, recommend the investment product/portfolio/strategy, and explain the reasons why, on the basis of the given information, its recommendation is to the best interest of the client as of a defined timeframe. The TE shall make a recommendation only after having reasonably determined that the proposed investment is suitable to the client's and/or beneficiary's financial situation, investment experience, and investment objectives.

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The IPS is a clear reference frame for investment decisions and must be based on the investment objectives and risk tolerance of the client. It must include, at a minimum, a description of the following:

- i. Investment objective;
- ii. Investment strategy-indicating how assets will be allocated indicating the agreed portfolio mix;
- iii. Investment performance review – indicating proposed market benchmarks, if any and the desired frequency of the performance review/reporting;
- iv. Investment limits – identifies any limitation which the client may have for the portfolio such as investment restrictions (e.g., prohibited investments) and client's consent for taking losses.

For UIT Fund, the IPS is equivalent to the investment objective of the fund specifically stated in the Declaration of Trust.

- Option of client to re- classification

Generally, the TE shall recommend the investment product/portfolio/strategy suitable to the client based on the results of the CSA. The TE may, however, provide a process for allowing clients to invest in investment products/ portfolio/strategy with a higher risk than those corresponding to the CSA profile results. A client who exercises the option to be re-classified outside the CSA process thereby waives some of the protection afforded by these guidelines. Such re-classification may be allowed subject to the observance of the following:

- i. The client shall state in writing to the TE that -
 - He does not agree with or accept the recommendation of the TE on the investment product/portfolio/strategy appropriate to the client's profile based on the results of the CSA;
 - He would like to avail of the investment product/portfolio/strategy other than that which is consistent with the results of the CSA;

- He requests/intends to be re-classified, either generally or in respect to a particular investment/service/ transaction/ product; and

- He fully understands and is willing to take the risks incidental to the investment product/portfolio/strategy to be availed of.

- ii. The TE shall issue a clear written warning to the client of the protections he may lose and conversely, of the risks that he is exposed to.

- iii. The TE shall have taken all reasonable steps to ensure that the client meets all relevant requirements as provided for in the TE's written policies.

- Frequency of CSA and IPS

- i. The CSA shall be performed and the IPS shall be formulated and executed prior to the opening of the account;

- ii. The TE shall update the CSA and the IPS at least every three (3) years except in the following instances;

- Whenever updates are necessitated by the client, upon notice/advise to the TE, on account of a change in personal/financial circumstances or preferences, the TE shall adjust/modify its investment strategy/ portfolio and recommendation, subject to the conformity of the client;

- Whenever managed trust, other fiduciary, and investment management accounts express intention to invest in complex investment products such as financial derivatives, the TE shall ensure that the CSA and the IPS are updated at least annually. Otherwise, the TE shall not make new/additional investments in complex investment products.

- iii. The TE shall ensure that periodic written notices given to clients reminding them of such updates are received/ acknowledged by clients or their authorized representatives;

- iv. Updated CSA and IPS shall be acknowledged by the client;

- v. The frequency of review shall be included as a provision in the written agreement; and

vi. The latest CSA and IPS will continue to be applied for any subsequent principal contributions to the account, until these are amended or updated by the client.

(b) Identification of degree of discretion granted by client to the TE. This process involves the determination of the extent of discretion granted to the TE to manage the client's portfolio.

(1) Discretionary. The TE has authority or discretion to invest the funds/property of the client in accordance with the parameters set forth by the client. Such authority of the TE which obtained a composite Trust Rating of "4" in the latest BSP examination will not be subject to the investment limitations provided under Subsecs. X409.2 and X409.3 for trust and other fiduciary accounts and Subsecs. X411.4 and X411.5 for investment management accounts, respectively; and

(2) Non-discretionary. Investment activity of the TE is directed by the client or limited only to specific securities or properties and expressly stipulated in the agreement or upon written instruction of the client.

(3) Documentation. The trust, fiduciary or investment management relationship shall be formally established through a written legal document such as the trust or investment management agreement. The engagement documents shall clearly specify the extent of fiduciary assignments/responsibilities of the TE and articulate the nature and limits of each party's status as trustor/principal or trustee/agent. Policies and procedures shall provide that trust or investment management agreements are signed by the trust officer or , subordinate officer of the trust department, or in the case of UIT Funds, branch managers/officers duly authorized by the board of directors.

The documentation process must also consider the following:

(a) The Agreement must conform to the requirements provided under Subsec. X409.1 for trust and other fiduciary accounts

and Subsec. X411.1 for investment management accounts. In addition, the Agreement shall contain the following provisions:

(i) A description of the services to be provided;

(ii) All charges relating to the services or instruments envisaged and how the charges are calculated;

(iii) The obligations of the client with respect to the transactions envisaged, in particular his financial commitments towards the TE; and

(iv) For engagements involving management of assets or properties, the degree of discretion granted to the trustee or agent must be clearly defined and stated in the agreement;

(b) The Agreement shall be in plain language understandable by the client and/or personnel of the TE responsible for explaining the contents of the agreement to the client.

(c) For complex investment products such as financial derivatives instruments or those that use synthetic investment vehicles, the TE shall disclose to the client and require client's prior written conformity to the following:

(i) Key features of investment services and financial instruments envisaged, according to the nature of such instruments and services;

(ii) The type(s) of instruments and transactions envisaged;

(iii) The obligations of the TE with respect to the transactions envisaged, in particular, its reporting and notice obligations to the clients; and

(iv) An appropriate disclosure bringing to the client's attention the risks involved in the transactions envisaged.

(d) In order to give a fair and adequate description of the investment service or financial instrument, the TE shall provide a clearly stated and easily understood Risk Disclosure Statement to its clients, which

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forms part of or attached to the trust, fiduciary or investment management agreement. The Risk Disclosure Statement shall contain, among other things, the following provisions:

(i) Cautionary statement on the general risks of investing or associated with financial instruments, i.e., if the market is not good, an investor may not be able to get back his principal or original investment. Such statement must be given due prominence, and not to be concealed or masked in any way by the wording, design or format of the information provided;

(ii) If the investment outlet is exposed to any major or specific risks, a description and explanation of such risks shall be clearly stated; and

(iii) Advisory statement that for complex investment products, said instruments can be subject to sudden and sharp falls in value such that the client may lose its/his entire investment, and, whenever applicable, be obligated to provide extra funding in case it/he is required to pay more later.

Additional risk disclosures may be provided as appropriate.

The TE must ensure that the trust, fiduciary and investment management agreements and documents have been reviewed and found to be legally in order.

B. Account administration

It is the fundamental duty of a fiduciary to administer an account solely in the interest of clients. The duty of loyalty is a paramount importance and underlies the entire administration of trust, other fiduciary and investment management accounts. A successful administration will meet the needs of both clients and beneficiaries in a safe and productive manner.

Account administration basically involves three (3) processes, namely; (1) periodic review of existing accounts, (2) credit process and (3) investment process.

(1) Periodic review of existing accounts
The board of directors and Trust

Committee shall formulate and implement a policy to ensure that a comprehensive review of trust, fiduciary and investment management accounts (including collective investment schemes such as UIT Funds) shall be conducted. The periodic review of managed accounts shall be aligned with the provisions on the review and updating of the CSA and IPS. The board of directors may delegate the conduct of account review to the Trust Officer or Trust Department Committee created for that purpose. The policy shall likewise indicate the scope of the account review depending upon the nature and types of trust, fiduciary and investment management accounts managed.

A comprehensive accounts review, which shall entail an administrative as well as investments review, shall be performed on a periodic basis to ascertain that the account is being managed in accordance with the instrument creating the trust and other fiduciary relationship. The administrative review of an account is taken to determine whether the portfolio/assets are appropriate, individually and collectively, for the account, while an investment review is used to analyze the investment performance of an account and reaffirm or modify the pertinent investment policy statement, including asset allocation guidelines. Whether the administrative and investment review are performed separately or simultaneously, the reviewing authority shall be able to determine if certain portfolio/assets are no longer appropriate for the account, (i.e., not consistent with the requirements of the client) and to take proper action through prudent investment practices to change the structure or composition of the assets.

The periodic review process also involves disclosure of information on the investment portfolio and the relevant investing activities. Regardless of the degree of discretion granted by the client to the TE, the former assumes full risk on the

investment and related activities, and counterparties. Relevant changes in the TE's organization or investment policies that may affect the client's decision to continue the services of the TE shall be disclosed to the client.

In the case of non-discretionary public interest accounts such as employee benefit/retirement or pension funds, due diligence review of the investment portfolio by the TE shall include providing investors with appropriate information needed to make an informed investment decision and avoid possible conflict of interest and self-dealing situations.

The TE should be able to show (in addition to the specific written directive from the client) what it has done in the exercise of due diligence and prudence on its part to protect the interest of the client and/or beneficiaries, especially for accounts of public interest like retirement/pension fund accounts.

The TE shall keep its clients informed of the investment and related activities by rendering periodic reports and financial statements prescribed under Subsec. X425.1 and as necessary. The types of reports and statements and the frequency of their submission must be clearly specified in the TE's written policies and procedures.

The TE shall also establish a system that enables a trust account representative or officer to periodically contact clients and/or beneficiaries to determine whether their financial objectives and circumstances have changed.

(2) Credit process

Each trust entity shall define its credit process in relation to the discharge of the TE's investment function. The process ensures credit worthiness of investment undertakings including dealings and relationship with counterparties. It also serves to institutionalize the independence of the credit process of the TE. The credit process must at least cover the following:

a. *Credit policies.* Trust entities must clearly define its credit policies and processes, including the use of internal and external credit rating and approval process relative to the delivery of its instrument function. The TE can share credit information with the bank proper subject to proper delineation and documentation. The credit process shall show the following at the minimum:

- i. Clear credit process flow, from initiation of the lending activities envisioned by the TE up to the execution of actual investment;
- ii. Credit criteria and rating used;
- iii. Manner by which the TE handles the information, including confidential and material data, which is shared between and among the departments, subsidiaries or affiliates of the TE; and
- iv. Clear delineation of duties and responsibilities of each of the departments, subsidiaries and affiliates of the TE, where such groups or entities share the credit process.

b. *Counterparty accreditation process.* The TE must clearly define the policies and the processes it will undertake to accredit counterparties, including the bank proper, and its subsidiaries and affiliates, for their investment trading functions. It may use or avail itself of the accreditation process of its bank proper provided there is proper delineation of functions. The counterparty accreditation process shall show the following at the minimum:

- i. Clear accreditation process flow from the initiation of credit activities up to the actual usage of lines;
- ii. Credit criteria and rating used;
- iii. Manner by which the TE handles the information, including confidential and material data, which are shared between and among the departments, subsidiaries or affiliates of the TE;
- iv. Usage, duties and responsibilities of each of the department, subsidiaries and

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affiliates of the TE, where there is sharing of credit lines between and among these concerned groups/entities; and

v. Clear delineation of duties and responsibilities of each of the departments, subsidiaries and affiliates of the TE, where such groups or entities share the accreditation credit process.

(3) Investment process

This process defines the investment policies and procedures, including decision-making processes, undertaken by the TE in the execution of its fund/asset management function. The primary objective of such process is to create a structure that will assure TEs observe prudence in investment activities at all levels, preservation of capital, diversification, a reasonable level of risk as well as undivided loyalty to each client and adherence to established structure for the TE's investment undertakings. The investment process covers a broad range of activities; thus, the investment policies shall clearly outline the parameters that, at a minimum, include the following:

a. *Overall investment philosophy, standards and practices.* A general statement of principles that guides the portfolio manager in the management of investments outlined in the board-approved policy, along with a discussion on the practices and standards to be implemented to achieve the desired result.

b. *Investment Policies and Processes.* Defines the policies and the processes undertaken to create the portfolio to ensure the proper understanding of the client's preferences.

i. Profiling of client. Aims to understand the level of maturity of the client relevant to the creation of an appropriate portfolio.

ii. Portfolio construction for custom-made portfolios. Includes the process of researching and selecting recommended portfolio and setting objectives or strategies for diversification by types and classes of securities into general and specialized portfolios.

- Asset allocation. Outlines the process and criteria for selecting and evaluating different asset classes identified to be appropriate for the client's profile and investment objective. It includes the allocation of desired tenors in conjunction with the client or portfolio profile based on the CSA or IPS. The asset allocation may be based on percentage to total funds managed by the TE or stated in absolute amount whichever is preferred by the client.

- Security selection. Policies and procedures on the selection of investment outlets, including investment advisory, must be in place. This involves the selection of issuers for each of the identified asset classes. The process provides for the review of investment performance using risk parameters and comparison to appropriate benchmarks. It shall also identify the documentation required for all investment decisions.

If the TE uses approved lists of investments, there shall be an outline of the criteria for the selection and monitoring of such investments, as well as a description of the overall process for addition to and deletion from the lists.

- Benchmark selection/creation. Selects or crafts the benchmarks to reflect the desired return of the portfolio and to measure the performance of the portfolio manager. The TE shall be required to measure performance based on benchmarks to gauge or measure the performance of the account. The TE must have clear definition of its benchmarking policy.

- Limits. Identifies any limitations on portfolio management which the client may impose on the TE. These limitations have to be specific as to the nature of the portfolio, such as but not limited to, core holdings, investment in competitor companies, and companies engaged in vices.

- Risk disclosure statement. A clear and appropriately worded statement/s to disclose different risks to clients of the

various investment undertakings of the investment manager done in behalf of the client.

iii. Internal policies on trade allocation. Defines the institution's policies in ensuring timely, fair and equitable allocation of investments across investing portfolios.

iv. Diversification of discretionary investments. The TE shall have a policy on the general diversification requirements for asset administration, as well as the process implemented to monitor and control deviations from policy guidelines.

v. A TE shall have access to timely and competent economic analyses and forecasts for the capital markets and other products in which its clients will be investing. TEs engaged in more complex transactions may consider providing an economic and securities research unit that continually monitors global trends and capital markets. This unit provides necessary forecasts of capital market expectations, currency relationships, interest rate movements, commodity prices, and expected returns of asset classes and individual investment instruments, which help the TE establish appropriate investment policies and strategies, select appropriate investments, and manage risks effectively.

vi. The TE shall have a process that will confirm trust personnel with investment functions know and follow the BOD-approved investment policies and processes.

c. *Selection and use of brokers/ dealers.* The quality of execution is an important determinant in broker selection. In selecting brokers/dealers, a TE must consider the following minimum standards and criteria:

i. Execution capability and ability to handle specialized transactions;

ii. Commission rates and other compensation;

iii. Financial strength, including operating results and adequacy of capital and liquidity;

iv. Past record of good and timely delivery and payment on trades;

v. Value of services provided, including research; and

vi. Available information about the broker from other broker customers, regulators, and self-regulated organizations authorized by the SEC.

The TE with large portfolio may opt to evaluate broker performance using a formalized point scoring system. A list of approved brokers shall be made available by the TE, reviewed periodically and updated at least annually.

d. *Best practices.* The TE shall document best practices policies and processes to institutionalize proper safeguards for the protection of its clients and itself. At a minimum, the policies must include the following standards:

i. Best execution. The TE shall use reasonable diligence to ensure that investment trades are executed in a timely manner and on the best available terms that are favorable to the client under prevailing market conditions as can be reasonably obtained elsewhere with an acceptable counterparty. For related counterparties, no purchase/sale must be made for discretionary accounts without considering at least two (2) competitive quotes from other sources. The policy on best execution must document processes to warrant such execution is readily and operationally verifiable.

ii. Chinese wall. A clear policy on Chinese Wall aims to protect the institution from conflict of interest arising from varying functions carried by the TE in relation to credit (debt), shareholder, and investment position taking. The policy shall state the duties and responsibilities of the TE and each department including that of the bank proper and subsidiaries and affiliates should transactions involve the concerned departments and entities.

iii. Personnel investment policies. These policies aim to ensure honest and fair discharge of investment trading functions of all qualified personnel. Qualified personnel

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are those that may have access to information on clients and investment position-taking of clients, investment manager or portfolios. The use of such information may be abused and detrimental to the clients. The policy shall state the duties and responsibilities of each qualified personnel in relation to trading and portfolio management activities including allowed and not allowed transactions as well as sanctions in case of violations.

iv. Confidentiality and materiality of Information. The TE must keep information about past, current and prospective clients confidential, unless disclosure is authorized in writing by the client or required by law and the information involve illegal activities perpetrated by the client. It must ensure safekeeping of confidential and material information and prevent the abuse of such information to the detriment of the institution or its clients.

v. Fair dealing. The TE shall document dealing practices to ensure fair, honest and professional practices in accordance with the best interest of the client and counterparties at all times and for the integrity of the market. It must ensure that any representations or other communications made and information provided to the client are accurate and not misleading. The TE must also take care not to discriminate against any client but treat all clients in a fair and impartial manner.

vi. Diligence and reasonable basis. In conducting its investment services, the TE shall act with skill, and care and diligence, and in the best interests of its clients and the integrity of the market. The duty of due diligence is intertwined with the duty to maintain independence and objectivity in providing investment recommendations or taking investment actions. When providing advice to a client, the TE shall act diligently and make certain that its advice and recommendations to clients are based on thorough analysis and take into account available alternatives.

- The TE shall take all reasonable steps to execute promptly client orders in accordance with the instruction of clients.

- The TE, when acting for or with clients, shall always execute client orders on the best available terms.

- The TE shall ensure that transactions executed on behalf of clients are promptly and fairly allocated to the accounts of the clients on whose behalf the transactions were executed.

Where a client opts not to accept the recommendation of the TE and chooses to purchase another investment product which is not recommended, the TE may proceed with the client's request/ instruction, provided it shall document the decision of the client and highlight to him/her that it is his/her responsibility to ensure the suitability of the product selected.

vii. In-House or related party transactions handling. The TE shall define the policies in handling related-interest transaction to ensure that the best interest of clients prevails at all times and all dealings are above board. It must conform to the requirements of Subsecs. X409.3 and X411.5.

viii. Valuation. The TE shall document the institution's valuation process to show the sources of prices, either market or historical value, and the formula used to derive the NAV of investment portfolios. Valuation shall be understood, compliant with written policies and operating procedures, and used consistently within the TE. The TE must ensure that the valuation processes of service providers, custodians, and other subcontractors are compatible with those of the TE and in compliance with relevant statutory or regulatory valuation standards.

Risk officers shall document the accuracy and reliability of all valuation processes and data sources and ensure that valuations are completed as required by internal policies and procedures and regulatory reporting standards.

e. *Conflicts of interests.* These may arise when the TE exercises any discretion where mutually opposing interests are involved. The most serious conflict of interest is self-dealing, which could include transactions such as an investment in related interests of the TE or purchase of securities from or through an affiliate. Such transactions must be fully disclosed and authorized in writing by clients. Because of the complexity and sensitivity of the issue, a TE must develop policies and procedures to identify and deal with conflicts of interest situations.

3. Account termination

Accounts may be terminated for a variety of reasons, including the occurrence of a specified event or upon written notice of either the client or the TE. The trust or investment management agreement shall provide for the terms and manner of liquidation, return and delivery of assets/portfolio to the client. Generally, the TE's responsibilities include distribution to the client, the successor trustee and/or beneficiaries of the remaining assets held under trusteeship/agency arrangement, preparation and filing of required reports. The TE must ensure the risk control processes are

observed when terminating accounts just as when accepting them.

The TE must have a general policy with respect to the termination of trust accounts, which policy shall take into consideration the general processes to be observed in the return or delivery of different types of assets, the possible modes of distribution, fees to be paid, taxes to be imposed, the documentation required to effect the transfer of assets, the provision of terminal reports, and whenever applicable, the timing of distribution, needs and circumstances of the beneficiaries. Should the TE anticipate possible issues or problems with respect to the termination of the account, such as the liquidation of certain assets or the partition or division of assets, these issues shall be disclosed to the client for proper disposition. The policy on the termination of trust, fiduciary and investment management accounts shall likewise include the approval process to be observed for the termination of these accounts as well as the reporting requirements for accounts terminated and closed.

(Circular No. 618 dated 20 August 2008, as amended by Circular No. 721 dated 13 May 2011)

**RISK MANAGEMENT GUIDELINES FOR TRUST AND OTHER FIDUCIARY BUSINESS
AND INVESTMENT MANAGEMENT ACTIVITIES
(Appendix to Sec. X401)**

I. Introduction

Recent changes in the nature and complexity of fiduciary activities have underscored the need for an effective and sound risk management process. With the deepening of the capital market and the increasing complexity of the financial environment, the risk management practices and techniques employed by financial institutions should continuously improve and adapt to these evolving financial landscape.

These guidelines aim to provide principles-based guidance in the implementation of sound risk management practices for trust, other fiduciary business, and investment management activities. As such, the applicability of these guidelines shall depend on the size, complexity, and risk profile of the institution's fiduciary activities.

II. Statement of Policy

It is the policy of the Bangko Sentral ng Pilipinas to support the development of the Philippine financial market and promote adequate level of protection to investors through, full and fair disclosure on financial instruments covering banking and fiduciary activities. With the continuous emergence of complex financial products, investor protection is a significant concern in building investors' confidence in the Philippine financial market. It is in furtherance of this policy that Bangko Sentral prescribes risk management guidelines for fiduciary activities aligned with the basic standards in the administration of fiduciary products and services by trust entities (TEs).

III. Risk Management Principles for Fiduciary Activities

Risk management practices must be designed to ensure that exposures are well within TEs capacity to manage and risks taken by the TE and

its clients are consistent with their respective risk tolerance. Risk management practices shall also promote efficiency in the administration and operation of the fiduciary business; ensure adherence and conformity with the terms of the instrument or contract; and maintain absolute separation of property free from any intrusion of conflict of interest.

As fiduciary activities become more diverse and complex, an institution's ability to effectively identify, measure, monitor and control risks should keep pace and continue to evolve. There is no single risk management framework that would effectively work for all TEs due to differing size, business model, complexity of activities, and risk profile. Nevertheless, regardless of the structure in place, the framework shall cover the following key elements of sound risk management system:

- a. Active and appropriate oversight by the BOD/Trust Committee or its functional oversight equivalent in case of foreign banks/institutions;
- b. Adequate risk management processes, policies and procedures;
- c. Appropriate risk measurement system, prudent risk limits, monitoring and management information system; and
- d. Comprehensive and effective internal control system, audit, and compliance program.

IV. Risks Associated with Fiduciary Activities

For purposes of these Guidelines, the following definitions of risks are adopted:

1. *Credit/counterparty risk* is the current and prospective risk to client's earnings or principal contribution arising from an obligor's failure to meet the terms of any contract with the TE or otherwise perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer, or borrower performance. It arises anytime fiduciary funds are extended,

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committed, invested, or otherwise exposed through actual or implied contractual agreements, and reflected in the client's financial statements. Credit/counterparty risk exists in the loan portfolio and other forms of credit accommodations.

2. *Market risk* is the current and prospective risk to client's earnings or principal contribution arising from changes in the value of the TE's holdings of investment portfolios. Market risk arises from dealing and position-taking activities in interest rate, foreign exchange and equity markets.

3. *Liquidity risk* is the current and prospective risk to client's earnings or principal contribution arising from a TE's inability to recognize or address unplanned changes in client's and/or beneficiary's needs thereby affecting the ability to liquidate assets quickly with minimal loss in value. The TE shall determine and maintain adequate level of liquidity in each accounts based on client-defined constraints/circumstances or product specifications.

4. *Operational risk* is the current and prospective risk to the bank's earnings or capital arising from fraud or error, and the inability of the TE to deliver products or services, maintain a competitive position and manage information. Operational risk is evident in each fiduciary product and service offered. As the fiduciary products and services become sophisticated or volume of activities expands, so does the level of operational risk. This risk encompasses product development and delivery, operational processing, systems development, and the internal control environment. Operational risk is present in the day-to-day operations of TEs and in all aspects of fiduciary activities.

A part of operational risk is legal risk which arises from non-adherence with the terms of the fiduciary agreement and the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect the operations of a TE.

5. *Compliance risk* is the current and prospective risk to the bank's earnings or capital arising from violation of laws, rules and

regulations of regulatory authorities, prescribed practices or sound fiduciary principles, internal policies and procedures, and prudent ethical standards. Compliance risk also arises in situations where the laws or rules governing certain fiduciary products or activities of the TE may be ambiguous or untested. This risk exposes the TE to fines, payment of damages, and the voiding of contracts. Compliance risk can lead to limited business opportunities, reduced expansionary potential, unenforceability of contract or even adversely affect TE's reputation.

6. *Strategic risk* is the current and prospective risk to the bank's earnings and capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. Strategic risk is a function of the compatibility of a financial institution's strategic goals, the business strategies developed to achieve those goals, the resources deployed in support of these goals, and the quality of implementation. The TE's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes. Financial success requires a sound strategic planning process embraced by the board and senior management.

7. *Reputation risk* is the current and prospective risk to the bank's earnings and capital arising from negative publicity regarding the financial institution's fiduciary business practices. The negative public opinion can cause (a) clients to question or doubt the TE's integrity to engage in fiduciary activities which can result in the termination of fiduciary relationships, (b) litigation costs to increase, or (c) revenues to decline. Reputation risk affects the TE's ability to establish new fiduciary relationships or services, or continue servicing existing relationships. Since public perception is critical in the fiduciary business, TEs should exercise an abundance of caution in dealing with clients and the public in general.

V. Risk Management Process

A TE shall develop and implement a formal, comprehensive, and effective risk management program that outlines, among other things, the risk management processes that effectively identify, measure, monitor and control risks affecting the clients and the TE. These processes shall also recognize and address the differences in the needs, objectives and risk tolerance of the clients and the TE. An effective risk management program can serve as an early warning system that enables the TE to anticipate and/or pro-actively identify potential problems from arising which may result in unanticipated loss to the clients and the TE. A risk management program should:

1. *Identify risk.* TEs shall recognize and understand existing exposures or those that may arise from new products/services, acceptance of new clients, and changes in operating environment. They shall establish procedures that identify and address such risks prior to initiation of the activities. Risk identification is a continuing process that should be embedded in all phases of TE's activities and shall cover both the individual investment transactions and portfolio activities. Identifying risk also involves the determination of the desired level of exposures both for the TE and client after taking into account the willingness and the ability to absorb risks.

2. *Measure risk.* TEs shall have appropriate systems or tools in place that could adequately quantify or measure both their client and their own risk exposure/s. It shall be the TE's responsibility to ensure that the risk measurement tools can adequately and reliably capture and quantify exposures. Risk measurement tools shall be subjected to independent and periodic validation and review to ensure that they remain reliable and appropriate. Effective risk measurement systems assess the risks of both individual transactions and portfolios and ensure that the sophistication of the risk measurement tools remains proportionate to the complexity of exposures.

3. *Monitor risk.* TEs shall monitor risk levels to ensure timely review of risk positions and exceptions. Monitoring reports should be frequent, timely, accurate, and informative and should be distributed to clients/individuals and appropriate level of management to ensure corrective action, when necessary.

4. *Control risk.* TEs shall establish and communicate risk limits through policies, standards, and procedures that define responsibility and authority. The types and sophistication of control processes shall be consistent with the risk tolerance standards defined by the BOD/Trust Committee and the client. TEs shall implement a process for tracking and reporting exposures to monitor the TE's compliance with risk tolerance standards.

The risk management process for fiduciary activities should be structured and incorporated in the required basic standards in the administration of fiduciary products and services.

VI. Sound Risk Management System

Consistent with the guidelines on supervision by risk set forth under *Appendix 72* (Appendix to Section X173), the Bangko Sentral shall assess the suitability and adequacy of a TE's risk management system in accordance with the following elements:

A. Active Board and Senior Management Oversight

1. The Board of Directors (or its functional oversight equivalent which may include the country head in the case of foreign banks/institutions) and the Trust Committee shall perform their responsibilities in accordance with the applicable provisions of this Manual.

2. *Independent Risk Management Function.* To uphold the principles of undivided loyalty and impartiality, and discourage possible conflicts of interest, the process of measuring, monitoring, and controlling risks shall be managed as independently as practicable by a body or personnel apart from those individuals who have

the authority to initiate transactions. The Board-designated body or personnel performing independent risk management on fiduciary activities shall either be part of or directly report to the risk management unit/department of the bank proper to ensure holistic implementation of enterprise-wide risk management framework. Nevertheless, the Board-designated body or personnel tasked to perform risk management function for fiduciary activities is not precluded to freely communicate with the trust officer or relevant trust committee any information relative to the discharge of its function.

B. Adequate Risk Management Processes, Policies and Procedures

The TE shall have Board-approved written risk management policies and documentation standards which provide detailed guidance for the day-to-day implementation of the TEs strategies and generally include risk limits, operating procedures and control processes designed to safeguard the TE and its clients from excessive and imprudent risks. Terminologies relevant to trust, other fiduciary and investment management activities shall be specifically defined and clearly described through appropriate sample documents/exhibits to avoid the likelihood of incomplete communication, ambiguities and misinterpretations.

Policies shall provide an outline on the formal process for the BOD/Management’s review (at least annually), amendment and approval. In the case of personnel management, the policies and procedures shall provide for personnel recruitment, training, performance evaluation, and salary administration that must address staffing needs, and compensation programs. Effective risk management requires experienced and competent officers and supporting staff.

Policies and procedures shall delineate lines of responsibility and accountability. Copies of policies and procedures, including updates and changes, shall be promptly transmitted to all concerned personnel who are directly or indirectly involved in fiduciary activities. Policies

and procedures shall, at the minimum, include:

1. Scope of fiduciary products and types of services offered to clients with clear description of each product and service
2. Organizational structure
3. Authorities and responsibilities of the:
 - (a)Board of directors
 - (b)Trust committee
 - (c)Trust investment committee and other related committees
 - (d)Trust officer*
 - (e)Trust Department/Branch/Unit Heads*
 - (f)Account officers/Marketing personnel, including those assigned in branches*
 - (g)Trading or Dealing officers and staff*
 - (h)Backroom officers and staff*
4. Basic standards in the administration of trust, other fiduciary business and investment management activities
5. Accounting and records maintenance
6. Policy review
7. System of financial and regulatory reporting
8. Client-oriented safety nets

C. Appropriate Risk Measurement System, Prudent Risk Limits, Monitoring and Management Information System

The process of measuring, controlling and monitoring fiduciary risks shall be carried out independently by personnel not directly involved in fiduciary activities. Results of this process shall be reported to the BOD, or to the appropriate Board-level committee, thru the risk management unit/department of the bank/institution proper in a timely and comprehensive manner. In the same manner, the trust officer or relevant trust committee should be apprised of the results of these processes and relevant risk management issues.

Risk Measurement System

In formulating the risk measurement models and methodologies for its fiduciary risk-taking activities, the TEs shall be guided by the minimum

* including minimum qualification standards

requirements prescribed in Appendices 73 (appendix to Section X174) and 74 (appendix to Section X175), and the guidelines provided under Appendix 25 (appendix to Section X611) as applicable.

TEs are expected to adopt models/ methodologies commensurate to the size, complexity and nature of the fiduciary activities undertaken. In addition, the TEs risk measurement system shall provide detailed guidelines on the:

- a. Frequency of risk measurement
- b. Sources of data, i.e., market prices
- c. Appropriateness of risk measurement tools given the complexity and level of risk assumed (including the reasonableness and validity of assumptions)
- d. Frequency of validation of risk measurement tools
- e. Ability to measure risk at both transactional and portfolio levels
- f. Frequency of review of the risk measurement system by the BOD and the trust committee

TEs shall develop a liquidity contingency plan for its investment portfolios especially for the UITFs to demonstrate how liquidity funding needs will be handled in times of crises, as well as supplement their market and liquidity risk measurement models with periodic stress testing.

Prudent Risk Limits

Risk limits shall be established, approved and periodically reviewed by the BOD or trust committee. In setting limits, the risk management policy shall include the determination of the experience, background and authority of individuals involved in setting portfolio limits, and the processes for setting and changing individual and portfolio limits; and shall recognize the restrictions/constraints that the client may impose on the TE. The risk management policy should also indicate when excess over approved limits may be allowed and the appropriate approving authority for such excess.

Limits must be documented and promptly communicated to all concerned personnel. Portfolio limits must be reviewed at least annually, but client-set limits must be reviewed at least quarterly to ensure consistency with the investment objectives set by the client and conformity to the terms of the contract.

Risk Monitoring and Management Information Systems (MIS)

Effective risk monitoring and control is dependent on accurate, timely, reliable, and relevant information processing and reporting systems. Rapid technology advancements create new risk monitoring and control issues, thus, the BOD should ensure that the impact of emerging technologies on fiduciary activities is properly considered. The BOD and Trust Committee shall be afforded with adequate information on the trust and investment management activities to properly fulfill their responsibilities. Accordingly, the TEs shall have policies and procedures in reporting information on fiduciary activities to the BOD and trust committee specifying, among other things, the type, amount and timing of information reported; methodology to ensure all identified risks are monitored; frequency, timeliness, accuracy and clarity of monitoring reports; report distribution to management and staff; and comparability of output against predetermined limits.

The sophistication of management information system (MIS) shall be commensurate with the complexity and diversity of the TEs operations such that a complex TE shall have a more comprehensive MIS.

Because of the cost involved in developing technology, a TE may opt to purchase information technology rather than develop its own internal system. Nonetheless, regardless of the source of information system, the BOD and Trust Committee shall exercise the proper level of control and oversight to appropriately fulfill their fiduciary duties. Service Agreements or vendor contracts shall be thoroughly reviewed by legal counsel to ensure that they include appropriate

indemnification and recourse language. In addition, contracts shall contain specific language recognizing the authority of the TE's regulators to conduct reviews of third-party vendors as part of their overall supervisory activities.

D. Comprehensive and effective internal controls, audit, and compliance program

Internal Control Systems

A comprehensive internal control is the foundation for the safe and sound functioning of a TE and its fiduciary risk management system. It shall form an integral part of the TE's overall system of controls and shall promote effective fiduciary operations and reliable financial and regulatory reporting, safeguard assets and help ensure compliance with relevant laws, regulations, and institutional policies.

Effectiveness of the internal control system shall be periodically tested by an independent party (preferably the auditor, or at least an individual not involved in the process being reviewed) who shall submit a formal report on the results of such testing/review directly to the BOD or the audit committee. The review shall cover all material controls and shall consider:

- The change in the nature and extent of significant risks, and the TE's ability to respond to such changes;
- The scope and quality of management's ongoing monitoring of risks and of the system of internal control, and the work of its internal audit function;
- The extent and frequency of the communication of results of the monitoring to the BOD or appropriate committee;
- The incidence of significant control failings or weaknesses that have been identified, and the extent to which they have resulted in losses or potential losses; and
- The effectiveness of the TE's reporting processes.

Given the importance of appropriate internal controls to an organization, management's

response to results of the test/review should be documented.

The system of internal control shall set forth clear lines of authority and appropriate segregation of operational duties and functions to ensure independence of the control areas from the business lines. An organizational chart shall specify the reporting lines for risk management, compliance, and internal audit groups.

Audit Program

A well-designed and executed internal audit program is essential to effective risk management and provides an independent assessment of the efficiency and effectiveness of the internal control system.

An effective audit program shall be based on an appropriate risk assessment methodology that documents the TE's significant fiduciary activities and their associated risks, and internal control systems. Such documentation shall be available for review by the Bangko Sentral. It shall describe the objectives of specific audit activities and list the procedures to be performed during the process.

While the frequency and extent of the internal audit review and testing shall be consistent with the nature, complexity and risk of the TE's fiduciary activities, existing Bangko Sentral regulations require the conduct of periodic internal audits of the TE at least once every twelve (12) months. The BOD may also require the adoption of a suitable continuous audit system to supplement or replace the periodic audit. In any case, the audit shall ascertain whether the TE's fiduciary activities have been administered in accordance with laws, Bangko Sentral rules and regulations, and sound fiduciary principles.

There shall also be a system that allows sensitive findings (e.g., defined non-observance of the basic principles on fiduciary relationships, unsafe and unsound practices, operational lapses/ deficiencies resulting to recognition of material losses) to be reported directly to the BOD. Moreover, the audit committee and/or BOD shall review the effectiveness of the internal audit and

other control review activities on a regular basis.

Bangko Sentral regulations also require annual external audit of the fiduciary activities of TEs and of each unit investment trust fund by an independent auditor acceptable to the Bangko Sentral.

Compliance Program

The TE shall develop and implement a compliance system for its trust, other fiduciary business and investment management activities, and appoint/designate a compliance officer to oversee its implementation in accordance with Secs. X180 and their corresponding subsections. The Board-designated body or personnel performing independent compliance function on fiduciary activities shall either be part of or directly report to the compliance unit/department of the bank proper to ensure holistic implementation of enterprise-wide compliance program. Nevertheless, the Board-designated body or personnel tasked to implement the compliance program for fiduciary activities is not precluded to freely communicate with the trust officer or relevant trust committee any information relative to the discharge of its function.

The compliance system must provide a

written and comprehensive compliance program designed to monitor observance with relevant laws, rules and regulations, internal policies including risk limits, internal control systems, fiduciary principles, and agreements with clients. The compliance system shall be periodically reviewed for relevance, effectiveness and appropriate follow-up.

The BOD must recognize the scope and implications of applicable laws; approve a compliance program that protects the TE from adverse litigation, increased regulatory oversight, and damage to reputation; and ensure that the compliance officer primarily undertakes to oversee and coordinate the implementation of the compliance system.

The extent of formality of the compliance program may vary from one TE to another. Nevertheless, an effective compliance programs have common elements that include:

- 1. A strong commitment from the BOD and Trust Committee;
- 2. A formalized program coordinated by a designated compliance officer that includes periodic testing and validation process;
- 3. Responsibility and accountability from line management;
- 4. Comprehensive training programs; and
- 5. Timely reporting and follow-up process

(Circular 766 dated 17 August 2012)

GUIDELINES FOR DAYS DECLARED AS PUBLIC SECTOR HOLIDAYS
(Appendix to Secs. X207, X256 and X601.6)

Time of receipt of Public Holiday Announcement by the BSP		Bangko Sentral ng Pilipinas							Reserve Position	Bureau of the Treasury		PCHC	
		Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal		Auction	Sec. Mkt.	Manila	Regional
		Overnight RP/RRP		Term RP& RRP/GS/ SDA/RDA									
		Trading	Settlement	Trading	Settlement								
1. On an ordinary business day prior to the date of effectivity		Closed	Closed	Closed	Closed	Closed	Closed	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its members that it will continue accepting and processing checks	To be decided in coordination with Head Office
2. On a Saturday or Sunday to take effect the following Monday or on a non-working holiday to take effect the next business day													
a. Under good weather condition		No change in trading hours	No change in settlement time	No change in trading hours	No change in settlement time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
b. Under unfavorable conditions such as bad weather, (e.g. Typhoon signal no. 3), natural calamities or civil disturbances		Closed	Closed	Closed	Closed	Closed	Closed	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its members that it will continue accepting and processing checks	To be decided in coordination with Head Office

Time of receipt of Public Holiday Announcement by the BSP		Bangko Sentral ng Pilipinas							Reserve Position	Bureau of the Treasury		PCHC	
		Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal		Auction	Sec. Mkt.	Manila	Regional
		Overnight RP/RRP		Term RP& RRP/GS/ SDA/RDA									
		Trading	Settlement	Trading	Settlement								
3. Before 9:00 a.m. on the date of effectivity		Closed	Closed	Closed	Closed	Closed	Closed	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its members that it will continue accepting and processing checks	To be decided in coordination with Head Office
4. After 9:00 a.m. on the date of effectivity	Day 1	Suspended to be resumed the following day at 9:01a.m. to 9:45 a.m.		No change in trading hours	No change in settle-ment time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
	Day 2	Resumed from 9:01 a.m. to 9:45 am (for value Day 1) then, 4:45p.m. to 5:30p.m. for same day transaction	9:01 a.m. to 10:00 a.m. 4:45p.m. to 5:45p.m.	No change in trading hours	No change in settlement time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
5. In case of suspension of work is extended to Day 2													
a. Before 9:00 a.m. of Day 2	Day 2	closed; Day 1 transactions will be moved to Day 3 (for value Day 1)	Closed	Closed	Closed	Closed	Closed	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement PCHC will issue an advisory to its members that it will continue accepting and processing checks	To be decided in coordination with Head Office

Time of receipt of Public Holiday Announcement by the BSP		Bangko Sentral ng Pilipinas							Reserve Position	Bureau of the Treasury		PCHC	
		Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal					
		Overnight RP/RRP		Term RP& RRP/GS/ SDA/RDA									
		Trading	Settlement	Trading	Settlement								
	Day 3	Resumed from 9:01 a.m. to 9:45 am (for value Day 1) then, 4:45p.m. to 5:30p.m. for same day transaction	9:01 a.m. to 10:00 am 4:45p.m. to 5:45p.m.	No change in trading hours	No change in settle- ment time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
b. After 9:00 a.m. of Day 2	Day 2	Resumed from 9:01 a.m. to 9: 45 a.m. (for value Day 1) then, Day 2 transactions suspended to be resumed the following day from 9:01a.m. to 9:45 a.m.	9:01 a.m. to 10:00 a.m. 4:45p.m. to 5:45p.m.	No change in trading hours	No change in settlement time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office

Time of receipt of Public Holiday Announcement by the BSP		Bangko Sentral ng Pilipinas							Reserve Position	Bureau of the Treasury		PCHC	
		Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal		Auction	Sec. Mkt.	Manila	Regional
		Overnight RP/RRP		Term RP& RRP/GS/ SDA/RDA									
		Trading	Settlement	Trading	Settlement								
	Day 3	Resumed from 9:01 a.m. to 9:45 am (for value Day 2) then, 4:45p.m. to 5:30p.m. for same day transaction	9:01 a.m. to 10:00 a.m. 4:45p.m. to 5:45p.m.	No change in trading hours	No change in settlement time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
6. In case the suspension of work does not apply to all government offices (Manila Day, Quezon City Day, etc.)		4:45 p.m. to 5:30 p.m. for same day transaction	4:45 p.m. to 5:45 p.m.	No change in trading hours	No change in settlement time	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office

(M-2008-025 dated 13 August 2008)

ILLUSTRATIVE ACCOUNTING ENTRIES

(Appendix to Section X564)

(Superseded by Circular No. 691 dated 23 June 2010)

**GUIDELINES ON THE AVAILMENT OF US DOLLAR DENOMINATED
REPURCHASE AGREEMENT FACILITY WITH THE BANGKO SENTRAL
(Appendix to Subsec. X601.1)**

The guidelines on the availment of USD denominated repo agreement facility of banks with the BSP are as follows:

A. Eligible borrowers

RBU's or FCDU/EFCDU's of banks with FCDU/EFCDU authority who can demonstrate legitimate funding needs can avail of this facility.

B. Qualifying purposes

Proceeds from the borrowings shall be used for legitimate liquidity requirements of FCDU/EFCDU or RBU for local operations as follows:

1. Compliance with FCDU/EFCDU cover requirements;
2. Servicing of withdrawals of FCDU/EFCDU; and
3. Servicing trade-related requirements.

Borrowing shall be for the account of the applicant bank and shall not be used to fund liquidity requirements of foreign head office, foreign branches, affiliates, or subsidiaries

C. Acceptable collateral

Eligible securities shall cover USD-denominated evidences of indebtedness issued directly by the Government of the Philippines (ROP Bonds) held by the applicant bank. These can be lodged in FCDU/EFCDU's or RBU's Available-for-Sale, HFT and HTM portfolios.

ROP Bonds to be pledged have to be transferred/credited to BSP's designated securities account before availment of the USD repo agreement facility.

The tenor of the underlying security should not be shorter than the overlying instrument.

D. Valuation of securities

The haircut on the underlying securities shall be determined by the Treasury Department, with the concurrence of the Governor. Collateral cover will be maintained through periodic margin calls as specified in the repo agreement.

Said valuation will be subject to periodic review and will be modified when necessary.

E. Available credit line

Credit lines shall be based on outstanding USD-denominated evidences of indebtedness issued directly by the Government of the Philippines (ROP Bonds) held by the applicant bank as of 30 September 2008.

F. Rate, term and trading time

The rates of the USD denominated repo agreement facility shall be set by the Treasury Department, with the concurrence of the Governor, taking into account prevailing liquidity/market conditions.

The term of the USD denominated repo agreement facility shall be set by the Treasury Department, with the concurrence of the Governor: *Provided*, That, should a bank become disqualified for the repo agreement facility, the outstanding repo agreement shall immediately become due and payable.

Trading time for the USD repo agreement transactions shall be set from 10:00 AM to 12 Noon, then from 1:00 PM to 2:00 PM.

G. Application requirements

Applicant bank shall submit the following information/documents, and

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such other documents as may be deemed necessary, to the Treasury Department, copy furnished the appropriate CPCD and SES, to aid BSP evaluate applications:

1. Application for availment of the facility stating therein the amount, requested term, specific purpose of the borrowing, including disclosure of the specific collateral, including source, i.e. RBU or FCDU/EFCDU;

2. Notarized undertaking/certification signed by the bank's president or country manager (in the case of local branch of a foreign bank), compliance officer and head of treasury, indicating the following:

(a) Specific purpose of fund utilization;

(b) Proceeds of borrowing shall be used exclusively to fund liquidity requirements of FCDU/EFCDU or RBU local operations;

(c) That the Bank is not a conduit for another bank nor will the Bank take arbitrage positions on the availment of the repo agreement facility.

H. Reportorial requirements

Banks with outstanding USD denominated repo agreement with the BSP are required to submit to the appropriate CPCD of the SES the following:

1. Report on the deployment/utilization of USD repo borrowing and other documents and supplemental information, as may be required, to enable BSP to assess the legitimacy of the utilization of such funds, within three (3) banking days from release of the proceeds of the repo agreement; and

2. All documents and records relative to the Bank's availment and use of proceeds of the USD denominated repo agreement facility shall be made available to the BSP upon request.

I. Pre-termination

1. The repo agreement may be paid at any time before maturity, subject to mutual agreement of both parties.

2. The BSP may unilaterally pre-terminate the borrowing arrangements under the following conditions:

(a) Funds are found to have been used for ineligible purposes

(b) Collateral margins, if any, are not met.

J. Documentation

The repo agreement between the bank and the BSP shall be covered by a master repo agreement, repo agreement confirmation and such other documentation as may be necessary to facilitate the transaction.

K. Accounting treatment

The USD denominated repo agreement facility shall be treated as collateralized borrowings from the BSP and shall be accounted for in accordance with the FRP issued under Subsection X161.3.

Eligible securities booked under the HTM category shall be subject to the tainting provision provided under Subsection X388.5 upon default/non-payment of the amount due three (3) banking days after the maturity of the repo agreement or disqualification of borrowers.

L. Penalty clauses

Violations of the terms and conditions of the USD repo agreement facility are governed by sanctions provided under X601.2, including but not limited, to termination of eligibility and pre-termination of any outstanding balance through repayment and/or sale of the collateral.

(M-2008-031 dated 23 October 2008 as amended/superseded by M-2008-034 dated 12 November 2008)

**GUIDELINES ON THE SUBMISSION OF APPLICATION FOR
MERGER AND CONSOLIDATION**
[Appendix to Subsec. X108.1(2008-X111.1)]

The following guidelines and procedures shall be observed by banks in their application for merger/consolidation:

1. The merging/consolidating entities shall comply with the safety and soundness test requirements as follows:

a. Compliance, especially by the acquiring bank, with major banking laws and regulations; and

b. Submission to the BSP of a satisfactory action plan, if applicable, to address serious supervisory concerns.

2. Submission of the following documentary requirements simultaneously to the BSP and the PDIC for merger/consolidation application involving a bank; and to the BSP for application involving only banks;

a. Articles of Merger or Consolidation duly signed by the President or Vice-President and certified by the secretary or assistant secretary of each of the constituent institutions setting forth the following as required in Section 78 of the Corporation Code:

- The Plan of Merger or Consolidation;
- The number of shares outstanding; and
- The number of shares voting for and against the Plan, respectively.

b. Plan of Merger or Consolidation setting forth the following:

- The names of the constituent institutions;
- The terms of the merger or consolidation and the mode of carrying the same into effect;
- A statement of the changes, if any, in the Articles of Incorporation of the surviving institution in the case of merger; and in the case

- Of consolidation, all the statements required to be set forth in the Articles of Incorporation;

- Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or desirable.

c. Resolution of the Board of Directors of the respective institutions approving the Plan of Merger or Consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

d. Resolution of the meeting of the stockholders in which at least two-thirds (2/3) of the outstanding capital stock of each corporation have approved the plan of merger or consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

e. Financial Statements:

- Latest financial statements and three (3) - year audited financial statements of the merging institutions

- Three (3) - year financial projections with valid assumptions of the merged or consolidated institutions' balance sheet and income statement.

f. List of merger incentives the bank will avail of;

g. List of stockholdings of each of the constituent institutions before and after the merger;

h. List of directors and officers of each of the merging/consolidating institutions;

i. List of proposed officers and directors of the merged or consolidated institution and the summary of their qualifications;

j. Organizational chart of the merged or consolidated institution including the number of offices and locations thereof;

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- k. Inter-company transactions relative to the submitted Financial Statements;
- l. Computation of Capital Adequacy Ratio on the submitted financial Statements;
- m. Viable Operational Plan with the following components:
 - Marketing Strategies
 - Proposed Loan Portfolio Diversification
 - Deposit Generation
 - Proposed Improvements in Accounting System
 - Operational Control
 - Computerization Plan
 - Communication System
- n. The appraiser’s report of reappraisal of bank premises, if any, done by an independent and licensed appraiser;
- o. Proposed increase of capital stock of surviving bank;

- p. Proposed amendments in the Articles of Incorporation of surviving bank;
 - q. Director’s Certificate (surviving bank) on the proposed amendment of the Articles of Incorporation increasing the authorized capital stock; and
 - r. Any other reasonable requirement deemed material in the proper evaluation of the merger or consolidation as may subsequently be requested by the BSP and/or PDIC.
3. For merger/consolidation involving a bank, the BSP shall wait for PDIC consent before elevating the proposed merger/consolidation to the Monetary Board for approval; and
4. The authority given to merge/consolidate the constituent entities shall be valid within six (6) months reckoned after BSP approval.

(M-2009-028 dated 12 August 2009)

GUIDELINES ON THE COLLECTION OF THE
ANNUAL SUPERVISORY FEES FOR THE YEAR 2012
Appendix to Subsec. X901.1 (2008 -X608.1)

The following guidelines shall govern the collection by the Bangko Sentral and the payment by banks of the 2012 Annual Supervisory Fees (ASF).

1. *Notification of amount due for 2012 ASF and mode of payment.* The Bangko Sentral Supervisory Data Center (SDC) shall send a billing notice in March 2012 to the bank for its ASF payment indicating, among others, the computation of the ASF due, including the 2% creditable withholding tax (CWT) thereon, if applicable, the period covered by the ASF and the specific date when the ASF will be debited from the bank’s demand deposit account (DDA) with the Bangko Sentral.

The Bangko Sentral will not accept checks as mode of ASF payment. Banks, upon receipt of the ASF billing notice from the Bangko Sentral, should maintain adequate balance in their DDA to cover the ASF and other daily obligations and, when necessary, make corresponding deposits to fully cover said obligations. In case of deficiency, the provisions on DDA deficiency in Section X901.1, as amended, shall apply.

2. *Exceptions noted on billing notice of 2012 ASF.* Upon receipt of the Bangko Sentral Notice of ASF billing, a bank is encouraged to check the accuracy of the billing and to submit any of the noted exceptions therein not later than ten (10) days before the specified date of collection/debit to DDA as indicated in the billing notice. The said exceptions, together with supporting documents, shall be submitted to:

The Director
Supervisory Data Center (SDC)
Bangko Sentral Ng Pilipinas
12th Floor, Multi-Storey Building
BSP Complex, A. Mabini Street
Malate, Manila 1004

Any exceptions received after the cut-off date or any exception not duly substantiated with documents before the cut-off date will be evaluated and considered in the computation of the ASF for the immediate succeeding year.

3. *Withholding tax on 2012 supervisory fees.* The following shall apply to banks covered by Sections M and N of BIR Revenue Regulations (R.R.) No. 2-98 as amended by R.R. No. 17-2003:

a. Within ten (10) days from 17 February 2012, the bank shall submit to the Bangko Sentral (at the address indicated in Item “2” hereof) a certified true copy of the BIR notice classifying it as among the institutions covered under Section M of R.R. No. 2-98 as amended by R.R. No. 17-2003. Such BIR notice received by the Bangko Sentral after said cut-off of ten (10) days will be considered in the ASF computation of the next year. The submission of such BIR notice will no longer be necessary if previously transmitted and received by the Bangko Sentral in compliance with Section 3.1 of the Bangko Sentral Memorandum Nos. 2009-046 dated 17 November 2009, M-2010-013 dated 31 May 2010 and M-2011-029 dated 26 May 2011.

b. The ASF, net of the two percent (2%) CWT, shall be debited from the DDA on the specified date referred to in the notice of ASF billing under Item “1”.

c. The following timelines shall be observed on the submission of annual withholding tax documents to Bangko Sentral at the address indicated in Item “2” hereof:

Tax Documents	Due Date
1. Original copy of BIR Form No. 2307 - Certificate of Creditable Tax Withheld at Source	On or before 31 December 2012

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Tax Documents	Due Date
2. Original Duplicate Copy of BIR Form No. 1601E - Monthly Remittance Return of Creditable Income Taxes Withheld (Expanded), duly received by BIR, If manually filed, or duly supported with BIR confirmation notice/ advice, if electronically filed	On or before 31 December 2012
3. Certified true copy of BIR official receipt/payment confirmation receipt	On or before 31 December 2012

d. Considering that the withholding tax documents enumerated in Item “a” will be used to avail the tax credits for filing the annual income tax return of the Bangko

Sentral, the failure to submit all of the enumerated documents within the stated deadline will compel the Bangko Sentral to immediately debit an amount equivalent to the 2% CWT from the DDA of banks concerned, with no obligation on the part of the Bangko Sentral to reimburse said amount in case of late submission. In case of DDA deficiency, the provisions in Subsec. X901.1, as amended, shall apply.

The above guidelines on withholding tax shall be strictly enforced pending resolution of the tax treatment on the ASF being assessed by the Bangko Sentral.

(M-2009-004 dated 12 February 2009, as amended by M-2012-010 dated 17 February 2012, M-2011-029 dated 26 May, 2011, M-2010-013 dated 31 May 2010, M-2009-046 dated 17 November 2009)

REGULATORY RELIEF FOR BANKS AFFECTED BY CALAMITIES

(Footnote to Secs. X257, X302, X306, X338, Subsec. X192.2, X269.6, X269.8 and App. 18)

The Monetary Board approved the grant of temporary regulatory relief to banks with head offices and branches located in the areas listed in Item "I" of Annex A hereof which were devastated by calamities.

The temporary relief shall be in the form of the following whenever applicable:

For RBs/TBs/Coop Banks¹

a. During a temporary grace period for payment or upon their restructuring and subject to reporting to the Bangko Sentral, exclusion of the loans of borrowers in affected areas, which should have been reclassified as past due loans under Sec. X306 on the dates specified in Item "II" of Annex A and those maturing up to the dates indicated in Item "II" of Annex A, from computation of past due loan ratio: *Provided*, That Bangko Sentral documentary requirements for restructuring of loans for this purpose are waived: *Provided, further*, That bank will adopt appropriate and prudent operational controls;

b. Reduction of the five percent (5%) general loan loss provision to one percent (1%) for restructured loans to borrowers in affected areas within the inclusive dates specified in Item "III" of Annex A;

c. Non-imposition of monetary penalties for delays in the submission of all supervisory reports due to be submitted within the inclusive dates specified in Item "III" of Annex A; and

d. Allowing banks to provide financial assistance to their officers and employees who were affected by the calamity even if not within the scope of the existing Bangko Sentral-approved Fringe Benefit Program (FBP) subject to subsequent submission of request for approval of the amendment to FBP to the appropriate department of the SES for regularization².

e. Non-imposition of penalties on legal reserve deficiencies of RBs/TBs/Coop Banks with head office and/or branches in the affected areas incurred within the inclusive dates specified in Item "II" of Annex A provided these reserve deficiencies can be shown to be calamity related rather than due to pre-existing condition;

f. Moratorium without penalty on monthly payments due to the Bangko Sentral until the respective dates specified in Item "II" of Annex A for banks with ongoing rehabilitation programs upon filing of application for extension/rescheduling;

g. For all types of credits extended to individuals and businesses directly affected by the calamity, allowing, subject to Bangko Sentral prior approval, the booking of allowances for probable losses on a staggered basis over a maximum period of five (5) years on loans outstanding as of dates specified in Item "II" of Annex A;

For All Rediscounting Banks

a. Upon application, granting of a 60-day grace period to settle the outstanding rediscounting obligations as of the dates specified in Item "III" of Annex A with the Bangko Sentral of all rediscounting banks with head office, or with branches or with end-user borrowers in the affected areas except those with serious violations of findings with the SES; and

b. In addition to above, allow the rediscounting banks to restructure with the Bangko Sentral, on a case-to-case basis the outstanding rediscounted loans of their end-user borrowers affected by the calamity, subject to the terms and conditions stated in the implementing guidelines provided in Item "III" of Annex A.

¹ In the case of typhoon "Ondoy", temporary relief in the forms mentioned under Items "a" to "d" also covers UBs/KBs

² Item "d" also covers UBs/KBs affected by Habagat, Helen, Gener and Pablo.

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For RBs and Coop Banks affected by the El Niño Phenomenon

c. Allow the affected RBs and Coop Banks up to 31 May 2010 to apply for a special rediscounting line and up to 31 December 2010 to avail themselves of such line. Loans availed by affected RBs and Coop Banks under the special rediscounting lines are subject to renewal based on the

original term of the loans but bot to exceed five years; and

d. Allow the use of the unavailed portion of P5 billion budget exclusively for the restructuring of rediscounting obligations of banks and new availments of banks intended as rediscounting relief for bank customers adversely affected by Typhoons "Ondoy" and "Pepeng".

LIST OF AREAS COVERED BY THE REGULATORY RELIEF; INCLUSIVE DATES OF
COVERAGE; AND IMPLEMENTING GUIDELINES ON THE RESTRUCTURING SCHEME
(Footnote to Secs. X257, X306, X338, Subsecs. X192.2, X269.6, X269.8 and App. 18)

I. Areas that were Declared under State of
Calamity:

- ONDOY
- a. The whole of National Capital Region (NCR);
 - b. Cordillera Administrative Region: Mt. Province, Ifugao and Benguet;
 - c. Region I: Pangasinan, La Union and Ilocos Sur;
 - d. Region II: Isabela, Quirino and Nueva Vizcaya;
 - e. Region III: Aurora, Nueva Ecija, Zambales, Pampanga, Bulacan, Tarlac and Bataan;
 - f. Region IV-A: Cavite, Laguna, Batangas, Rizal and Quezon;
 - g. Region IV-B: Mindoro (Occidental and Oriental) and Marinduque; and
 - h. Region V: Catanduanes, Camarines Norte and Camarines Sur.
- PEPENG
- a. Region I: La Union, Pangasinan, Ilocos Norte and Ilocos Sur;
 - b. Region II: Isabela, Quirino, Cagayan and Nueva Viscaya;
 - c. Region III: Aurora, Bulacan, Pampanga, Zambales, Nueva Ecija and Tarlac;
 - d. Region IV-A: Quezon and Rizal;
 - e. Region V: Albay, Camarines Sur, Catanduanes and Sorsogon;
 - f. Region VI: Negros Occidental;
 - g. Cordillera Administrative Region: Apayao, Mt. Province, Kalinga, Benguet, Abra, Ifugao and La Trinidad; and
 - h. The National Capital Region (NCR).

- EL NIÑO
- Region I: La Union, Pangasinan, Ilocos Norte, and Ilocos Sur
 - Region II: Cagayan, Isabela, Nueva Vizcaya, and Quirino
 - Region III: Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac, and Zambales
 - Region IV-A: Cavite , Laguna, Batangas, Rizal, and Quezon
 - Region V: Albay [six (6) municipalities and two (2) cities], Camarines Sur [eighteen (18) municipalities and two (2) cities], Camarines Norte [nine (9) municipalities], Sorsogon [one (1) municipality], Catanduanes [six (6) municipalities], and Masbate [fourteen (14) municipalities and one (1) city]
 - Region VI: Antique, Guimaras, Iloilo, Negros Occidental and Capiz
 - Region VII: twenty eight (28) mountain barangays in Cebu City, and Negros Oriental
 - Region IX: Zamboanga del Norte, Zamboanga Sibugay, and Zamboanga City
 - Region X: Lanao del Sur, Lanao del Norte, Bukidnon, Misamis Occidental, and Misamis Oriental
 - Region XI: Davao del Sur, Davao del Norte, and Davao City
 - Region XII: Cotabato Province, Sultan Kudarat, Sarangani, South Cotabato, and Maguindanao Province [seventy five (75) municipalities] Cordillera: Ifugao, Kalinga, Apayao, Mt. Province and Abra; and Administrative Region
- JUAN
- a. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan;

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- b. Region II: Cagayan, Isabela Nueva Vizcaya, and Quirino
- c. Region III: Aurora, Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales
- d. Region IV –A: Cavite and Rizal
- e. Cordillera Administrative Region: Abra, Apayao, Benguet, Ifugao, Kalinga and Mt. Province; and
- f. National Capital Region: Manila

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- a. Region IV-B: Palawan;
- b. Region V: Albay, Sorsogon, Camarines Sur, and Catanduanes;
- c. Region VI: Negros Occidental;
- d. Region VII: Cebu, Bohol, Negros Oriental, and Siquijor;
- e. Region VIII: Southern Leyte, Eastern Samar, Western Samar, Northern Samar, and Leyte;
- f. Region X: Lanao del Norte and Misamis Occidental;
- g. Region XI: Compostela Valley, Davao del Norte, Davao del Sur, and Davao Oriental;
- h. Region XII: South Cotabato;
- i. CARAGA: Surigao del Norte, Surigao del Sur, Agusan del Norte, and Agusan del Sur; and
- j. Autonomous Region of Muslim Mindanao: Maguindanao.

JUANING

- a. NCR: Las Piñas City, Muntinlupa City, Pasay City and Quezon City
- b. CAR: Benguet, Ifugao and Kalinga
- c. Region I: La Union and Pangasinan
- d. Region II: Isabela, Nueva Vizcaya and Quirino
- e. Region III: Aurora, Bulacan, Nueva Ecija and Pampanga
- f. Region IV-A: Batangas and Quezon
- g. Region IV-B: Marinduque and Romblon

- h. Region V: Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate, and Sorsogon
- i. Region VI: Iloilo and Antique
- j. Region VII: Siquijor and Cebu
- k. Region VIII: Leyte and Eastern Samar
- l. Region X: Lanao del Norte

MINA

- a. NCR: Navotas City
- b. CAR: Abra, Apayao, Benguet, Kalinga and Mt. Province
- c. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan
- d. Region II: Cagayan, Isabela and Nueva Vizcaya
- e. Region III: Tarlac and Zambales
- f. Region V: Albay
- g. Region VI: Iloilo and Negros Occidental

PEDRING

- a. NCR: Caloocan City, Malabon City, Manila City, Marikina City, Muntinlupa City, Navotas City, Parañaque City, Pasay City, Pasig City, Pateros, Quezon City and Valenzuela City
- b. CAR: Abra, Apayao, Benguet, Ifugao, Kalinga and Mt. Province
- c. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan
- d. Region II: Cagayan, Isabela, Nueva Vizcaya and Quirino
- e. Region III: Aurora, Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales
- f. Region IV-A: Batangas, Cavite, Laguna, Quezon and Rizal
- g. Region IV-B: Occidental Mindoro, Oriental Mindoro and Romblon
- h. Region V: Albay, Camarines Norte, Camarines Sur and Catanduanes
- i. Region VI: Antique and Iloilo

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SENDONG	Navotas City, Parañaque City, Quezon City, Taguig City and Valenzuela City
a. Region V: Catanduanes	b. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan
b. Region VI: Capi	c. Region II: Cagayan
c. Region VII: Bohol and Negros Oriental	d. Region III: Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales
d. Region IX: Zamboanga del Norte	e. Region IV-A: Batangas, Cavite, Laguna and Rizal
e. Region X: Bukidnon, Lanao del Norte, Misamis Occidental and Misamis Oriental	f. Region IV-B: Occidental Mindoro and Oriental Mindoro
f. Region XI: Compostela Valley and Davao del Norte	g. Region V: Masbate and Sorsogon
g. Region XIII (CARAGA): Agusan del Sur and Surigao del Sur	h. Region VI: Aklan, Antique, Iloilo and Negros Occidental
h. Autonomous Region in Muslim Mindanao (ARMM): Lanao del Sur	i. Region VII: Cebu
	j. Region IX: Zamboanga del Norte
	k. Region X: Lanao del Norte and Misamis Oriental
	l. Region XI: Davao del Sur
	m. Region XII: North Cotabato
	n. CAR: Abra, Apayao, Benguet, Ifugao, Kalinga and Mountain Province
HABAGAT	PABLO
a. NCR: Caloocan City, Las Piñas City, Makati City, Malabon City, Mandaluyong City, Manila City, Marikina City, Navotas City, Parañaque City, Pasay City, Pasig City, Pateros, Quezon City, San Juan City, Taguig City and Valenzuela City	a. Region IV-B: Palawan
b. Region I: Ilocos Sur, La Union and Pangasinan	b. Region VI: Guimaras, Iloilo and Negros Occidental
c. Region III: Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales	c. Region VII: Bohol, Cebu, Negros Oriental and Siquijor
d. Region IV-A: Batangas, Cavite, Laguna and Rizal	d. Region VIII: Leyte, Northern Samar and Southern Leyte
e. Region IV-B: Occidental Mindoro and Oriental Mindoro	e. Region IX: Zamboanga del Norte, Zamboanga del Sur and Zamboanga Sibugay
f. Region VI: Iloilo	f. Region X: Bukidnon, Camiguin, Lanao del Norte, Misamis Occidental and Misamis Oriental
	g. Region XI: Compostela Valley, Davao del Norte, Davao del Sur and Davao Oriental
	h. Region XII: North Cotabato and South Cotabato
	i. Region XIII (CARAGA): Agusan del Norte, Agusan del Sur, Dinagat Islands, Surigao del Norte and Surigao del Sur
HELEN	
a. Region I: Ilocos Sur, La Union, Ilocos Norte, and Pangasinan	
b. Region II: (Cagayan Valley) Isabela	
c. Region III: Zambales	
d. Region IV-B: Occidental Mindoro	
e. CAR: Apayao, Benguet, and Mountain Province	
GENER	
a. NCR: Makati City, Malabon City, Manila City, Marikina City, Muntinlupa City,	

II. INCLUSIVE DATES OF THE APPLICABILITY OF TEMPORARY RELIEF TO BANKS AFFECTED BY CALAMITES

	For RBs/TBs/Coop Banks						For All Rediscounting Banks
	Exclusion from computation of past due loans	GLL of only 1% for restructured loans	Non-imposition of penalties for late submission of supervisory reports	Non-imposition of penalties on legal reserve deficiencies from reserve week ended / to	Moratorium on monthly payments due to the BSP until	Staggered booking of allowance for loan losses for loans outstanding as of	60-day grace period to pay rediscounting obligations outstanding as of
Ondoy ^{1/}	09/26/2009 to 12/31/2010	09/26/2009 to 12/31/2010	09/30/2009 UBs/KBs-11/30/2009 RBs/TBs-03/31/2010	10/01/2009 to 04/01/2010	03/31/2010	09/26/2009	09/28/2009
Pepeng	10/03/2009 to 12/31/2010	10/03/2009 to 12/31/2010	10/31/2009 to 03/31/2010	10/08/2009 to 04/01/2010	03/31/2010	10/03/2009	09/28/2009
El Niño ^{2/}	03/01/2010 to 04/30/2011	03/01/2010 to 04/30/2011		03/04/2010 to 09/30/2010		03/31/2010	03/15/2010
Juan	10/18/2010 to 12/31/2011	10/18/2010 to 12/31/2011	10/18/2010 to 04/30/2011	10/21/2010 to 04/21/2011	04/30/2011	10/18/2010	10/20/2010
Landslides/ Flooding	12/29/2010 to 12/31/2011	12/29/2010 to 12/31/2011	12/29/2010 to 06/30/2011	12/30/2010 to 06/30/2011	06/30/2011	12/29/2010	12/29/2010
Juaning	07/25/2011 to 12/31/2012	07/25/2011 to 12/31/2012	07/25/2011 to 01/31/2012	07/28/2011 to 01/26/2012	01/31/2012	07/25/2011	07/25//2011
Mina	08/25/2011 to 12/31/2012	08/25/2011 to 12/31/2012	08/25/2011 to 02/29/2011	09/01/2011 to 02/23/2012	02/29/2012	08/25/2011	08/25/2011
Pedring	09/24/2011 to 12/31/2012	09/24/2011 to 12/31/2012	09/24/2011 to 03/31/2012	09/29/2011 to 03/29/2012	03/31/2012	09/24/2011	09/24/2011
Sendong	12/15/2011 to 12/31/2012	12/15/2011 to 12/31/2012	12/15/2011 to 06/30/2012	12/22/2011 to 06/21/2012	06/30/2012	12/15/2011	12/15/2011
Habagat	08/06/2012 to 12/31/2013	08/06/2012 to 12/31/2013	08/06/2012 to 02/28/2013	08/09/2012 to 02/07/2013	02/28/2013	08/06/2012	08/06/2012
Helen	08/13/2012 to 12/31/2013	08/13/2012 to 12/31/2013	08/13/2012 to 02/28/2013	08/16/2012 to 02/14/2013	02/28/2013	08/13/2012	08/13/2012
Gener	07/28/2012 to 12/31/2013	07/28/2012 to 12/31/2013	07/28/2012 to 02/28/2013	08/02/2012 to 02/01/2013	02/28/2013	07/28/2012	07/28/2012
Pablo	12/04/2012 to 03/31/2014	12/04/2012 to 03/31/2014	12/04/2012 to 06/30/2013	12/06/2012 to 06/06/2013	06/30/2013	12/04/2012	12/04/2012

^{1/} Temporary relief in the forms mentioned under the first three columns also covers universal and commercial banks

^{2/} Excluding TBs

III. Implementing Guidelines on the Restructuring Scheme Covering the Rediscounting Obligations with the Bangko Sentral of Rediscounting Banks in the Areas Affected by Natural Calamities

A. Objectives

The objectives of the loan settlement scheme are as follows:

- a. To support the recovery efforts of rediscounting banks in the areas affected by the calamity;
- b. To enable the rediscounting banks to liquidate their loan obligations with the BSP by way of restructuring; and
- c. To ensure the collection of the rediscounted loans which may become past due in view of the damage caused by the calamity, and maintain if not improve the quality of the loan portfolio of the Bangko Sentral.

B. Qualified banks

- a. All rediscounting banks with end-user borrowers located in the areas declared as “under state of natural calamity” as enumerated under Item “I” hereof;
- b. Rediscounting banks with serious violations or findings with the SES, and/or which are currently under investigation or subject to legal action by the Office of Special Investigation shall not qualify to avail of the restructuring scheme.
- c. In addition to Item No. “B.b”, the DLC shall evaluate each bank to determine if each would qualify for the restructuring.

C. Terms and conditions

- a. Maturity
The restructured loan shall have a maximum term of five (5) years;
- b. Amount to be restructured
The amount to be restructured shall be equivalent to the following:

(1) *Principal*. Unpaid outstanding balance of the principal obligation in the books of account of the Bangko Sentral; and

(2) *Accrued interest*. Unpaid interest due on the outstanding principal obligation as of the end of the applicable repayment or amortization date, preceding the approval of the loan restructuring.

c. Interest rate

The interest rate to be charged against the outstanding principal balance of the restructured loan shall be based on prevailing rediscount rate. The interest shall be re-priced annually.

d. Maximum bank lending rate

The restructured interest rate of the bank to its end-user borrowers shall not exceed six percent (6%) over and above the applicable Bangko Sentral interest rate. Moreover, the bank shall not charge interest on accrued interest.

e. Terms of repayment

(1) Settlement Value. The settlement value shall be paid by the bank in equal monthly amortizations: *Provided*, That the amortization period shall not exceed five (5) years, to wit:

(a) *Principal*. The principal obligation shall be paid in equal monthly amortization plus the applicable rediscount rate; and

(b) *Accrued interest*. The accrued interest on the principal obligation as of the end of the month immediately preceding the approval of the loan settlement scheme shall likewise be paid in equal monthly amortizations. No interest shall be charged on the accrued interest.

(2) Grace Period. The bank shall be given a grace period of six (6) months within which to pay the first amortization.

f. Collaterals. The following shall be collaterals acceptable:

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- (1) Restructured promissory notes of end-user borrowers;
 - (2) Hard collaterals owned by the bank such as bank premises and government securities; and
 - (3) Other collaterals acceptable to the DLC.
- g. Default cause
- (1) Failure to pay two (2) or more amortizations shall be considered an event of default and shall render the unpaid balance of the loan, plus accrued interest and penalty charges due thereon, immediately due and demandable;
 - (2) A penalty charge of twelve percent (12%) per annum shall be assessed on the defaulted amortization payment, reckoned from the amortization due date to date of payment; and
 - (3) The DLC may exercise the option to refer to the Office of Special Investigation or to an external lawyer for appropriate legal action, without further need for demand or notice to the defaulting bank.
- h. Required documents. Qualified banks shall submit the following documents:
- (1) Letter of Understanding (LOU), agreeing to the terms and conditions of the restructuring. The LOU shall be executed by the senior officers of the bank, duly designated by its board of directors; and
 - (2) Surety Agreement, if there is collateral deficiency.

D. Application procedures

- a. Filing of application
- The bank shall file with the DLC an application for restructuring of its outstanding rediscounting loans, supported by the following documents:
- (1) Resolution of the board of directors (a) authorizing the bank to enter

- into a loan settlement arrangement with the Bangko Sentral, and (b) designating authorized senior officers therefor;
 - (2) The restructured promissory notes of the end-user borrowers and other supporting documents; and
 - (3) Promissory Note with Trust Receipt Agreement and Deed of Assignment executed by the authorized senior officers of the bank, duly notarized.
- b. Notice of approval of application
- The DLC shall notify the bank of the approval of its application to avail of the loan settlement scheme. Upon receipt of said advice, the bank shall:
- (1) Execute the applicable document under Item No. "D.a"; and
 - (2) Pay the required amortization immediately on the month following the date of approval of the loan restructuring scheme and monthly thereafter until fully paid.

E. Authorized signatories of the Bangko Sentral

Transaction	Authorized BSP Officer
Approval of the application to avail of the loan restructuring scheme	Director, DLC, or in her absence, any of the DLC Deputy Directors
Approval to release the collateral documents	Director, DLC, or in her absence, any of the DLC Deputy Directors
Execution of Cancellation of Deeds of Real Estate Mortgage Assignment or Pledge	Deputy Governor, Monetary Stability Sector

VI. Other provisions

- a. Value-Date of the Settlement Scheme
- The value–date of the settlement value shall be the end of the month immediately preceding the date of approval of the loan restructuring.

- b. Effectivity date

The loan settlement scheme shall be made available as follows:

a) Ondoy - up to 31 March 2010;

b) Pepeng - up to 31 March 2010;

c) El Nino - up to 31 May 2010;

d) Juan - up to 30 April 2011;

e) Landslides and Flooding - up to 30 June 2011;
- f) Juaning - up to 31 January 2012;

g) Mina - up to 29 February 2012;

h) Pedring - up to 31 March 2012;

i) Sendong - up to 30 June 2012;

j) Habagat - up to 28 February 2013;

k) Helen - up to 28 February 2013;

l) Gener - up to 28 February 2013; and

m) Pablo - up to 30 June 2013.

(M-2009-036 dated 07 October 2009, as amended by M-2012-060 dated 27 December 2012, M-2012-051 dated 09 November 2012, M-2012-044 dated 24 August 2012, M-2012-042 dated 24 August 2012, M-2012-001 dated 03 January 2012, M-2011-056 dated 10 November 2011, M-2011-055 dated 17 October 2011, M-2011-043 dated 12 August 2011, M-2011-007 dated 04 February 2011, M-2010-039 dated 03 November 2010, M-2010-007 dated 23 April 2010, M-2009-037 dated 08 October 2009 and M-2009-038 dated 08 October 2009, as amended by M-2009-040 dated 30 October 2009)

**GUIDELINES ON BANKS' INTERNAL CAPITAL
ADEQUACY ASSESSMENT PROCESS**
(Appendix to Sec. X117)

A. Introduction

1. This document sets out the broad guidelines that UBs and KBs (hereinafter referred to as 'banks') should follow in the design and use of their Internal Capital Adequacy Assessment Process (ICAAP). A bank's ICAAP supplements the BSP's Risk-Based Capital Adequacy Framework (the Framework) as contained in existing regulations and, thus, must be applied on a group-wide basis, i.e., it should cover all of a bank's subsidiaries and affiliates.

2. Although the Framework prescribes the guidelines for determining banks' minimum regulatory capital requirements in relation to their exposure to credit risk, market risk and operational risk, a bank's Board of Directors and senior management are still ultimately responsible in ensuring that the bank maintains an appropriate level and quality of capital commensurate not just with the risks covered by the Framework, but also with all other material risks to which it is exposed. Hence, a bank must have in place an ICAAP that takes into account all of these risks.

B. Guiding principles

1. Banks must have a process for assessing their capital adequacy relative to their risk profile (an ICAAP).

2. The ICAAP is the responsibility of banks. Banks are responsible for setting internal capital targets that are consistent with their risk profile, operating environment, and strategic/business plans. The ICAAP should be tailored to a bank's circumstances and needs, and it should use

the inputs and definitions that a bank normally uses for internal purposes.

3. Banks' ICAAP (i.e., the methodologies, assumptions and procedures) and other policies supporting it (e.g., capital policy, risk management policy, etc.) should be formally documented, and they should be reviewed and approved by the board. The results of the ICAAP should also be regularly reported to the board.

In addition, the board and senior management are responsible for integrating capital planning and capital management into banks' overall management culture and approach. They should ensure that formal capital planning and management policies and procedures are communicated and implemented group-wide and supported by sufficient authority and resources.

Banks' ICAAP document should be submitted to the appropriate Central Point of Contact Department (CPCD) of the BSP every 31 January of each year. A suggested format of the ICAAP submission to the BSP is provided in *Annex A of Appendix 90*.

4. The ICAAP should form an integral part of banks' risk management processes so as to enable the board and senior management to assess, on an on-going basis, the risks that are inherent in their activities and material to their bank. This could range from using the ICAAP in more general business decisions (e.g. expansion plans) and budgets, to the more specific decisions such as allocating capital to business units, or to having it play a role in the individual credit decision process.

5. The ICAAP should be reviewed by the board and senior management at least annually, or as often as is deemed necessary

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to ensure that risks are covered adequately and that capital coverage reflects the actual risk profile of their bank. Moreover, any changes in a bank's strategic focus, business plan, operating environment or other factors that materially affect assumptions or methodologies used in the ICAAP should initiate appropriate adjustments to the ICAAP. New risks that occur in the business of a bank should be identified and incorporated into the ICAAP. The ICAAP and its review process should be subject to independent internal or external review. Results thereof should be communicated to the board and senior management.

6. Banks should set capital targets which are consistent with their risk profile, operating environment, and business plans. Banks, however, may take other considerations into account in deciding how much capital to hold, such as external rating goals, market reputation and strategic goals. If these other considerations are included in the process, banks must be able to show to the BSP how they influenced their decisions concerning the amount of capital to hold.

7. The ICAAP should capture the risks covered under the Framework – credit risk, market risk, and operational risk. If applicable, banks should disclose major differences between the treatments of these risks in the calculation of minimum regulatory capital requirement under the Framework and under the ICAAP. In addition, the ICAAP should also consider other material risks that banks are exposed to, albeit that there is no standard definition of materiality. Banks are free to use their own definition, albeit that they should be able to explain this in detail to the BSP, including the methods used, and the coverage of all material risks. These other material risks may include any of the following:

a. Risks *not fully* captured under the Framework, for example, credit concentration risk, risk posed by non-performing assets, risk posed by contingent exposures, etc.;

b. Risks *not* covered under the Framework. As a starting point, banks may choose to use the other risks identified under Circular No. 510 dated 03 February 2006. Some of these risks are less likely to lend themselves to quantitative approaches, in which cases banks are expected to employ more qualitative methods of assessment and mitigation. Banks should clearly establish for which risks a quantitative measure is warranted, and for which risks a qualitative measure is the correct risk assessment and mitigation tool ; and

c. Risk factors external to banks. These include risks which may arise from the regulatory, economic or business environment.

8. Banks should have a documented process for assessing risks. This process may operate either at the level of the individual banks within the banking group, or at the banking group level. Banks are likely to find that some risks are easier to measure than others, depending on the availability of information. This implies that their ICAAP could be a mixture of detailed calculations and estimates. It is also important that banks not rely on quantitative methods alone to assess their capital adequacy, but include an element of qualitative assessment and management judgment of inputs and outputs. Non-quantifiable risks should be included if they are material, even if they can only be estimated. This requirement might be eased if banks can demonstrate that they have an appropriate policy for mitigating/managing these risks.

9. The ICAAP should take into account banks' strategic plans and how they

relate to macro-economic factors. Banks should develop an internal strategy for maintaining capital levels which can incorporate factors such as loan growth expectations, future sources and uses of funds and dividend policy, and any procyclical variation of minimum regulatory capital requirements.

Banks should also have an explicit, board-approved capital plan which states their objectives and the time horizon for achieving those objectives, and in broad terms the capital planning process and the responsibilities for that process. The plan should also lay out how banks will comply with capital requirements in the future, any relevant limits related to capital, and a general contingency plan for dealing with divergences and unexpected events (for example, raising additional capital, restricting business, or using risk mitigation techniques).

In addition, banks should conduct appropriate scenario/stress tests which take into account, for example, the risks specific to the particular stage of the business cycle. Banks should analyze the impact that new legislation/regulation, actions of competitors or other factors may have on their performance, in order to determine what changes in the environment they could sustain.

10. The results and findings of the ICAAP should feed into banks' evaluation of their strategy and risk appetite. For less sophisticated banks in particular, for which genuine strategic capital planning is likely to be more difficult, the results of the process should mainly influence the bank's management of its risk profile (for example, via changes to its lending behavior or through the use of risk mitigants). The ICAAP should produce a reasonable overall capital number and assessment. Banks should be able to explain to the BSP's satisfaction the similarities and differences between its

ICAAP and its minimum regulatory capital requirements under the Framework.

C. ICAAP Methodologies

1. While banks may use simple or model-based ICAAP methodologies depending on what they think is appropriate for them (*please see Annex B of Appendix 90 for description of the different broad classification of methodologies*), at the minimum, the BSP expects banks to adopt an ICAAP based on the minimum regulatory capital requirement under the Framework and, where applicable, assess extra capital proportionate to the other risks that are not covered under said Framework. This requires an assessment first of whether the risks covered under the Framework - credit risk, market risk and operational risk - are fully captured, and second, how much capital to allocate against other risks and external factors.

2. Regardless of which methodology a bank decides to adopt, it should compare its actual and future projected capital with the actual and future internal capital need arising from the assessment. The actual calculation and allocation of capital always needs to be supplemented by sufficiently robust qualitative procedures, measures and provisions to identify, manage, control and monitor all risks.

3. The ICAAP will always consist of two parts. One part covers all steps necessary for assessing the risks. The other part covers all steps necessary to assess the actual capital (risk-taking capacity). As these two parts will always meet at the end of the ICAAP and have to be in balance, there is no procedure which says which part has to be assessed first.

4. After choosing its ICAAP methodology, a bank could take its thinking through the following steps in developing the ICAAP:

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a. Risk identification

A bank could prepare a list of all material risks to which it is exposed; for that purpose it may find it useful to identify and consider its largest past losses and whether those losses are likely to recur. The identification of all material risk to which a bank is exposed should be conducted in a forward looking manner.

b. Capital assessment

For all the risks identified through the process above, a bank could then consider how it would act, and the amount of capital that would be absorbed, in the event that one or more of the risks identified was to materialize.

c. Forward capital planning

A bank could then consider how its capital need as calculated above might change in line with its business plans over its strategic time horizon, and how it might respond to these changes. In doing so, a bank may want to perform a sensitivity analysis to understand how sensitive its capital is to changes in internal and external factors such as business risks, and changes in economic/business cycles.

d. ICAAP outcome

Finally, a bank should document the ranges of capital required as identified above and form an overall view on the amount of internal capital which it should hold.

(Circular No. 639 dated 15 January 2009)

**INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS
(Suggested Format)**

The BSP expects that there would be a fair degree of variation in the length and format of submissions since banks’ business and risk profiles differ. As such the ICAAP document should be proportional to the size, nature and complexity of a bank’s business.

This format has been provided as a starting point. Banks are not required to adopt this format. However, adopting this format may be convenient for banks as it covers the minimum issues which typically would be the subject of review by the BSP and may therefore make the review process more efficient for both the bank and the BSP.

Equally, use of this template is not a substitute for being aware of the relevant rules.

What is an ICAAP document?

An ICAAP document is a bank’s explanation to the BSP of its internal capital adequacy assessment process. While this may be based on existing internal documentation from numerous sources, the BSP will clearly find it helpful to have a summary prepared to communicate the key results and issues to it at a senior level. Since the BSP will be basing many of its views on the information contained in the ICAAP document, the bank’s board of directors and senior management should have formally approved its contents. As such, the BSP would expect the ICAAP document to be in a format that can be easily understood at a high level and to contain all the relevant information that is necessary for the bank and BSP to make an informed judgment and decision as to the

appropriate capital level and risk management approach.

Where appropriate, technical information on risk measurement and capital methodologies, and all other works carried out to validate the approach (e.g. board papers and minutes, internal or external reviews) could be contained in appendices.

1. EXECUTIVE SUMMARY

The purpose of the Executive Summary is to present an overview of the ICAAP methodology and results. This overview would typically include:

- i. The purpose of the report and which group entities are covered by the ICAAP;
- ii. The main findings of the ICAAP analysis:
 - How much and what composition of internal capital the bank considers it should hold as compared with the capital adequacy requirement under the existing BSP Risk-Based Capital Adequacy Framework (the Framework), and
 - The adequacy of the bank’s risk management processes given the risks assumed;
- iii. A summary of the financial position of the business, including the strategic position of the bank, its balance sheet strength, and future profitability;
- iv. Brief descriptions of the capital and dividend plan; how the bank intends to manage capital going forward and for what purposes;
- v. Commentary on the most material risks, why the level of risk is acceptable or, if it is not, what mitigating actions are planned;

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- vi. Commentary on major issues where further analysis and decisions are required; and
- vii. Who has carried out the assessment, how it has been challenged, and who has approved it.

2. BACKGROUND

This section would cover the relevant organizational structure and business lines, and historical financial data for the bank (e.g., group structure (legal and operational), operating profit, profit before tax, profit after tax, dividends, equity, capital resources held and as compared with regulatory requirements, total loans, total deposits, total assets, etc., and any conclusions that can be drawn from trends in the data which may have implications for the bank’s future).

3. CAPITAL ADEQUACY

This section could start with a description of the risk appetite used in the ICAAP. It is vital for the BSP to understand whether the bank is presenting its view regarding: (1) the amount of capital required to meet minimum regulatory needs, or (2) the amount of capital that a bank believes it needs to meet its business objectives (e.g., whether the capital required is based on a particular desired credit rating, or includes buffers for strategic purposes, or minimizes the chances of breaching regulatory requirements). A description of the methodology used to assess the bank’s capital adequacy should also be included.

The section would then include a detailed review of the capital adequacy of the bank.

The information provided would include:

Timing

- i. The effective date of the ICAAP calculations together with consideration of any events between this date and the date of submission which would materially

impact the ICAAP calculation together with their effects; and

- ii. Details of, and rationale for, the time period over which capital has been assessed.

Risks analyzed

- i. An identification of the major risks faced in each of the following categories:
 - credit risk;
 - market risk;
 - interest rate risk in the banking book;
 - liquidity risk;
 - operational risk;
 - compliance risk;
 - strategic/business risk; and
 - reputation risk;
- ii. And for each, an explanation of how the risk has been assessed and, where appropriate, the quantitative results of that assessment;
- iii. Where relevant, a comparison of that assessment with the results of the assessment under the Framework (specifically for credit risk, market risk, and operational risk);
- iv. A clear articulation of the bank’s risk appetite by risk category if this varies from the assessment; and
- v. Where relevant, an explanation of any other methods apart from capital used to mitigate the risks.

The discussion here would make clear which additional risks the bank considers material to its operation and, thus, would warrant additional capital on top of that required for credit risk, market risk, and operational risk under the Framework.

Methodology and assumptions

A description of how assessments for each of the major risks have been approached and the main assumptions made.

At a minimum, the BSP expects banks to base their ICAAP on the results of the capital adequacy requirement under the

Framework and additional risks, where applicable, should be assessed separately.

Capital transferability

Details of any restrictions that may curtail the management’s ability to transfer capital into or out of the business(es) covered, for example, contractual, commercial, regulatory or statutory restrictions that apply.

4. CURRENT AND PROJECTED FINANCIAL AND CAPITAL POSITIONS

This section would explain the current and expected changes to the business profile of the bank, the environment in which it expects to operate, its projected business plans (by appropriate lines of business), and projected financial position for, say three to five years.

The starting balance sheet and date as of which the assessment is carried out would be set out.

The projected financial position might consider both the projected capital available and projected capital resource requirements to support strategic/business initiatives. These might then provide a baseline against which adverse scenarios (please see Capital Planning below) might be compared.

Given these business plans, this section would also discuss the bank’s assessment on whether additional capital is necessary on top of that assessed to cover their existing risk exposures, as well as future planned sources of capital.

5. CAPITAL PLANNING

This section would explain how a bank would be affected by an economic recession or downswings in the business or market relevant to its activities. The BSP is interested in how a bank would manage its business and capital so as to survive a recession/market disruption while meeting minimum regulatory standards. The analysis would include financial projections forward for,

say, three to five years based on business plans and solvency calculations. Likewise, a bank should disclose here the key assumptions and other factors that would have significant impact on its financial condition, in conducting scenario analyses/stress testing.

Typical scenarios would include how an economic downturn/market disruption would affect:

- i. the bank’s capital resources and future earnings; and
- ii. the bank’s capital adequacy requirement under the Framework taking into account future changes in its projected balance sheet.

It would also be helpful if these projections showed separately the effects of management potential actions to change the bank’s business strategy and the implementation of contingency plans.

In addition, banks are encouraged to include an assessment of any other capital planning actions that would be necessary to enable it to continue to meet its regulatory capital requirements throughout a recession/market disruption such as new capital injections from related companies or new share issues.

Given the projected capital needs arising from an economic recession or business/market downswings, this section would also discuss the bank’s assessment on whether additional capital is necessary on top of that assessed to cover their existing risk exposures and business plans.

6. CHALLENGE AND ADOPTION OF THE ICAAP

This section would describe the extent of challenge and testing of the ICAAP. Banks should describe the review and sign-off procedures used by senior management and the board. It might also be helpful if a copy of any relevant report to senior management or the board and their response were attached.

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Details of the reliance placed on any external suppliers would also be detailed here, e.g. for generating economic scenarios. In addition, a copy of any report obtained from an external reviewer or internal audit would also be included.

7. USE OF THE ICAAP WITHIN THE BANK

This section would describe the extent to which capital management is embedded within the bank including the extent and use of scenario analysis and/or stress testing within the bank’s capital management policy, e.g. in business decisions (e.g. expansion plans) and budgets, or in

allocating capital to business units, or in individual credit decision process. Banks should include a statement of the actual operating philosophy on capital management and how this links to the ICAAP. For instance differences in risk appetite used in the ICAAP as compared to that used for business decisions might be discussed. Lastly, it would be helpful if details on any anticipated future refinements within the bank’s ICAAP (highlighting those aspects which are work-in-progress), as well as any other information that would help the BSP review the bank’s ICAAP could be provided. *(Circular No. 639 dated 15 January 2009)*

ALTERNATIVE INTERNAL CAPITAL ADEQUACY
ASSESSMENT PROCESS METHODOLOGIES

This appendix outlines ICAAP methodologies which banks may adopt in lieu of that based on the minimum regulatory capital requirement under the BSP Risk-Based Capital Adequacy Framework (the Framework). However, the choice of methodology should clearly be commensurate with banks’ ability to collect the necessary information and to calculate the necessary inputs in a reliable manner.

Structured approach - In this case, banks will need to set the internal capital requirement at a starting point of zero capital and then build on capital due to all risks (both those captured under the Framework and those that are not) and external factors. This methodology could be seen as a simple model for calculating economic capital and is not based on the minimum regulatory capital requirement. A sensitivity analysis could form the starting point. The sensitivity analysis should be based on an exceptional but plausible scenario. Risks which are not included in the sensitivity analysis should also be considered in terms of the structured approach.

Allocation-of-risk-taking approach – In this approach, banks might start with its actual capital and break it down to all its material risks. This step in the process requires quantification or at least an estimation method for various risks. The amount of capital provided for each risk category is determined by the current and envisaged amount of risk in each category, a risk buffer and their risk appetite. Banks will decide which type of risk quantification/ estimation method is suitable and sufficient for its particular use. If the allocated capital seems insufficient, either the risk has to be reduced or capital has to be raised. The allocated amounts of the capital will therefore work as a limit system, which assists and facilitates banks in balancing their risk-taking capacity and their risks.

Formal economic capital models – These are expected to be used eventually by banks that use advanced approaches in determining the minimum regulatory capital requirement, or those that have substantial derivatives and structured products transactions (i.e., those that have expanded dealer and/or user capabilities).

(Circular No. 639 dated 15 January 2009)

**GUIDELINES ON THE BANGKO SENTRAL'S
SUPERVISORY REVIEW PROCESS**
(Appendix to Sec. X117)

A. Introduction

1. The BSP's supervisory review process (SRP) in the context of this document involves (1) an evaluation of banks' internal capital adequacy assessment processes (ICAAP) and their output, (2) a dialogue with banks with regard to their ICAAP, and (3) the prudential measures that may be taken to address issues identified. These guidelines should be observed mainly by the appropriate Central Point of Contact Department (CPCD) within the BSP and, where appropriate for on-site validation during regulation examination, by the examination personnel. This therefore supplements the existing guidelines set out in the Manual of Examinations, the CAMELS Rating, and the Risk Assessment System (RAS). The CPCD may draft, for its own use, detailed guidelines on the conduct of the assessment of banks' ICAAP and of the BSP-bank dialogue.

2. Although these guidelines are directed mainly at BSP supervision and examination personnel, banks will have a clear interest in knowing the approach the BSP intends to take in assessing their capital adequacy.

B. Guiding principles in assessing banks' ICAAP

1. As a first step, the BSP should evaluate banks' compliance with the minimum regulatory capital requirements as prescribed under the Framework. This would involve the verification of banks' calculation of their risk weighted assets (RWA) and capital adequacy ratio (CAR). The minimum regulatory capital requirements should always be the starting point in the assessment of banks' capital adequacy. The validated CAR should then

be compared with the required capital resulting from the ICAAP.

2. Next, the assessment of banks' ICAAP should include an evaluation of their assumptions, components, methodologies, coverage and outcome. This review should cover both banks' risk management processes and their assessment of adequate capital. The BSP should review how banks assess the other risks they are exposed to, especially Elements 2 to 4 listed in Item "C.4" hereof, the controls they have in place to mitigate these risks, as well as the adequacy and composition of capital held against those risks.

3. The BSP should then identify existing or potential problems and key risks faced by banks, the deficiencies in their control and risk management frameworks, and the degree of reliance that can be placed on the outputs of their ICAAP. This process will enable the BSP to tailor its approach for each individual bank and will provide the foundation for the BSP's general approach for each bank and its actions.

4. The BSP's evaluation of the adequacy of banks' capital in relation to their risk profile would serve as the basis for assigning a rating for the Capital component of the bank's CAMELS rating. It would also serve as the basis for identifying any prudential measures or other supervisory actions required. For example, where there is an imbalance between business and risk controls, the BSP should consider the range of remedial supervisory actions that may be needed to rectify a deficiency in controls and/or perceived shortfalls in capital, either as a long-term requirement(s) or as a short-term action(s).

5. The results of the SRP will be communicated to the board and senior

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management of banks together with any action that is required of them and any significant action planned by the BSP. This may be done as part of the dialogue between the BSP and each bank on the ICAAP.

6. In evaluating the ICAAP of branches of foreign banks in the Philippines, the BSP will refer to the home supervisor’s consolidated assessment of the ICAAP of the head office/parent bank. The BSP will also take into account the strength and availability of parental support.

C. Guiding principles on BSP-bank dialogue

1. A key element of the SRP is the dialogue between the BSP and each bank. The dialogue will inform the BSP about the way each bank’s ICAAP is structured, and the assumptions and methodologies which are used to assess its risk exposures.

2. The ICAAP document, which banks are required to submit to the BSP every January of each year (suggested format is in *Annex A of Appendix 90*), will be the basis for the BSP-bank (specifically, BSP-CPCD) dialogue. This dialogue may feed into the regular examination, and the findings of the regular examination may in turn feed into the dialogue. The BSP will determine the nature and depth of the dialogue, based on the type and complexity of the bank.

3. Banks should be able to justify their processes for identifying and measuring their risks as well as how much capital, if any, they allocate against them, taking into account other qualitative mitigants of risk. Banks should be able to explain any differences between their own assessment of capital needs and targets under the ICAAP and the minimum regulatory capital requirements prescribed under the Framework.

4. The dialogue should embrace the following four main elements:

a. Element 1: Risks covered under the Framework (i.e., credit risk, market risk, and operational risk);

b. Element 2: Risks *not fully* covered under the Framework (for example, credit concentration risk, risk posed by non-performing assets, risk posed by contingent exposures, etc.);

c. Element 3: Risks *not* covered under the Framework (other risks identified under Circular No. 510 dated 3 February 2006); and

d. Element 4: External factors, which include risks which may arise from the regulatory, economic or business environment.

5. Aside from these four main elements, the dialogue should also cover the quality of internal governance of banks, including risk controls, compliance and internal audit, as well as operational and organizational structure.

6. For the SRP to be effective, the BSP will need to develop a sufficiently thorough understanding of how the ICAAP is determined and the differences between it and the minimum regulatory capital requirement under the Framework. This would help in evaluating the ICAAP outcome. The SRP emphasizes the importance of analyzing the main elements, and understanding the differences between ICAAP assumptions and minimum regulatory capital requirement assumptions.

7. Once the process has begun, the dialogue will provide the opportunity for iteration between the ICAAP and SRP, with each informing the other, i.e., banks may make changes to the ICAAP in the course of the dialogue, in response to challenge and feedback from the BSP, and vice versa. Following the dialogue, the BSP will reach an assessment.

D. Guidelines on prudential measures

1. If the BSP considers that a bank’s ICAAP does not adequately reflect its overall

risk profile, or does not result in the bank having adequate capital, then consideration should be given to applying prudential measures.

2. The measures available to the BSP include:

- a. Requiring the bank to improve its internal control and risk management frameworks;
- b. Requiring the bank to reduce the risk inherent in its activities, products and systems;
- c. Restricting or limiting the business, operations or network of the bank;
- d. Limiting or prohibiting the distribution of net profits and requiring that part or all of the net profits be used to increase the capital accounts of the bank; and
- e. Requiring the bank to increase its capital.

3. The choice of prudential measures should be determined according to the severity and underlying causes of the situation and the range of measures and sanctions available to the BSP. Measures can be used individually or in combination. The requirement to increase capital should, however, be imposed on any bank which exhibits an imbalance between its business risks and its internal control and risk frameworks, if that imbalance cannot be remedied by other prudential measures or

supervisory actions within an appropriate timeframe.

4. The requirement to increase capital may also be set where the BSP judges the existing capital held by a bank to be inherently inadequate for its overall risk profile. It must be acknowledged that there is no ‘scientific’ method for determining the amount, and that capital is not a long-run substitute for remedying deficiencies in systems and controls. In practice, the process relies heavily on subjective judgment and peer-group consistency to ensure a level playing field and a defense to possible challenge that may be posed by banks.

5. Prudential measures should be communicated promptly and in sufficient detail. In communicating its decision on prudential measures, the BSP should:

- a. Explain in sufficient detail the factors which have led to the risk assessment conclusions;
- b. Indicate areas of weakness and the timeframe for remedial action;
- c. Explain the reasons for any additional capital requirement; and
- d. Indicate what improvements could be made to systems and controls to make them adequate for the risks and activities of the bank, and for this improvement to be reflected in the bank’s capital requirements.

(Circular No. 639 dated 15 January 2009)

**SUPPLEMENTAL GUIDELINES ON THE
INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)
AND SUPERVISORY REVIEW PROCESS (SRP) FOR FOREIGN BANK BRANCHES
(Appendix to Sec. X117)**

In implementing the provisions of Section X117 and *Appendices 90 and 90a*, the BSP shall consider the following guidelines with respect to the ICAAP and the related SRP for foreign bank branches:

1. The guiding principles for banks' ICAAPs and SRP in *Appendices 90 and 90a* respectively shall apply to foreign bank branches on a proportionate basis. In this regard, the BSP expects that there will be variation in foreign banks branches' ICAAPs in accordance with the nature, size and complexity of their business in the Philippines;
2. The BSP will primarily be interested in finding out how a foreign bank branch assesses its capital in relation to its business plans and operations in the Philippines;
3. The ICAAP of a foreign bank branch should cover risks arising from the occurrence of domestically-oriented scenarios. It should also take into account the specific circumstances of the branch, i.e., regulatory commitments in relation to special licenses or authorities, etc.;
4. The BSP acknowledges that a foreign bank branch is likely to make use of the methodology of the head office/parent bank for its own ICAAP or portion thereof. However, the branch should be able to explain that such processes and methodologies are appropriate to its business in the Philippines;
5. A branch must include in its ICAAP how capital is being allocated to the branch and the factors that influence this

allocation. It should also be able to illustrate how this capital is managed, and how capital can be made available to the branch in a timely manner when it has been determined that there is a need to do so;

6. In line with *Appendix 90a* Item "B.6" the BSP will refer to the ICAAP developed at the level of the head office/parent bank, and the home supervisor's assessment thereof. The BSP will look at the extent that the head office/parent bank ICAAP covers the risks of its branch in the Philippines, including the possible impact of scenarios that primarily affect the operations of the head office/parent bank on the operations and capital adequacy of the branch;

7. The ICAAP document of foreign bank branches should be submitted to the Central Point of Contact Department (CPCD) of the BSP on or before 28 February of each year. Banks may refer to Annex A of *Appendix 90* for the suggested format of the document. While a common outline facilitates the BSP's evaluation, banks are not precluded from modifying the format and content of the ICAAP document if certain sections or suggested content do not apply to the operations of the branch, or, if presenting the information in another way would best reflect the internal capital assessment process of the branch; and

8. A "trial" ICAAP document shall be submitted to the CPCD of the BSP on or before 30 September 2011.

(Circular 731 dated 28 July 2011)

EFFECTIVE INTEREST CALCULATION MODELS
(Appendix to Subsec. X305.5)

Illustration 1

EFFECTIVE INTEREST CALCULATION MODEL
FIXED EQUAL AMORTIZATION CASE

	A	B	C	D	E	F	G
1	Loan Amount		120,000				
2	Monthly Installment		11,001.60				
3	Contractual Rate (Monthly)		1.50%				
4	Other Charges		3.00%				
5	No. of Monthly Installment		12				
6							
7	Installment	Gross			Other		O/S
8	Period	Loan	Principal	Interest	Charges	Cash flows	Balance
9		120,000.00					120,000.00
10	0				3,600.00	116,400.00	120,000.00
11	1		9,201.60	1,800.00		(11,001.60)	110,798.40
12	2		9,339.62	1,661.98		(11,001.60)	101,458.78
13	3		9,479.72	1,521.88		(11,001.60)	91,979.06
14	4		9,621.91	1,379.69		(11,001.60)	82,357.15
15	5		9,766.24	1,235.36		(11,001.60)	72,590.91
16	6		9,912.74	1,088.86		(11,001.60)	62,687.17
17	7		10,061.43	940.17		(11,001.60)	52,616.74
18	8		10,212.35	789.25		(11,001.60)	42,404.39
19	9		10,365.53	636.07		(11,001.60)	32,038.86
20	10		10,521.02	480.58		(11,001.60)	21,517.85
21	11		10,678.83	322.77		(11,001.60)	10,839.01
22	12		10,839.01	162.59		(11,001.60)	
23	TOTAL		120,000.00	12,019.19	3,600.00		
	Monthly Installment	=	PMT (C3, C5, -C1)*-1		=		11,001.60
	(Using excel PMT Function						
	Effective Annual Interest	=	(1 + IRR (F10:F22)) ¹² -1		=		26.71%
	Rate (EIR)						
	(using Excel IRR Function)						
	Effective Monthly Interest	=	IRR (F10:F22)		=		1.99%
	Rate (MIR)						
	(using Excel IRR Function)						

Illustration 2

EFFECTIVE INTEREST CALCULATION MODEL FIXED PRINCIPAL AMORTIZATION CASE							
	A	B	C	D	E	F	G
1	Loan Amount		120,000				
2	Monthly Installment		11,001.60				
3	Contractual Rate (Monthly)		1.50%				
4	Other Charges		3.00%				
5	No. of Monthly Installment		12				
6							
7	Installment	Gross		Other			O/S
8	Period	Loan	Principal	Interest	Charges	Cash flows	Balance
9		120,000.00					120,000.00
10	0				3,600.00	116,400.00	120,000.00
11	1		10,000	1,800.00		(11,800.00)	110,000.00
12	2		10,000	1,650.00		(11,650.00)	100,000.00
13	3		10,000	1,500.00		(11,500.00)	90,000.00
14	4		10,000	1,350.00		(11,350.00)	80,000.00
15	5		10,000	1,200.00		(11,200.00)	70,000.00
16	6		10,000	1,050.00		(11,050.00)	60,000.00
17	7		10,000	900.00		(10,900.00)	50,000.00
18	8		10,000	750.00		(10,750.00)	40,000.00
19	9		10,000	600.00		(10,600.00)	30,000.00
20	10		10,000	450.00		(10,450.00)	20,000.00
21	11		10,000	300.00		(10,300.00)	10,000.00
22	12		10,000	150.00		(10,150.00)	
23		TOTAL	120,000.00	11,700.00	3,600.00		
Effective Annual Interest Rate (EIR) (using Excel IRR Function)			=	(1 + IRR (F10:F22)) ¹² -1		=	26.91%
Effective Monthly Interest Rate (MIR) (using Excel IRR Function)			=	IRR (F10:F22)		=	2.01%

Illustration 3

EFFECTIVE INTEREST CALCULATION MODEL
FIXED EQUAL AMORTIZATION CASE WITH GRACE PERIOD

	A	B	C	D	E	F	G
1	Loan Amount		120,000				
2	Monthly Installment		11,001.60				
3	Contractual Rate (Monthly)		1.50%				
4	Other Charges		3.00%				
5	No. of Monthly Installment		12				
6							
7	Installment	Gross			Other		O/S
8	Period	Loan	Principal	Interest	Charges	Cash flows	Balance
9		120,000.00					120,000.00
10	0				3,600.00	116,400.00	120,000.00
11	1					-	120,000.00
12	2					-	120,000.00
13	3		9,201.60	1,800.00		(11,001.60)	110,798.40
14	4		9,339.62	1,661.98		(11,001.60)	101,458.78
15	5		9,479.72	1,521.88		(11,001.60)	91,979.06
16	6		9,621.91	1,379.69		(11,001.60)	82,357.15
17	7		9,766.24	1,235.36		(11,001.60)	72,590.91
18	8		9,912.74	1,088.86		(11,001.60)	62,687.17
19	9		10,061.43	940.17		(11,001.60)	52,616.74
20	10		10,212.35	789.25		(11,001.60)	42,404.39
21	11		10,365.53	636.07		(11,001.60)	32,038.86
22	12		10,521.02	480.58		(11,001.60)	21,517.85
23	13		10,678.83	322.77		(11,001.60)	10,839.01
24	14		10,839.01	162.59		(11,001.60)	(0.00)
		TOTAL	98,482.15	11,533.84	3,600.00		
	Monthly Installment		=	PMT (C3, C5, -C1)*-1	=		11,001.60
	(Using excel PMT Function						
	Effective Annual Interest Rate (EIR)		=	(1 + IRR (F10:F22)) ¹² -1	=		19.68%
	(using Excel IRR Function)						
	Effective Monthly Interest Rate (MIR)		=	IRR (F10:F24)	=		1.51%
	(using Excel IRR Function)						

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Illustration 4

EFFECTIVE INTEREST CALCULATION MODEL
FIXED PERIODIC INTEREST PAYMENT, BALLOON PAYMENT AT MATURITY

	A	B	C	D	E	F	G
1	Loan Amount		120,000				
2	Monthly Installment		11,001.60				
3	Contractual Rate (Monthly)		1.50%				
4	Other Charges		3.00%				
5	No. of Monthly Installment		12				
6							
7	Installment	Gross				Other	O/S
8	Period	Loan	Principal	Interest	Charges	Cash flows	Balance
9		120,000.00					120,000.00
10	0				3,600.00	116,400.00	120,000.00
11	1			1,800.00		(1,800.00)	120,000.00
12	2			1,650.00		(1,800.00)	120,000.00
13	3			1,500.00		(1,800.00)	120,000.00
14	4			1,350.00		(1,800.00)	120,000.00
15	5			1,200.00		(1,800.00)	120,000.00
16	6			1,050.00		(1,800.00)	120,000.00
17	7			900.00		(1,800.00)	120,000.00
18	8			750.00		(1,800.00)	120,000.00
19	9			600.00		(1,800.00)	120,000.00
20	10			450.00		(1,800.00)	120,000.00
21	11			300.00		(1,800.00)	120,000.00
22	12		120,000.00	150.00		(121,800.00)	
23	TOTAL		120,000.00	21,600.00	3,600.00		
	Effective Annual Interest Rate (EIR) (using Excel IRR Function)	=	(1 + IRR (F10:F22)) ¹² -1	=			23.58%
	Effective Monthly Interest Rate (MIR) (using Excel IRR Function)	=	IRR (F10:F22)	=			1.78%

Illustration 5

EFFECTIVE INTEREST CALCULATION MODEL
FIXED EQUAL AMORTIZATION
(WEEKLY INSTALLMENTS QUOTED IN MONTHLY EFFECTIVE RATE)

	A	B	C	D	E	F	G
1	Loan Amount		10,000.00				
2	Weekly Installment		788.00				
3	Contractual Rate (Monthly)		1.50%				
4	Weekly Compounding Rate		0.35%				
5	Other Charges		3.00%				
6	Term (Weeks)		13				
7	Period/Year		52				
8	Installment	Gross			Other		O/S
9	Period	Loan	Principal	Interest	Charges	Cash flows	Balance
10		10,000.00					10,000.00
11	0				300.00	9,700.00	10,000.00
12	1		753.38	34.62		-	9,246.62
13	2		755.99	32.01		(788.00)	8,490.63
14	3		758.61	29.39		(788.00)	7,732.02
15	4		761.23	26.76		(788.00)	6,970.78
16	5		763.87	24.13		(788.00)	6,206.91
17	6		766.51	21.49		(788.00)	5,440.40
18	7		769.17	18.83		(788.00)	4,571.24
19	8		771.83	16.17		(788.00)	3,899.41
20	9		774.50	13.50		(788.00)	3,124.91
21	10		777.18	10.82		(788.00)	2,347.72
22	11		779.87	8.13		(788.00)	1,567.85
23	12		782.57	5.43		(788.00)	785.28
24	13		785.28	2.72		(788.00)	(0.00)
25		TOTAL	10,000.00	243.98	300.00		

Weekly

=

PMT (Contractual Rate, Term, -Loan Amount)*-1

(Using excel PMT Function

Effective Annual Interest Rate (EIR)

=

(1 + IRR (F10:F24))⁵²-1

=

50.46 %

(using Excel IRR Function)

Effective Monthly Interest Rate (MIR)

=

(1 + IRR (F10:F24))^{13/3}-1

=

3.46 %

(using Excel IRR Function)

(Circular No. 730 dated 20 July 2011, as amended by M-2011-040 dated 28 July 2011)

Minimum Documentary Requirements* for the Sale of Foreign Exchange (FX) for Non-Trade Purposes by Authorized Agent Banks (AABs)/AAB-Forex Corps

A. Sale of FX for Non-trade Current Account Purposes under Section 2 of the Manual of Regulations on FX Transactions (FX Manual)	
Purposes	Documents Required (All originals except as indicated)
1. Foreign travel funds	Applicant's passport and passenger ticket
2. Educational expenses/student maintenace abroad	Photocopy of proof of enrolment with, or billing statement from, school abroad
3. Correspondence studies	Photocopy of proof of enrolment with, or billing statement from, school abroad
4. Medical Expenses	Photocopy of billing statement (for services rendered/expenses incurred abroad) or certification issued by doctor/hospital abroad indicating cost estimate (for the treatment/service to be administered/ rendered)
5. Emigrants' assets (including inheritance, legacies, and income from properties)	<div>a. Photocopies of:<div><div>i. Emigrant's visa or proof of residence abroad</div><div>ii. Notarized Deed of Sale of assets in the Philippines (e.g. real estate, vehicles,machineries/equipment, etc.) and;</div><div>iii. Proof of income received from properties in the Philippines.</div></div>b. In the absence of the emigrant, a notarized Special Power of Attorney (SPA) for emigrant's representative/ agent. If SPA was executed abroad, original of SPA authenticated by Philippine consulate abroad.</div>
6. Salary/bonus/dividend/other benefits of foreign nationals (including peso	<div>a. Employment contract/Certification of employer showing amount of compensation paid to the foreign national during the validity of the contract, stating whether the same had been paid in FX or in pesos, and if in FX, proof that the FX was previously previously sold for pesos to AABs;</div>

Purposes	Documents Required (All originals except as indicated)
	<div>b. ACR I-Card and DOLE Alien Employment Permit of the foreign national;</div> <div>c. Applicant's notarized certification that the FX remitted is net of local expenses incurred and/or net of previous transfers abroad; and</div> <div>d. If amount to be remitted comes from sources other than salaries/compensation, information regarding the sources supported by appropriate documents should be submitted.</div>
7. Foreign nationals' income taxes due to foreign governments	<div>a. ACR-I Card and DOLE Alien Employment Permit; and</div> <div>b. Photocopy of income tax return covering the income tax payment sought to be remitted.</div>
8. Sales proceeds of foreign nationals' domestic assets	<div>a. ACR I-Card; and</div> <div>b. Photocopy of proof of sale of asset/s indicating currency of payment</div>
9. Producers' share in movie revenue/TV film rentals	<div>a. Statement of remittable share rental or rental; and</div> <div>b. Photocopy of contract/agreement</div>
10. Exports commissions due to foreign agents	<div>a. Billing statement from non-resident agent; and</div> <div>b. Photocopy of contract/agreement</div>
11. Freight charges on exports/imports	<div>a. Billing statement; and</div> <div>b. Photocopy of contract/agreement</div>
12. Charters and leases of vessels/aircrafts	<div>a. Billing statement from non-resident lessor/owner of vessel/aircraft; and</div> <div>b. Photocopy of contract/agreement</div>
13. Port disbursements abroad for aircraft and vessels of Philippine registry or chartered by domestic operators and salvage fees	<div>a. Billing statement; and</div> <div>b. Photocopy of contract/agreement</div>
14. Satellite and other telecommunication services	<div>a. Billing Statement; and</div> <div>b. Photocopy of contract/agreement</div>

Purposes	Documents Required (All originals except as indicated)
15. Other services such as advertising, consultancy, IT, fees for other professional services	a. Billing statement; and b. Photocopy of contract/agreement.
16. Share in head office expenses (including reimbursements)	a. BSRD for the assigned capital in the branch; b. Audited schedules of allocation of expenses for the periods covered; c. Certification from the head office that the share in head office expenses remain unpaid and outstanding; and d. Audited financial statements of the Philippine branch.
17. Insurance/Reinsurance premium due to foreign insurance companies	Billings/Invoices of insurance companies/brokers abroad.
18. Claims against domestic insurance companies by brokers abroad	Billings/Invoices from foreign insurer/reinsurer.
19. Net Peso revenues of foreign airlines/shipping companies	a. Statement of Net Peso Revenues (Peso revenues less expenses) certified by authorized officer of airline/shipping company; and b. Photocopy of contract/agreement.
20. Royalty/Copyright/Franchise/Patent/Licensing fees	a. Statement/Computation of the royalty/copyright/franchise/patent/licensing fee; and b. Photocopy of contract/agreement.
21. Net peso revenues of embassies/consulates of foreign countries	Statement of net peso revenues (Peso revenues less expenses) certified by the Embassy's/Consulate's authorized officer.
22. FX obligations of Philippine credit card companies to international credit card companies/non-resident merchants	Summary billings

B. Sale of FX for Servicing Foreign/Foreign Currency Loans Including Prepayments by Private Sector Covered by Sections 22 to 31 of the FX Manual	
Purposes	Documents Required (All originals except as indicated)
Loan Payments 1. Medium/Long-term foreign/foreign currency loans (with original maturities of over 1 year) a. Regular amortization/payment	<div>1.a. BSP registration letter and accompanying Schedule RA-2 (Part I: Schedule of Payments on BSP Registered Foreign/FCDULoans and Part II – Details of FX/Hedging Transactions for BSP-Registered Foreign/FCDU Loan; and</div> <div>1.b. Copy of billing statement from creditor</div> <div>Amounts that may be purchased shall be limited to maturing amounts on scheduled due dates indicated in the registration letter. Purchase and remittance of FX shall coincide with the due dates of the obligations to be serviced, unless otherwise explicitly allowed by the BSP</div> <div>or:</div> <div>2.a BSP letter-authority for the borrower to purchase FX to service specific loan account/s and where applicable, the "Schedule of Foreign Exchange Purchases from the Banking System"; and</div> <div>2.b. Copy of billing statement from creditor</div>

¹ All original documents shall be stamped "FX-SOLD" indicating the date and amount of FX sold, and signed by the seller's authorized signatory.

<p>b. Prepayments of foreign/foreign currency loans of the private Sector that are not publicly-guaranteed</p> <p>2. Short-term foreign/foreign currency loans (with original maturity of up to 1 year)</p> <p>a. Loans from offshore creditors (banks and non-banks)</p>	<p>Amounts that may be purchased shall be limited to the unutilized balance of the letter authority. Remittance of FX purchased shall coincide with the due dates of the obligations to be serviced, unless otherwise explicitly allowed by the BSP.</p> <p>1.a BSP registration letter and accompanying Schedule RA-2 (Part I Schedule of Payments on BSP-Registered Foreign/FCDU Loans and Part II -Details of FX/Hedging Transactions for BSP - Registered Foreign/FCDU Loans ;and</p> <p>1.b Original of the BSP letter acknowledging receipt of the borrower’s notice of prepayment</p> <p>1.a. BSP approval or registration letter showing loan terms and borrower's receiving copy of its report on short-term loans as submitted to BSP's International Operations Department (IOD); and</p> <p>1.b. Copy of billing statement from creditor</p> <p>Amounts that may be purchased shall be limited to: (a) amounts/rates indicated in the BSP approval or registration letter; or (b) the outstanding balance of the loan indicated in the report, whichever is lower. Purchase and remittance of FX shall coincide with the due dates of the obligations to be serviced, unless otherwise explicitly allowed by the BSP.</p>
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b. Loans from FCDUs/OBUs	<div>1.a. BSP approval or registration letter showing loan terms or certification from the lending bank on the amount outstanding; and</div> <div>1.b. Copy of billing statement from creditor</div> <div>Amounts that may be purchased shall be limited to: (a) amounts/rates indicated in the BSP approval or registration letter; or (b) the outstanding balance of the loan indicated in the bank certification, whichever is lower. Purchases and remittance of FX shall coincide with the due dates of the obligations to be serviced, unless otherwise explicitly allowed by the BSP.</div> <div>or:</div> <div>2.a. For loans not requiring BSP approval/ individual registration², Promissory Note (PN) certified as true copy by the Head of the lending bank's Loans Department and certification from the lending bank:<div><div>i. on the principal amount still outstanding;</div><div>ii. that the loan is eligible for servicing with FX to be purchased from the AABs/AAB-forex corps in line with existing regulations;</div><div>iii. That the loan was used to finance trade transactions (as well as pre-export costs in the case of FCDU loans of exporters) of the borrower; and</div><div>iv. On date when the loan account was reported to the appropriate BSP department/office under the prescribed forms. (This may be dispensed with for new loans which may not have been reported yet to BSP as of date of application to purchase FX.)</div></div></div>
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<p>Payments related to Guarantees and Similar Arrangements (including Risk Take Over Arrangements)</p> <p>1. For FX liabilities arising from guarantees and similar arrangements [(including Risk Take Over Arrangements (RTO)]</p> <p>2. Regular Fees related to Build-Operate-Transfer (BOT) and similar financing schemes with transfer provisions</p>	<p>2.b Copy of billing statement from creditor.</p> <p>Amounts that may be purchased shall be limited to amounts/rates indicated in the bank certification or PN, whichever is lower. Purchase and remittance of FX shall coincide with the due dates of the obligations to be serviced, unless otherwise explicitly allowed by the BSP.</p> <p>a. BSP approval of the resulting foreign/ foreign currency obligation;</p> <p>b. Copies of:</p> <p>i. Agreement/contracts covered by the guarantee/similar arrangement;</p> <p>ii.Standby letter of Credit (SLC) or guarantee contract/agreement for the guarantee;</p> <p>c. Proof/notice of original obligor's default and creditor's call on the guarantee; and</p> <p>d. Billing statement from the non-resident or local bank guarantor</p> <p>a. BSP Registration Document</p> <p>b . Copy of the covering agreements/ contracts</p> <p>c. Billing statement from the private sector project company/proponent</p>
<p>C. Sale of FX for Servicing of Foreign Investments, Investments by Residents and Related Transactions Covered by Sections 32 to 44 of the FX Manual</p>	
<p>Purposes</p> <p>Foreign Investments</p> <p>1. Capital repatriation of:</p>	<p>Documents Required (All originals except as indicated)²</p>

² All original documents shall be stamped "FX-SOLD" indicating the date and amount of FX sold, and signed by the seller's authorized signatory.

a. Portfolio investments in: i. PSE-listed securities ii. Peso government securities iii. Money market instruments (MMI) iv. 90-day time deposits	BSRD or BSRD Letter-Advice from the registering custodian bank and photocopy of broker's sales invoice BSRD or BSRD Letter-Advice from the registering custodian bank and photocopy of confirmation of purchase for peso government securities BSRD and photocopy of matured contract for MMI BSRD or BSRD Letter Advice from the registering custodian bank and photocopy of Matured Certificate of Deposits for 90-day time deposits
b. Foreign direct equity investments	a. BSRD; b. Photocopy of proof of sale or relevant documents showing the amount to be repatriated; in case of dissolution/ capital reduction, proof of distribution of funds/assets such as statement of net assets in liquidation; c. Photocopy of Clearance from appropriate department of the BSP- Supervision and Examination Sector (for banks), or from the Insurance Commission (for insurance companies), from the Department of Energy or from the National Power Corporation (for oil/natural gas/ geothermal companies); d. Detailed computation of the amount applied for in the attached format (Annex N) prepared by the selling stockholder's representative; e. Photocopy of pertinent audited financial statements; and f. SEC clearance in case of dissolution

2. Remittance of Dividends/Profits/ Earnings/Interests	<div>a. BSRD or BSRD Letter-Advice;</div> <div>b. Photocopy of PSE-cash dividends notice and Phil. Central Depository (PCD) printout of cash dividend payment or computation of interest earned issued by MMI issuer or bank;</div> <div>c. Photocopy of secretary’s sworn statement on the Board Resolution covering the dividend declaration;</div> <div>d. Photocopy of latest audited financial statements or interim financial statements of the investee firm covering the dividend declaration period (for direct foreign equity investments);</div> <div>e. For direct foreign equity investments, photocopy of clearance pertaining to the investee firm from BSP-Supervision and Examination Sector (for non-PSE listed banks), Insurance Commission (for insurance companies), Department of Energy or from the National Power Corporation (for oil/natural gas/geothermal companies); and</div> <div>f. Detailed computation of the amount applied for using the prescribed format (Annex N).</div>
3. Outward remittance in equivalent FX of pesos (funded by FX inwardly remitted) in excess of investments made in the country but not to exceed the amount of brought in less amount used for investments	<div>a. Original certificate of inward remittance (fully unutilized) or certified true copy of inward remittance (partially unutilized) showing inward remittance of FX and its conversion to pesos;</div> <div>b. Swift message/letter request from non-resident investors for return of excess funds;</div> <div>c. Bank certificate on the investor's peso cash account attesting credit of the excess peso funds to the account and that the amount has been outstanding since the date of credit and is sufficient to cover the amount applied for conversion to FX for remittance. In case the balance of the peso account has fallen below the amount applied for conversion and</div>

	<p>outward remittance, the investor may only purchase up to the amount shown in the certificate.</p> <p>d. Statement from the custodian bank (for foreign portfolio investment) or from an authorized officer of the investee firm/selling investor (for foreign direct investment) on the investments made funded by a portion of the FX remittance.</p> <p>For refunds arising from the unapproved additional subscription of PSE-listed shares, rights offering, the following additional documents shall be required in addition to Items 1-3 above:</p> <p>a. PSE Circulars indicating declaration of stock rights/warrants offering and the pertinent procedures and implementing guidelines;</p> <p>b. Copy of the Subscription Agreement with validation of payment/Philippine Depositary and Trust Corp. (PDTC) ledger; and</p> <p>c. Schedule of entitlement of the stock rights indicating the subscribed shares, the approved and unapproved additional shares.</p> <p>For remittance of interest earned from the peso cash account, certification from the depositary/custodian bank on the amount of interest pertaining to the excess peso funds for outward remittance</p>
4. Outward Investment a. Direct Equity Investments	<p>a. Photocopy of investment proposal/ agreement, or subscription agreement;</p> <p>b. Photocopy of Deed of Sale or Assignment of the investments;</p>

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	<ul style="list-style-type: none"> c. A certification on the cumulative FX purchases from AABs and AAB-forex corps within the calendar year for outward investments, including investments in bonds/notes of the Republic of the Philippines and other Philippine entities; d. Affidavit of Undertaking to inwardly remit and sell for pesos through AABs thirty (30) banking days from receipt abroad the dividends earnings or divestment proceeds from outward investments funded by FX purchased from AABs and AAB-forex corps using the prescribed format under Annex K; e. Photocopy of BSP approval on FX purchases from AABs and AAB-forex corps for outward investments, including investments in bonds/notes of the Republic of the Philippines and other Philippine entities, exceeding USD60 million per investor per calendar year; and f. Photocopy of clearance, regardless of amount, from the appropriate department of the BSP-Supervision and Examination Sector (SES) for outward direct equity investments of banks and from the Insurance Commission (IC) for outward investments of insurance companies.
b. Portfolio Investments	<ul style="list-style-type: none"> a. Photocopy of subscription agreement, or bond/stock offering; b. Photocopy of swift payment order instruction from the counterparty/ broker/trader indicating the name of payee and type/kind of investment authenticated by the broker/trader; c. Photocopy of investor's order to broker/trader to buy the securities; d. A certification on the cumulative FX purchases from AABs and AAB-forex corps within the calendar year for outward investments, including investments in bonds/notes of the Republic of the Philippines and other

	<p>Philippine entities;</p> <p>e. Affidavit of Undertaking to inwardly remit and sell for pesos through AABs within thirty (30) banking days from receipt abroad of the dividends/ earnings or divestment proceeds from outward investments funded by FX purchased from AABs and AAB-forex corps using the prescribed format under Annex K;</p> <p>f. Photocopy of BSP approval on FX purchases from AABs and AAB-forex corps for outward investments, including investments in bonds/notes of the Republic of the Philippines and other Philippine entities, exceeding USD30 million per investor per calendar year; and</p> <p>g. Photocopy of clearance, regardless of amount, from the Insurance Commission (IC) for outward investments of insurance companies.</p>
<p>5. Investments in FX-denominated bonds/ notes and Philippine Peso-denominated bonds/notes (to be settled in foreign currency)issued offshore by the Republic of the Philippines and Other Philippine Entities</p>	<p>a. Photocopy of subscription agreement or bond offering;</p> <p>b. Photocopy of swift payment order instruction from the counterparty/ broker/trader indicating the name of payee and type/kind of investment authenticated by the broker/trader;</p> <p>c. Photocopy of investor’s order to broker/trader to buy the securities;</p> <p>d. A certification on the cumulative FX purchases from AABs and AAB-forex corps within the calendar year for investments in bonds/notes of the Republic of the Philippines and other Philippine entities, including for outward investments;</p> <p>e. Affidavit of Undertaking to inwardly remit and sell for pesos through AABs within thirty (30) banking days from receipt abroad the dividends/earnings or divestment proceeds from foreign currency-denominated bonds/notes of the Republic of the Philippines and</p>

	<div>other Philippine entities funded by FX purchased from AABs and AAB-forex corps using the prescribed format under Annex K;</div> <div>f. Photocopy of BSP approval on FX purchases from AABs and AAB-forex corps for outward investments, including investments in bonds/notes of the Republic of the Philippines and other Philippine entities, exceeding USD60 million per investor per calendar year; and</div> <div>g. Photocopy of clearance, regardless of amount, from the Insurance Commission for investments by insurance companies</div>
<div>All FX purchases for non-trade transactions shall be directly remitted to the (a) intended non-resident beneficiary’s account (whether offshore or onshore); or (b) resident creditor bank, whose FCDU loans are eligible to be serviced with FX purchased from the banking system.Exceptions to this rule include travel funds, medical expenses abroad not yet incurred, and sales proceeds of emigrant’s domestic assets if emigrant is still in the country.</div> <div>(As amended by Circular No. 698 dated 05 November 2010)</div>	

LIST OF REGULATED IMPORT COMMODITIES AND
ADMINISTERING AGENCIES/BUREAUS

Government Agencies/Issuing Permits/Clearance/Legal Basis	Commodity Description/Commodity Group/ Tariff Heading (TH)
Philippine Drug Enforcement Agency (PDEA) and Dangerous Drugs Board (DDB) Republic Act (RA) No. 9165 (The Comprehensive Dangerous Drugs Act of 2002) dated 07 June 2002	Essential Chemicals and Controlled Precursors; and Dangerous Drugs (Ketamine, Pseudoephedrine, Oripavine, and Amineptine)
Environmental Management Bureau (EMB) R.A. No. 6969 (The Toxic Substances, Hazardous and Nuclear Wastes Control Act of 1990) dated 26 October 1990	Cyanide, Mercury, Asbestos, Polychlorinated Biphenyl, Chlorofluorocarbon and other ozone depleting substances TH 2805.4, 2903, 2523, 2503
Department of Health - Bureau of Food and Drugs (DOH - BFAD) Executive Order No. 776 dated 24 Febraury 1992 and Bureau Circular No. 03-A s.2000 R.A. No. 8976 (Philippine Food Fortification Act of 2000) dated 07 November 2000 R.A. No. 8172 (An Act for Salt Iodization Nationwide - ASIN) dated 20 December 1995	Semi-synthetic antibiotics (all form and salts of ampicillin, amoxicillin, and cloxacillin) Wheat Flour / TH 1101 Iodized Salt / TH 2501
Energy Resource Development Bureau (ERDB) Section 104 of Presidential Decree No. 1464 (The Tariffs and Customs Code of 1978) dated 11 June 1978	Coal and lignite (excluding jet), whether or not pulverized, but not agglomerated / TH 2701, 2702
National Bureau of Investigation (NBI) and Cash Department of the Bangko Sentral ng Pilipinas (BSP)	Color Reproduction Machines / TH 9009

Government Agencies/Issuing Permits/Clearance/Legal Basis	Commodity Description/Commodity Group/ Tariff Heading (TH)
Explosives Mangement Branch (EMB), Philippine National Police (PNP) Executive Order (E.O.) No. 522 (prescribing Rules and Regulations for the Control and Supervision of the Importation, Sale and Possession of Chemical Used as Ingredients in the Manufacture of Explosives and for Other Purposes) dated 26 June 1992	Chlorates, nitrates and nitric acid / TH 2829, 2834, 2808
Fertilizers and Pesticide Authority (FPA) Presidential Decree No. 1144 (Creating the Fertilizer and Pesticide Authority and Abolishing the Fertilizer Industry Authority) dated 30 May 1997 and FPA Pesticide Regulatory Policies and Implementing Guidelines, 2nd Edition, 2001	All fertilizers, pesticides and other chemical products that are intended for agricultural use
Bureau of Import Services (DTI - BIS) E.O. No. 156 (Providing for a Comprehensive Industry Policy and Directions for the Motor Vehicle Development Program and Its Imlementing Rules) dated 12 December 2002	Used motor vehicle under the no-dollar import program that is owned and for personal use by a returning resident or immigrant with a gross vehicle weight (GVW) not exceeding 3,000 kilograms (kgs) and must be left-hand drive Used trucks excluding pick-up trucks with GVW of 2.5 - 6 tons / TH 8709 Used buses with GVW of 6 - 12 tons / TH 8702 Brand new/Used automotive replacement parts and brand new motorcycle replacement parts [Note: All used motorcycle parts (except engine), including brand new motorcycle replacement chassis and frame, are not allowed for importation.] / TH 8702.9, 8703.9

Government Agencies/Issuing Permits/Clearance/Legal Basis	Commodity Description/Commodity Group/ Tariff Heading (TH)
E.O. No. 156 and Department Administrative Order (DAO) No. 08 s. 2003	Used trucks for rebuilding purposes such as truck chassis, engine, body and cabin/cowl, transmission/drivelines, axles (front and rear) or steering system / TH 8701.1
LOI No. 1086 dated 25 November 1980 E.O. No. 443 s. 2005 dated 05 July 2005 LOI No. 1307 s. 2003	Used tires Used motor vehicle importation through donation by local government units Importation by all instrumentalities of the government
Department of Foreign Affairs (DFA) E.O. No. 156 dated 12 December 2002 and	Used vehicles for the use an official of the Diplomatic Corps
Philippine International Trading Corporation (PITC) LOI No. 444 (Promulgating Guidelines on Trade Socialist and Other Centrally-Planned Economy Countries) dated 09 August 1967, as amended by EO No. 244 dated 12 May 1995	All commodities originating from the following socialist and centrally-planned economy countries (Albania, Angola, Ethiopia, Laos, Libya, Mongolia, Mozambique, Myanmar, Nicaragua and North Korea)
Maritime Industry Authority (MARINA) Memorandum Circular (MC) No. 104 dated 06 April 1995 MC No. 121 dated 29 July 1997 R.A. No. 9295 (Domestic Shipping Development Act of 2004) dated 03 May 2004 MC No. 169 dated 13 December 2001	Ships / TH 8901 High Speed Craft / TH 8901.9 Ship’s Equipment/Spare Parts Spare Parts of Foreign Flagships undergoing emergency repair

Government Agencies/Issuing Permits/Clearance/Legal Basis	Commodity Description/Commodity Group/ Tariff Heading (TH)
Philippine Nuclear Research Institute (PNRI) Republic Act No. 5207 (An Act Providing for the Licensing and Regulation of Atomic Energy Facilities and Materials, Establishing the Rules on Liability for Nuclear Damage, and for Other Purposes) dated 15 June 1968, as amended by Presidential Decree No. 1484 dated 11 June 1978	Atomic energy materials / TH 2844
Bangko Sentral ng Pilipinas (BSP)	Legal tender Philippine currency in excess of PHP10,000 Bank Notes, Coin of precious metal other than gold and of non-precious metal not being legal tender, Coin blank essentially of gold, Coin blank essentially of steel, Coin blank essentially of copper, Coin blank essentially of nickel, Coin blank essentially of zinc, Coin blank essentially of tin, and Coin blank essentially of aluminum / TH 4907, 7118, 7108, 7326, 7419, 7508, 7907, 8007, 7616

PROHIBITED COMMODITIES

The importation of the following commodities is not allowed under existing laws:

- (a) Those specifically listed under Section 101 of the Tariff and Customs Code (Appendix 3.1);
- (b) Used clothing and rags (R.A. 4653);
- (c) Toy firearms and explosives, which, even if dissimilar in other aspects, are replicas in appearance, measurements, color and parts as its genuine counterpart firearms and explosives (LOI 1264 dated July 31, 1982)

TARIFF AND CUSTOMS CODE OF THE PHILIPPINES
SECTION 101

Prohibited Importations

The importation into the Philippines of the following articles are prohibited:

- (1) Dynamite, gunpowder, ammunitions and other explosives, firearms, and weapons of war, and parts thereof, except when authorized by law.
- (2) Written or printed articles in any form containing any matter advocating or inciting treason, or rebellion, insurrection, sedition, or subversion against the Government of the Philippines, or forcible resistance to any law of the Philippines, or containing any threat to take the life of , or inflict bodily harm upon any person in the Philippines.
- (3) Written or printed articles, negatives or cinematographic film, photographs, engravings, lithographs, objects, paintings, drawings, or other representation of an obscene or immoral character.
- (4) Articles, instruments, drugs and substances designed, intended or adapted for producing unlawful abortion, or any printed matter which advertises or describes or gives directly or indirectly information where, how or by whom unlawful abortion is produced.
- (5) Roulette wheels, gambling outfits, loaded dice, marked cards, machines, apparatus or mechanical devices used in gambling or the distribution of money, cigars, cigarettes, or other when such

distribution is dependent on chance, including jackpot and pinball machines or similar contrivances, or parts thereof.

- (6) Lottery and Sweepstakes tickets except those authorized by the Philippine Government, advertisements thereof and list of drawings therein.
- (7) Any article manufactured in whole or in part of gold, silver or other precious metals or alloys thereof, the stamps, brands or marks or which do not indicate the actual fineness of quality of said metals or alloys.
- (8) Any adulterated or misbranded articles of food or any adulterated or misbranded drug in violation of the provisions of the “Food and Drugs Act”.
- (9) Marijuana, opium, poppies, coca leaves, heroin or any other narcotics or synthetic drugs which are or may hereafter be declared habit forming by the President of the Philippines, or any compound, manufactured salt, derivative, or preparation thereof, except when imported by the Government of the Philippines or any person duly authorized by the Dangerous Drugs Board, for medical purposes only.
- (10) Opium pipes and parts thereof, or whatever material.
- (11) All other articles and parts thereof, the importation of which is prohibited by law or rules and regulations issued by competent authority (as amended by Presidential Decree No. 34).

**GUIDELINES COVERING THE SALE OF FOREIGN EXCHANGE BY AUTHORIZED
AGENT BANK AND AUTHORIZED AGENT BANK-FOREX CORPS FOR TRADE
TRANSACTIONS**

- I. Importations under Letter of Credit (L/C), Documents against Payment (D/P) and Documents against Acceptance (D/A):

a. All import L/Cs to be opened shall include under the L/C terms and conditions, among others, the clause:

“L/C number shall be indicated on all copies of shipping documents”

b. All original shipping documents [Bill of Lading (BL) or Airway Bill (AWB) and Invoice] shall be stamped by the issuing/booking reporting AAB/OBU with the AAB’s/OBU’s name and mode of importation (i.e. L/C, D/P, or D/A), whether foreign exchange has been sold or not. AAB’s/OBU’s authorized officers shall accomplish a certification that original documents were presented and duly stamped. This certification shall be maintained by the stamping AAB/OBU together with the photocopied shipping documents and be made available for BSP verification.

c. AABs/OBUs other than the issuing booking/reporting AAB/OBU, including AAB-forex corps, may sell foreign exchange to importer clients, provided that:

1. The sale is supported by the following documents:

1.1 Copy/photocopy of the original shipping documents duly stamped as in Item I.b above;

1.2 Certification from the issuing booking/reporting AAB/OBU signed by the AAB’s/OBU’s authorized signatory (addressed to individual foreign exchange selling AABs or OBUs or AAB forex corps) indicating the following:

i. Amount of the outstanding foreign exchange trade obligations;

ii. Amount of FX intended to be purchased; and

iii. Bank Reference Number (BRN) for D/A.

2. The foreign exchange selling AAB/OBU or AAB-forex corp shall immediately remit proceeds of foreign exchange sale directly to the issuing/booking/reporting AAB/OBU, indicating in the remittance instructions pertinent information such as the L/C No., BSP Registration No., BL No., Invoice No., etc.

3. The booking/issuing/reporting AAB/OBU shall, upon receipt of foreign exchange, stamp “FX SOLD” on the original shipping documents at hand and indicate thereon the amount of foreign exchange and name of the foreign exchange selling AAB(s) or OBU(s) or AAB-forex corp(s). The stamped information shall be duly signed by the booking issuing/reporting AAB’s/OBU’s authorized signatory.

II. Importations under Direct Remittance (DR) or Open Account (O/A) Arrangement

a. For importations under O/A, the importer-client shall present to his reporting AAB/OBU original copies of the shipping documents, including one original BL or one of the original/carbon copies of AWBs, for stamping of bank’s name, BRN and O/A as mode of importation. The authorized officer of the AAB/OBU shall affix his signature on the duly stamped original shipping documents certifying that original documents have been presented and that no foreign exchange has been sold. For importations under DR, the importer-client shall directly present to the selling AAB or AAB-forex corp the same original shipping documents for stamping of “FX SOLD” upon purchase of foreign exchange.

b. AABs or AAB-forex corps may sell foreign exchange for DR imports to

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importer-client subject to presentation by the importer-client of all original shipping documents cited in Item II.a above. The selling AAB or AAB-forex corp shall stamp “FX SOLD” on the original shipping documents upon sale of foreign exchange.

c. AABs/OBUs or AAB-forex corps may sell foreign exchange for duly reported O/A imports to importer-client subject to the following conditions:

1. In case the selling/remitting AAB/OBU is also the reporting AAB/OBU, the importer-client shall present the original shipping documents duly stamped as in Item II.a above.

2. In case the selling/remitting AAB/OBU is not the reporting AAB/OBU:

2.1. The importer-client shall present the duly stamped original shipping documents as in Item II.a above; and

2.2. The selling/remitting AAB/OBU shall stamp “FX SOLD” signed by the selling/remitting AAB’s/OBU’s authorized signatory on the duly stamped original shipping documents and indicate thereon the amount of foreign exchange sold.

3. In case the selling AAB/OBU or AAB-forex corp is not the remitting AAB/OBU:

3.1. The importer-client shall present the duly stamped original shipping documents as in Item II.a above;

3.2. The selling AAB/OBU or AAB-forex corp shall stamp “FX SOLD” signed by the selling AAB’s/OBU’s or AAB-forex corp’s authorized signatory on the duly stamped

original shipping documents and indicate thereon the amount of foreign exchange sold;

3.3. The selling AAB/OBU or AAB-forex corp shall transmit the duly stamped “FX SOLD” original shipping documents indicating thereon the amount of foreign exchange sold to the importer-client and simultaneously transfer the foreign exchange proceeds to the remitting AAB/OBU for immediate remittance to foreign supplier; and

3.4. The remitting AAB/OBU shall report such payment under Schedule 11 of FX Form 1.

d. In all cases, the selling AAB/OBU or AAB-forex corp shall not sell foreign exchange to an importer-client beyond the maturity of the O/A importation without being duly extended by the foreign supplier as evidenced by an extension letter from the foreign supplier submitted to the selling bank which should have been reported under Schedule 10 of FX Form 1. AABs/OBUs or AAB-forex corps may sell foreign exchange for servicing of O/A importations extended beyond 360 days from date of BL/AWB upon presentation by the importer-client of a BSP letter of approval.

III. Photocopies of the original shipping documents (released to client) shall be marked “ORIGINAL DOCUMENT PRESENTED AS REQUIRED” and duly signed by the AAB’s/OBUs authorized signatory. These should be retained in the AAB’s/OBU’s file for BSP examination purposes.

DOCUMENTARY REQUIREMENTS FOR OPENING AN L/C
(To be Submitted by the Importer to the AAB/OBU)

- 1. The duly accomplished L/C application;
- 2. Firm offer/proforma invoice which shall contain information on specific quantity of the importation, unit cost and total cost, complete description/specification of the commodity and Philippine Standard Commodity Classification statistical code;
- 3. Permits/clearances from appropriate government agencies, whenever applicable; and
- 4. Duly accomplished Import Entry Declaration (IED) Form which shall serve as basis for payment of advance duties as required under Presidential Decree No. 1853 (Requiring Deposits of Duties at the Time of Opening of L/Cs Covering Imports and for Other Purposes) dated 21 December 1982.

GUIDELINES FOR REPORTING, PAYMENTS AND EXTENSIONS OF IMPORTATIONS UNDER D/A OR O/A ARRANGEMENTS

1. **Reporting.** Authorized Agent Banks (AABs) and offshore banking units (OBUs) shall report importations under D/A or O/A arrangements as availments under Schedule 10 (Import Letters of Credits (L/Cs) Opened and D/A-O/A Import Availments and Extensions) of FX Form 1 (Consolidated Report on Foreign Exchange Assets and Liabilities) upon receipt of the documents specified in 4.a herein and payments on said importations under Schedule 11 (Import Payments) of FX Form 1. Frequency and schedule of submission of said Schedules to BSP with the corresponding fines and penalties for late or erroneous submission shall be in accordance with Sections 101 and 103, respectively, of the Manual. Any extension of the maturity date thereof shall likewise be reported under said Schedule 10.

Period of Reporting. Such reporting of availments shall be made not later than ten (10) calendar days before the maturity date of the said D/A-O/A importation. If reported later than said period (i.e., less than 10 calendar days before maturity), the importer shall be required to pay to the BSP the peso equivalent of 1/100 of 1 percent of the unpaid balance of the importation but not less than USD50.00 or more than USD1,000.00.

2. **Payments.** Payments using foreign exchange sourced from AABs, OBUs or AAB-forex corps shall be effected only for D/A-O/A imports reported by an AAB/OBU under said Schedule 10 of FX Form 1. Payments prior to maturity date may be allowed without BSP approval, provided these are for duly reported D/A-O/A imports.

Payments for D/A-O/A importations reported later than the required period as provided in the preceding Item 1 shall not

use foreign exchange purchased from AABs, OBUs or AAB-forex corps unless BSP official receipt is presented that the prescribed processing fee has been paid to the BSP.

3. **Extensions.** Payments after the original maturity date for duly reported DA/OA imports may be allowed without prior BSP approval, regardless of frequency of extension, provided that the cumulative length of extensions does not exceed 360 days from BL/AWB date.

4. **Mechanics of Reporting.**

a. Importers shall submit through an AAB/OBU copies of the pertinent commercial invoice, BL/AWB, and if applicable, import permit on the basis of which the AAB shall report to the BSP the same as DA/OA availment under said Schedule 10.

b. The D/A-O/A import transactions shall be considered reported only if the same has been assigned a unique Bank Reference Number (BRN) by the reporting AAB/OBU and duly reported by the same AAB/OBU under said Schedule 10.

c. AABs, OBUs or AAB forex corps shall not service the foreign exchange requirements upon maturity of any D/A-O/A importation not duly reported under said Schedule 10 as prescribed herein.

d. AABs, OBUs or AAB-forex corps selling foreign exchange for duly reported O/A imports shall stamp "FX SOLD" on the original shipping documents and indicate thereon the amount of foreign exchange sold and name of the foreign exchange selling institution. The stamped information shall be duly signed by the foreign exchange selling institution's authorized signatory. Thereafter, the importer shall present the stamped original shipping documents to the remitting AAB/OBU and the same shall be

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reported by the remitting AAB/OBU under Schedule 11 of FX Form 1.

e. The existing documentary requirements for the purchase of foreign exchange from AABs, OBUs or AAB-forex

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corps to pay D/A-O/A imports shall be strictly complied with.

The guidelines for reporting of importations under D/A or O/A arrangements are detailed in Appendix 6.1.

**GUIDELINES FOR REPORTING OF IMPORTATIONS
UNDER D/A-O/A ARRANGEMENTS**

1. Authorized Agent Banks (AABs) and offshore banking units (OBUs), upon receipt of their importer-clients' original shipping documents under documents against acceptance (D/A) and open account (O/A), shall report the same under the revised Schedule 10 (Import Letters of Credit (L/Cs) Opened and D/A-O/A Import Availments and Extensions) and upon payment thereof under Schedule 11 (Import Payments) of FX Form 1 (Consolidated Report on Foreign Exchange Assets and Liabilities);

2. Within five (5) banking days after the end of the reference week, the hard copy of the following shall be submitted to the BSP-International Operations Department (IOD):

a. Schedule 10 of FX Form 1, together with hard copies of the commercial invoice, bill of lading (B/L) or airway bill (AWB) and/or other documents required under Appendix 4 of the Manual, for D/A-O/A imports with values exceeding USD500,000 or its equivalent; and

b. Schedule 11 for partial payment of D/A-O/A imports, identifying the payments with an asterisk and the amount in original currency and USD equivalent thereof as footnote.

3. Each D/A-O/A importation shall be assigned a unique Bank Reference Number (BRN) by the reporting AAB/OBU which shall include the bank code. Such BRN should also be used by the remitting AAB/OBU when reporting payment for the importation;

4. If the currency of payment is not USD, the USD equivalent to be reported under Schedule 10 shall be computed at the exchange rate quoted in the daily BSP Treasury Department Reference Exchange Rate Bulletin issued on report date;

5. Extensions of maturity date shall be reported under Schedule 10;

6. In case of an O/A importation where the foreign exchange selling/remitting AAB/OBU is not the reporting institution, the selling/remitting institution shall require, prior to sale of foreign exchange, the submission by the importer of the following: (1) documents required under Item II.a of *Appendix 4*; and (2) duly signed certification from the reporting AAB/OBU as to the remaining unpaid balance of the importation and that the importation has been duly reported to the Bangko Sentral, indicating the pertinent BRN.

7. The AAB/OBU reporting the D/A-O/A availment shall verify with/obtain from the BSP-IOD the code of a new importer for purposes of reporting under FX Form 1 and its Schedules; and

8. The penalty provisions under Section 106 of the Manual shall apply to AABs that sell foreign exchange for servicing D/A-O/A importations that were not previously reported to the Bangko Sentral under the prescribed Schedule 10 of FX Form 1 or were reported later than ten (10) calendar days before due date without payment of required Bangko Sentral processing fee.

(As amended by Circular No. 751 dated 16 March 2012)

GUIDELINES FOR THE SALE OF FOREIGN EXCHANGE (FX) TO IMPORTERS BY AABs AND AAB-FOREX CORPS UP TO USD1 MILLION OR ITS EQUIVALENT IN OTHER FOREIGN CURRENCY FOR ADVANCE PAYMENT OF IMPORTS

Sale of FX up to USD1 million or its equivalent in other foreign currency for full or partial advance payment of imports may be done without prior BSP approval¹ subject to the following guidelines:

1. AABs or AAB-forex corps shall require presentation of the original/ submission of copies of the following documents prior to the sale of FX for advance payment of imports:

- (a) purchase order (PO);
- (b) sales contract (SC) or proforma invoice (PI) signed by the resident importer and foreign supplier requiring payment of the importation in advance and indicating the intended delivery period of the imported goods; and
- (c) notarized Letter of Undertaking (LOU) to the effect that if the importation is cancelled, the importer shall inwardly remit the FX refunded by the foreign supplier and sell same for pesos to the FX selling/remitting AAB on the same date.

2. If the seller of FX is an AAB, the FX sale and remittance shall be transacted on the same date and shall involve only one AAB. The foreign exchange remittance shall be made directly to the foreign supplier and serviced at the exchange rate prevailing at the time of remittance, subject to the applicable tax provisions of the National Internal Revenue Code, as amended. If the selling entity is an AAB-forex corp, the foreign exchange proceeds shall be remitted to the foreign supplier through the parent AAB. The remitting AAB shall see to it that sales of FX by its AAB-forex corp subject for remittance are made in accordance with existing rules.

3. The importer shall present to the FX selling/remitting AAB the original shipping documents [import invoice and bill of lading (BIL) or air waybill (AWB)] where the date and amount of FX sold/remitted shall be stamped and duly signed by the AAB’s authorized signatory, and the Bureau of Customs Import Release Documents, within three (3) banking days after receipt thereof.

4. Submission by the FX selling and remitting AAB to the BSP-ID of the following reports:

- a. Monthly Report on Sale/Remittance of FX for Advance Payment of Importations up to USD1 million or its equivalent in other foreign currency (Annex B) - within the first five (5) banking days of the month succeeding the date of FX sale/remittance; and
- b. Monthly Report on Purchase of FX from Refund of Advance Payment of Importations up to USD1 million (Annex C) - within the first five (5) banking days of the month succeeding the receipt of the refund.

5. The FX selling/remitting AAB shall report to the BSP under FX Form 1 (Consolidated Report on Foreign Exchange Assets and Liabilities) the following transactions:

- a. The remittance of FX by the AAB for advance payment of imports as “Import Advances/Down Payments” (Code No. 040) under Schedule 4 (FX Disposition for Loans);
- b. The purchase of FX by the AAB from the importer arising from a refund of advance payment on cancelled imports as “Refund of Import Advances/Down Payments” (Code No. 040) under Schedule 3 (FX Acquisition from Loans); and

¹ Sale of foreign exchange exceeding USD100,000.00 or its equivalent for advance payment of imports shall require prior BSP approval.

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c. In case of importations with partial advance payment whose balance is payable through letters of credit (L/Cs), documents against acceptance (DA), open account (OA), documents against payment (DP), or direct remittance (DR), such balance shall be reported under the following Schedules:

(1) Schedule 10 [Import Letters of Credit (L/Cs) Opened and DA-OA Import

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Availments and Extensions] for L/C (upon opening) and for DA-OA (upon availment); and

(2) Schedule 11 (Import Payments) upon payment.

6. The foregoing rules on advance payments shall apply to importations under all modes of payment.

(As amended by Circular No. 698 dated 05 November 2010)

LIST OF REGULATED PRODUCTS FOR EXPORT

The list below pertains to regulated products needing export clearances from various concerned government agencies prior to shipment.

No.	Regulated Products	Office
1.	All plants, planting materials and plant products; pest specimen; including wood packaging materials capable of harboring plant pests	Bureau of Plant Industry (BPI)
2.	All sugarcane-based sugar (such as raw sugar, white sugar, muscovado) and Molasses	Sugar Regulatory Administration (SRA)
3.	All fish and fishery/aquatic products (live, fresh, dried and/or processed, frozen and chilled)	Bureau of Fisheries and Aquatic Resources (BFAR)
4.	Bamboo	Forest Management Bureau (FMB)
5.	Coffee	International Coffee Organization Certifying Agency (ICO-CA)
6.	Copper concentrates	Board of Investments (BOI)
7.	Cultural properties such as archaeological materials, traditional ethnographic materials, antiques, historical relics, Natural History specimens (holotypes, endangered, irreplaceable specimens, fossils)	National Museum (NM)
8.	Crushed and/or sized sand gravel and/or other unconsolidated materials	Mines and GeoSciences Bureau (MGB)
9.	Firearms, ammunitions and explosives	Firearms and Explosives Office Philippine National Police (PNP - FEO)
10.	Grains and grain-by-products	National Food Authority (NFA)
11.	Iron, manganese and/or chromium ore(s), whether unprocessed or processed	MGB

No.	Regulated Products	Office
12.	Legal tender Philippine notes and coins, checks, money orders and other bills of exchange drawn in pesos against banks operating in the Philippines greater than P10,000.00	Bangko Sentral Ng Pilipinas (BSP)
13.	Live animals, its products and by-products, veterinary feed premixes and biologics, laboratory specimen of animal origin, feeds and feed ingredients that may be carriers of communicable animal diseases	Bureau of Animal Industry (BAI)
14.	Live Mud crab “Alimango” (<i>Scylla serrata</i>), carapace length of 10 cm or over and weight of 200 grams or over	BFAR
15.	Lumber, logs, poles, piles, log core and flitches/railroad ties produced from planted trees both whether from the forestlands and private lands	FMB
16.	Marine wildlife species: Seasnakes: live, skin or products from the skin or meat	BFAR
17.	Mine wastes and/or mill tailings	MGB
18.	Optical and magnetic media, its manufacturing equipment, parts and accessories and manufacturing materials	Optical Media Board (OMB)
19.	Radioactive materials	Philippine Nuclear Research Institute (PNRI)
20.	Shells: 20.1. Black lip pearl “Concha negra” (<i>Pinctada margaritifera</i>), Minimum size is 11 cm, maximum outside long axis measurement, taken at right angle to the base. Undersized not allowed for harvest	BFAR

No.	Regulated Products	Office
	<p>20.2. Gold lip pearl “Concha blanca” (<i>Pinctada maxima</i>), Minimum size is 19 cm, maximum outside long axis measurement, taken at right angle to the base. Undersized not allowed for harvest</p> <p>20.3. Semi-finished or Semi-processed Capiz shells “Kapis”, 8 cm or over in diameter measured from the base perpendicular towards the top edge of the shell, undersized shell not allowed for harvest</p> <p>20.4. Hirose shell “Babae” (<i>Trochus noduliferus</i>), Minimum size is 5 cm across the least diameter of the base, taken at right angles to the axis</p> <p>20.5. Rough top shell or trochus shell “Simong; trocha rough variety” (<i>Trochus maximus</i>) Minimum size is 7.5 cm across the least diameter of the base, measured at right angles to the axis</p>	
21.	Unprocessed raw or run-of-mine mineral(s) of ore(s).	MGB
22.	Used Lead Acid Battery (ULAB).	Environmental Management Bureau (EMB)
23.	<p>Wild Terrestrial Species to include live, stuffed, preserved, by-products and derivatives:</p> <p>23.1. All species of Butterflies</p> <p>23.2. Aves:</p> <p>Amethyst Fruit Dove</p> <p>Bended Rail</p> <p>Black naped Oriole</p> <p>Black-naped Monarch</p> <p>Bleeding heart Pigeons</p> <p>Blue-tailed Bee Eater</p> <p>Brush Cuckoo</p>	Protected Areas and Wildlife Bureau (PAWB)

No.	Regulated Products	Office
	<div>Button Quails</div> <div>Crested Mynah</div> <div>Finches</div> <div>Green-winged Dove</div> <div>Hanging Parakeets</div> <div>Java Sparrows</div> <div>Kingfishers</div> <div>Painted Quail</div> <div>Parrot</div> <div>Phil. Starlings</div> <div>Phil. White-eye</div> <div>Pink necked green Pigeon</div> <div>Plain Swamphen</div> <div>Plaintive Cuckoo</div> <div>Quiabero</div> <div>Redamadavat</div> <div>Slender-billed Cuckoo</div> <div>Tree Sparrow</div> <div>White-eared Brown Dove</div> <div>23.3. Exotic Wildlife species found under Appendix II of the CITES such as:</div> <div>Conures</div> <div>Macaw</div> <div>Parrots</div> <div>Pigeons</div> <div>23.4. Flora:</div> <div>Agar wood</div> <div>All species of Orchids</div> <div>Aloe plant</div> <div>Big-leaf mahogany</div> <div>Bungang ipod</div> <div>Cactus</div> <div>Cycasf plant</div> <div>Eagle wood</div> <div>Himalayan yew</div> <div>Philippine Camia/Garland</div> <div>Red-sanders</div> <div>Sanders alocasia</div> <div>Striped alocasia</div> <div>Tree ferns</div> <div>Volavoi</div>	

No.	Regulated Products	Office
	23.5. Frogs: live, skin or products from the skin or meat 23.6. Mammals: Ant eater Cloud-rats Philippine Tarsier Philippine Monkeys Skunk 23.7. Reptiles: Gecko Land Turtles Monitor and Sail finned Lizards	

(As amended by Circular No. 751 dated 16 March 2012)

LIST OF PROHIBITED PRODUCTS FOR EXPORT

These products are prohibited for export under existing policies of the government agency/ office concerned except for scientific or testing purposes

No.	Products	Office/Agency
1.	Abaca and Ramie Seeds, Seedlings Suckers, and Root Stocks; Buri Seeds and Seedlings	Fiber Industry Development Authority (FIDA)
2.	Gold from small scale mining or panned gold	Bangko Sentral ng Pilipinas (BSP)
3.	Humphead wrasse or Napoleon wrasse “Mameng” (<i>Cheilinus undulatas</i>)	Bureau of Fisheries and Aquatic Resources (BFAR)
4.	Live Mud crab “Alimango” (<i>Scylla serrata</i>), carapace length of less than 10 cm and weight of less than 200 grams	BFAR
5.	Live Shrimps and Prawn-spawner, breeder, eggs and fry	BFAR
6.	Mangrove “Bakawan”	Forest Management Bureau (FMB) Department of Environmental and Natural Resources (DENR)
7.	Marine wildlife species 7.1. All Corals 7.2. All Seahorses (<i>Hippocampus spp.</i>) 7.3. Coconut Crab (<i>Birgus latro</i>) 7.4. Dogfaced water snake (<i>Cerberus rhynchops</i>) 7.5. Elasmobranch and Sharks: 7.5.1. Manta ray “Pagi” (<i>Manta birostris</i>), whether dead or alive, in any state or form, whether raw or processed 7.5.2. Great white shark “Pating” (<i>Carcharodon carcharias</i>) 7.5.3. Whaleshark “Butanding” (<i>Rhincodon typus</i>), whether dead or alive, in any state or form, whether raw or processed 7.5.4. All sawfishes (<i>Pristidae</i>) 7.6. Marine Mammals/ Cetaceans (whales, dolphins, porpoises)	BFAR

No.	Products	Office/Agency
8.	Matured coconuts and coconut seedlings	Philippine Coconut Authority (PCA)
9.	Milkfish “Bangus” fry, Full grown Milkfish, Mother Bangus “Sabalo”, Milkfish fingerling (not less than 25 mm but not more than 100 mm) (<i>Chanos chanos</i>)	BFAR
10.	Monkey pod “Acacia”	FMB
11.	Raw Rattan including poles	FMB
12.	Round logs, poles and piles including log core and flitches/railroad ties produced from naturally grown trees both from the forestlands and private lands	FMB
13.	Shells: 13.1 Helmet Shells (<i>Cassis cornuta</i>) 13.2. Semi-finished or Semi-processed Capiz shells “Kapis”, less than 8 cm in diameter measured from the base perpendicular towards the top edge of the shell 13.3. Live specimens, raw shells, meat and by-products of Giant Clams under the family Tridacnidae: 13.3.1 True Giant Clams (<i>Tridacna Gigas</i>) 13.3.2. Smooth Giant Clam (<i>Tridacna Derasa</i>) 13.3.3. Flutted or Scaly Giant Clam (<i>Tridacna Squamosa</i>) 13.3.4. Elongated Giant Clam (<i>Tridacna Maxima</i>) 13.3.5. Boring or Crocus Clam (<i>Tridacna Crocea</i>) 13.3.6. Strawberry or Horse hoof clam (<i>Hippopus hippopus</i>) 13.3.7. China/porcelain clam (<i>Tridacna Porceillanus</i>) 13.4. Angel wing shell (<i>Bornea manilensis</i>)	BFAR

No.	Products	Office/Agency
	13.5. Beck’s cowrie (<i>Cypraea beckii</i>) 13.6. Bent cerith (<i>Clypeomorus aduncus</i>) 13.7. Bullmouth helmet (<i>Cypraeacassis rufa</i>) 13.8. Children’s cowrie (<i>Cypraea childreni</i>) 13.9. Club-shaped boring clam (<i>Eufistulana mumia</i>) 13.10. Dance volva (<i>Phenacovolva dancei</i>) 13.11. Deep sea cap (<i>Malluvium lissus</i>) 13.12. Giant morum (<i>Morum grande</i>) 13.13. Girgyllus star shell (<i>Bolma girgyllus</i>) 13.14. Golden cowrie (<i>Cypraea aurantium</i>) 13.15. Great spotted cowrie (<i>Cypraea guttata</i>) 13.16. Green snail (<i>Turbo marmoratus</i>) 13.17. Katsue’s cowrie (<i>Cypraea Katsuae</i>) 13.18. Kurzi’s morum (<i>Morum kurzi</i>) 13.19. Marie’s cowrie (<i>Cypraea mariae</i>) 13.20. Martini’s tibia (<i>Tibia martini</i>) 13.21. Martini’s cowrie (<i>Cypraea martini</i>) 13.22. Network beak shell (<i>Varicospira crispata</i>) 13.23. Porter’s cowrie (<i>Cypraea porter</i>) 13.24. Prince cowrie (<i>Cypraea valentia</i>) 13.25. Recluzia snail (<i>Recluzea Lutea</i>) 13.26. Saul’s cowrie (<i>Cypraea saulae</i>) 13.27. Smooth bonnet (<i>Phalium glabratum glabratum</i>) 13.28. Smooth top shell (<i>Trochus niloticus</i>) 13.29. Smudged moon scallop (<i>Amusium oblitteratum</i>) 13.30. Teramachi’s cowrie (<i>Cypraea teramachii</i>) 13.31. Thersite stromb (<i>Strombus thersites</i>) 13.32. True separatista (<i>Separatista blainvilliana</i>) 13.33. Trumpet shells or Triton (<i>Charonia Tritonis</i>) 13.34. Watson’s morum (<i>Morum watsoni</i>) 13.35. White toothed cowrie (<i>Cypraea leucodon</i>) 13.36. Wyville’s bonnet (<i>Phalium coronadoi wyvillei</i>)	

No.	Products	Office/Agency
14.	Saba banana (<i>Musa paradisiaca</i>) planting materials	Bureau of Plant Industry (BPI)
15.	Stalactites and stalagmites	Protected Areas and Wildlife Bureau (PAWB)
16.	Terrestrial wildlife species whether live, stuffed or by-products: 16.1. Aves: Eastern sarus crane Giant Scops Owl Horn Bills Kotch’s Pitta Mindoro Imperial Pigeon Nicobar Pigeon Palawan Peacock Pheasant Palawan Talking Mynah or Hill Mynah Peregrine Falcon Philippine Eagle Philippine Redvent Cockatoo Spotted Greenshank 16.2. Exotic wildlife species found under <i>Appendix 1</i> of the CITES such as Buffoon macaw, Scarlet macaw. 16.3. Insects: Luzon peacock Swallowtail butterfly 16.4. Flora, including by-products and derivatives: <i>Dendrobicum Cruentum</i> <i>Igemdagat</i> Jade Vine Lady’s Slipper Orchid Pitcher Plant <i>Pitogo</i> <i>Pugadlawin</i> <i>Rafflesia</i> Staghorn fern Tree fern <i>Vanda Sanderiana</i>	PAWB

No.	Products	Office/Agency
	<div>16.5. Mammal</div> <div>Calamian Deer (Philippine Deer)</div> <div>Fruit Bats</div> <div>Giant golden’ crowned flying fox</div> <div>Leopard Cat</div> <div>Palawan Bear Cat</div> <div>Philippine Warty Pig</div> <div>Sea Cow or Dugong</div> <div>Slow Loris or Sunda Loris</div> <div>Tarsier</div> <div>Tamaraw</div> <div>16.6. Reptiles:</div> <div>Alligator</div> <div>Philippine crocodiles:</div> <div>Caiman Crocodile</div> <div>Saltwater Crocodile</div> <div>Marine Turtles</div> <div>Asian Box Turtle</div> <div>Green Sea Turtle</div> <div>Hawksbill Turtle</div> <div>Loggerhead Turtle</div> <div>Monitor Lizard</div> <div>Reticulated Python</div> <div>Sailfin Lizard or Soa-soa Water Lizard</div>	

(As amended by Circular No. 751 dated 16 March 2012)

PROCEDURES AND DOCUMENTATION REQUIREMENTS FOR THE
REGISTRATION OF INWARD FOREIGN INVESTMENTS

A foreign investment is considered BSP-registered upon issuance of a Bangko Sentral Registration Document (BSRD) by the BSP or a designated custodian bank.

A. For registration with the BSP
Foreign direct investments and investments in peso-denominated money market instruments under Section 34 and Section 35.3, respectively, of the “Manual” shall be registered directly with the BSP.

1. Foreign Direct Investments¹
The following are the procedures for registration and the requisite supporting documents:
- a. For Cash Investment
The application shall be filed directly with BSP together with the following supporting documents:
 - i. Certificate of Inward Remittance (CIR) of foreign exchange and its conversion to pesos through an AAB (except for investments in banks where conversion to pesos is not required) in the prescribed format (Sample CIR and Guide/Instructions for Filling-Out CIR Form hereto attached as *Appendix 10.1* and *Appendix 10.2*, respectively); and
 - ii. Sworn certification of the officer of the investee firm concerned attesting to the number of shares and amount paid for the investment (Suggested format attached as *Appendix 10.3*).
 - b. For Investment in Kind
Application for registration shall be filed directly with BSP together with the following supporting documents:
 - i. Shipping documents;
 - ii. Bureau of Customs Import Entry and Internal Revenue Declaration (IEIRD); and

iii. Sworn certification of the officer of the investee firm concerned attesting to the number of shares and amount paid for the investment (Suggested format attached as *Appendix 10.3*).

The value of investments in kind shall be assessed and appraised by the BSP before their registration.

c. For investment in financial institutions which are governed and regulated by the BSP:

Clearance from the Supervision and Examination Sector of the BSP shall be required in addition to the documentary requirements for investments in cash or in kind.

d. Registration as foreign investments of capitalized oil/gas/geothermal exploration expenditures

The application for registration shall be filed directly with the BSP together with the following supporting documents:

- i. Government-approved service contract/other contract; and
- ii. Copy of the Department of Energy (DOE)/National Power Corporation (NPC) letter-validation of expenditures showing, among others, the distribution of validated expenditures among the partners under the service contract/other contract.
- e. Investments funded by foreign loan/s and other payables converted into equity
 - i. Original CIR of foreign exchange and its conversion to pesos through an AAB in the prescribed format (*Appendix 10.1*) for foreign loans not registered with the BSP; or
 - ii. Copy of BSP registration for foreign loans registered with the BSP;
 - iii. Sworn certification from investee firm’s authorized officer attesting to the number of shares and amount paid for the investment remittable outward and that such

¹ Foreign direct investments required by law to be registered with the Securities and Exchange Commission or the Bureau of Trade Regulation and Consumer Protection of the Department of Trade and Industry shall be extended a Bangko Sentral Registration Document (BSRD) upon endorsement by either agency without need for the foreign investor/applicant to submit supporting documents to the BSP.

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are funded from foreign loans/payables converted to equity;

- iv. Deed of Assignment of foreign loan or other payables;
- v. Latest audited financial statements of investee firm; and
- vi. Articles of Incorporation of the investee firm

f. Stock and/or property dividends accruing on BSP-registered investments in non-PSE-listed firms

- a. Copy of BSRD; and
- b. Sworn certification signed by the investee firm's authorized officer on the declaration of the stock and/or property dividend, to include relevant excerpts of the covering Board Resolution

g. Stock splits/reverse stock splits on BSP-registered investments in non-PSE-listed firms

- a. Copy of BSRD; and
- b. Sworn certification signed by the investee firm's authorized officer declaring the stock split/reverse stock split, to include relevant excerpts of the covering Board Resolution

2. Investments in Peso-denominated Money Market Instruments

Investments in money market instruments which refer to all peso-denominated debt instruments, such as but not limited to bonds, bills payables, promissory notes (PNs), and non-participating preferred shares, issued onshore by private resident firms, not included in Section 23 of the "Manual", shall be registered directly with the BSP supported by the following documents:

- a. Original CIR of foreign exchange and its conversion to pesos through an AAB in the prescribed form (*Appendix 10.1*); and
- b. Contract/Certificate of investment

For bonds or PNs issued by private domestic firms that were purchased from local creditor banks, the following additional documents shall be required:

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- a. Copies of bonds or PNs;
- b. Purchase Price Letter/Agreement;
- c. Deed of Assignment of the loan;
- d. Notice of Assignment of the loan; and
- e. Acknowledgment by debtor of the Notice of Assignment

For foreign investments in non-participating preferred shares of Philippine investee enterprises, the following additional document/s shall be required:

Purchase invoice, or subscription agreement and/or proof of listing in the local stock exchange for new/additional issues/stock rights

3. Reinvestment of divestment/sales proceeds or dividends/profits/earnings of duly registered investments (The following documentation requirements are in lieu of the CIR and in addition to the required documentation for the specific form/type of reinvestment)

For divestment/sales proceeds

- a. Original BSRD;
- b. Sworn certification signed by the original investee firm's authorized officer attesting to the divestment/sale by the foreign investor; and
- c. Proof of divestment/sale for direct investment/s; or
- d. Matured contract/certificate of investment/proof of redemption for money market instruments

For dividends/profits/earnings

- a. Copy of BSRD; and
- b. Sworn certification signed by the investee firm's authorized officer declaring the dividends or distribution of profits, to include relevant excerpts of the covering Board Resolution; or

c. Proof of interest/coupon payments for investment/s in money market instruments

4. BSP-registered investments sold/transferred to another foreign investor if payment is made offshore in foreign exchange

- a. Original BSRD;
- b. Sworn certification from the authorized officer of the investee firm,

attesting to the transfer/assignment of the investments from the selling foreign investor to the buyer, in the books of the investee firm; and

- c. Deed of Sale/Assignment

Replacement of Lost BSRDs

- a. Letter request from the foreign investor or his duly authorized representative;
- b. Affidavit of Loss from the foreign investor or his duly authorized representative attesting to the following:
 - i. Loss of the original BSRD;
 - ii. Reason for the loss;
 - iii. Affirmation that they have exercised diligent search for the document/s declared lost;
 - iv. That the investment is still intact and existing to date;
 - v. The outstanding balance of the investment, net of repatriation, if any
 - vi. The registration number/s and date/s registered;
 - vii. The number of shares registered under each registration and percentage of the foreign investment to the total shares subscribed and paid up, as applicable.
- c. Letter authority from the foreign investor for the replacement of the lost BSRD if the request and affidavit of loss are accomplished and signed by the duly authorized representative.

B. For Registration with Custodian Banks

Foreign investments in peso denominated government securities, PSE listed securities, and peso time deposits with tenor of at least 90 days as described in Items 1, 2, and 4 under Section 35 of the Manual shall be registered with custodian banks designated by the foreign investors. Custodian banks are authorized to issue on behalf of the BSP the BSRD for such investments. The duplicate copy of the new BSRD issued by custodian banks together with the requisite supporting documents enumerated in this Appendix shall be

submitted to the BSP within two (2) banking days from date of registration for post audit purposes. The original copy of the BSRD shall remain in the custody of the issuing custodian bank.

The “one-BSRD-per-investor-per-custodian-bank” rule

The “one-BSRD-per-investor-per-custodian-bank” rule shall be followed for the registration of investments with custodian banks.

1. Only one BSRD shall be issued by a custodian bank to a foreign investor applying with that bank for registration of his foreign investments;
2. Additional inward foreign exchange remittances of a foreign investor through a custodian bank, which had earlier issued to that investor a BSRD, shall be considered BSP-registered after annotating such investments in said BSRD, and reporting to the BSP by said custodian bank within two (2) banking days from transaction date under the “Consolidated Daily Foreign Portfolio Investment Registration and Outward Remittance Report”; and
3. Changes in the composition of the registered investment holdings of the foreign investor that do not involve inward remittance of foreign exchange such as stock dividends, stock splits, or reverse stock splits, shall be annotated in the same BSRD and reported by the custodian bank to the BSP under the “Consolidated Daily Foreign Portfolio Investment Registration and Outward Remittance Report”.

Surrender of BSRD to the BSP

Whenever the BSP-registered investments have been fully divested (redeemed/sold/withdrawn) by the foreign investor, the custodian of the original copy of the BSRD shall surrender said BSRD to the BSP for cancellation within two (2) banking days from date of full remittance of divestment proceeds.

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Documentary Requirements

- 1. Investments in peso-denominated government securities (GS)
 - a. Accredited dealer’s Confirmation of Sale (COS);
 - b. Original CIR of foreign exchange and its conversion to pesos through an AAB in the prescribed format (*Appendix 10.1*);
 - c. “Authority to Disclose Information” in the prescribed format (*Appendix 10.4*).
- 2. Investments in PSE-listed securities
The application for registration shall be supported with the following documents:
 - a. For new investments:
 - i. Purchase invoice, or subscription agreement and/or proof of listing in the local stock exchange for new/additional issues/ stock rights: and
 - ii. Original CIR of foreign exchange and its conversion to pesos through an AAB in the prescribed format (*Appendix 10.1*).
 - b. For annotation in the BSRD of stock dividends which accrued to duly registered investments:
PSE Notice (Circular for Brokers) announcing the issuance of Stock Dividend
 - c. For annotation in the BSRD of stock splits/reverse stock splits

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- PSE Notice (Circular for Brokers) announcing the issuance of Stock Splits/ Reverse Stock Splits
- 3. Investments in peso time deposits with tenor of at least 90 days
 - a. Certification of peso time deposit;
 - b. Original Certificate of Inward Remittance (CIR) of foreign exchange and its conversion to pesos through an AAB in the prescribed format (*Appendix 10.1*); and
 - c. “Authority to Disclose Information” in the prescribed format (*Appendix 10.4*)
- 4. Reinvestment of divestment/sales proceeds or dividends/profits/earnings of duly registered investments
 - For divestment/sales proceeds
 - a. Original BSRD-Letter Advice; and
 - b. Proof of redemption of GS; or Broker’s sales invoice; or Matured certificate of peso time deposit, as applicable
 - For dividends/profits/earnings
 - a. Original BSRD-Letter Advice;
 - b. PSE Notice (Circular for Brokers) announcing the issuance of cash dividend for PSE-listed securities; or proof of interest/ coupon payments for investment/s in GS and peso time deposits

CERTIFICATE OF INWARD REMITTANCE (CIR)
OF FOREIGN EXCHANGE NO. CCYY-NNNNN-BBBB

Name of Issuing Bank

TO THE BANGKO SENTRAL NG PILIPINAS:

Part I.
This is to certify that this Bank (mark applicable box/boxes)

<div><input type="checkbox"/> Received an inward remittance of foreign exchange (FX), with the following particulars:</div> <div><div>1. Name of Remitter: _____</div><div>Global Custodian: <input type="checkbox"/> Yes <input type="checkbox"/> No</div><div>2. Country Code of Remitter: _____</div><div>3. Beneficiary of Foreign Currency Funds: _____</div><div>4. Remitting Foreign Bank: _____ _____</div><div>5. Date of Remittance: (__/__/__)</div><div>6. Remittance/Telegraphic Transfer Ref. No.: _____</div><div>7. FX Received:<div><input type="checkbox"/> Currency: _____</div><div><input type="checkbox"/> Total T/T Amount: _____</div><div><input type="checkbox"/> Amount Utilized: _____</div><div><input type="checkbox"/> O/S Balance after this CIR Utilization: _____</div></div></div>	<div><input type="checkbox"/> Converted FX into Pesos, with the following particulars:</div> <div><div>8. (a) FX converted to Pesos:<div><input type="checkbox"/> Full Utilization of FX Received: _____</div><div><input type="checkbox"/> Partial Utilization of FX Received: _____ O/S Balance after this Utilization: _____</div></div><div>(b) Rate of Conversion, Pesos per Foreign Currency (before charges): _____</div><div>(c) Amount of Peso Proceeds (net of charges): _____</div><div>(d) Date Converted to Pesos: _____</div><div>(e) FX Receiving Bank's Name (if other than converting bank): _____ CIR No.: _____ T/T Ref. No. _____</div><div>9. USD Equivalent (if foreign currency remitted is other than USD): _____</div></div>
---	---

Part II.
This is to certify that (mark and fill out applicable box):

☐ The said peso proceeds were deposited with this bank on _____
date the proceeds were credited to client's account

☐ The peso proceeds have been paid to the beneficiary under:

☐ MC No.: _____

☐ CC No.: _____

☐ PCHC Ref.: _____

This certificate is issued for the sole purpose of obtaining a Bangko Sentral Registration Document (BSRD) for the inward foreign investment of _____ this _____
Name and Nationality of Investor Date of Certification

Name of Branch/Department in Head Office	Signature of Authorized Officer Over Printed Name
Contact Telephone No.: _____ Fax No.: _____	_____ Position

Guide/Instructions for Filling Out the Certificate of Inward Remittance (CIR) Form

I. GENERAL INSTRUCTIONS

- 1. Only one CIR shall be issued and only the original of each CIR shall be the basis, among other requirements, for the issuance of a BSRD unless with prior specific BSP approval. The issuing bank shall immediately release the original of each CIR to the investee, or his authorized representative, upon receipt by the beneficiary of the proceeds of foreign exchange (FX) remittance and/or conversion to pesos. The original CIR, among other documentation requirements, shall be submitted to a custodian bank, for registration of investments in government securities, PSE-listed securities, and bank time deposits; or to the BSP-International Department (ID), for registration of all other investments.
- 2. If the bank receiving the FX is also the bank converting the FX to pesos, it shall fully fill out and accomplish Parts I and II of the CIR.
- 3. If the receiving bank is different from the converting bank, the receiving bank shall fully fill out and accomplish only Nos. 1 to 7 of Part I and submit a copy of the CIR so accomplished to the converting bank which shall then issue a CIR by filling out and accomplishing only Nos. 8 (a to e) and 9 of Part I, and Part II.
- 4. The bank officer authorized to sign the CIR must be duly designated by the bank’s Executive Vice President or Head of the Branch.

II. SPECIFIC INSTRUCTIONS

- CIR NUMBER FORMAT – CCYY-NNNNN-BBBB (e.g. 2001-00001-BBBB)
 - CCYY is the year the CIR is issued
 - NNNNN is the series number of the CIR. (00001 is the issuing bank’s first CIR)

- BBBB is the BSP assigned numeric bank code

PART I-A (Items 1 to 7 to be filled-out by the FX receiving bank)

- 1. NAME OF REMITTER - if information is available, indicate if foreign investor is a global custodian. (Length should not exceed 50 characters).
- 2. COUNTRY OF REMITTER - states the domicile or country of residence of the investor or global custodian (Length should be 3 bytes and refer to Annex 2 for the coding scheme).
- 3. BENEFICIARY OF FOREIGN CURRENCY FUND – account name / company name of the recipient (Length should not exceed 50 characters).
- 4. REMITTING FOREIGN BANK – name of overseas bank that sent the foreign currency funds (Length should not exceed 50 characters).
- 5. DATE OF REMITTANCE - the value date that the foreign funds entered the books of the bank. Field format is ccyyymmdd (e.g., 03-April-2001 will be indicated as 20010403). The same format is standard for all date fields in the report.
- 6. REMITTANCE / TELEGRAPHIC TRANSFER REFERENCE NO. - contains the bank’s unique reference number only (Length should not exceed 50 characters).
- 7. FX RECEIVED:
 - ☐ Currency - specifies the foreign currency symbol used in the BSP Reference Exchange Rate Bulletin.
 - ☐ Total T/T Amount - the gross FX amount covered by the bank’s unique Telegraphic Transfer Reference Number mentioned in Item 6 above.
 - ☐ Amount Utilized - specifies the actual amount of the funds utilized to fund the investment.

☐ **Outstanding Balance After This CIR Utilization** – specifies the remaining balance of the gross FX received less the amount utilized.

PART I-B (Items 8 to 9 to be filled-out by the FX converting bank)

8a. FX CONVERTED INTO PESOS:

☐ **Full Utilization of FX Received** – specifies the whole inwardly remitted FX converted to Pesos and utilized for investment.

☐ **Partial Utilization of FX Received**
– specifies the partial inwardly remitted FX converted to Pesos and utilized for investment.

☐ **O/S Balance after this Utilization**
– the available inwardly remitted FX after partial conversion/utilization.

8b. RATE OF CONVERSION, PESOS PER FOREIGN CURRENCY (before charges) - the exchange rate used for the conversion to local currency. Field value is expressed in six decimal places (e.g., PHP50.280002).

8c. AMOUNT OF PESO PROCEEDS (Net of Charges) - specifies the peso proceeds from the conversion net of bank charges.

8d. DATE CONVERTED TO PESOS -
value date of conversion to local currency.

8e. FX RECEIVING BANK'S NAME - the name of the Philippine-based bank from which the foreign currency funds were received. Please use the numeric bank code (head office).

CIR No.: Quotes the CIR Reference number of the FX Receiving bank.

Telegraphic Transfer Ref. No.: Quotes the Telegraphic Transfer Reference Number of the FX received.

9. USD EQUIVALENT (If FX remitted is other than USD) - shows the US Dollar value of the 3rd currency amount converted into Peso. This is a mandatory field for remittances other than USD and computed as peso proceeds divided by the BSP reference rate (PHP/USD) on the conversion date.

SWORN CERTIFICATION
(Suggested Format for Stock Corporation/Investee Firm)

I, _____, of legal age, _____, and
(Name of Affiant) (Nationality)
resident of the Philippines, after being duly sworn in accordance with law, depose and state that:

1. I am the _____ of _____,
(Position/Designation) (Name of Investee-Firm)
a corporation duly registered with/licensed by the Philippine Securities and Exchange Commission (SEC) under SEC Reg. No. _____ dated _____, to engage in the business of _____.

That the _____ has a Capital Structure, as follows:
(Name of Investee Firm)

	Class	Number of Shares	Par Value	Total Amount
Authorized	_____	_____	_____	_____
Subscribed	_____	_____	_____	_____
Paid Up	_____	_____	_____	_____

3. That _____, _____, with address
(Name of Foreign Investor) (Nationality)
at _____,
whose business is _____,
has remitted/caused the remittance of USD/Other Foreign Currency (FC) _____ and converted the same into
PHP _____ thru the Philippine banking system as certified by
_____ under Certificate of Inward Remittance (CIR) of
(Name of Issuing Bank)
Foreign Exchange No. _____ dated _____, of which amount,
PHP _____ was paid in consideration for the following shares of the
Investee-Firm¹ and is now recorded in his/its name in the books of the
_____, as follows:
(Name of Investee-Firm)

			Amount Paid in (PHP)		
	Number of Shares Purchased	Par Value/Share	Total Par Value	As Premium	Total
Class					

¹ The balance (total peso proceeds less amount applied to this investment transaction, if any) in the amount of
PHP _____ is recorded in the books of _____ as
(Name of Investee-Firm)

_____.
(e.g. Advances, Deposit for Future Subscription)

4. That of the above total, the following share/s was/were assigned to cited Foreign Investor's nominee/s (if any):

Name	Nationality	No. of Shares	Amount Paid

(The following paragraph may follow as appropriate)

That the aforecited Filipino nominee/s appear/s in the corporate books of the _____ only as nominee/s of the _____
(Name of Investee-Firm)
_____ and that the said share/s is/are covered
(Name of Foreign Investor)
by Deed/s of Assignment of Foreign Investor transferring the share/s to each of the Filipino nominee named above; and that the covering certificates of stock issued to the said Filipino nominee/s are with annotation/s that the said nominee/s is/are merely nominee/s of the foreign investor named above;

3. That in the corporate books of _____ as of _____
(Name of Investee-Firm)
_____ show that the following are the stockholdings of its investors:
(current date)

Name of Investor	No. of Shares Held	Class	Amount Paid

Correspondingly, the capital stock of the _____ as of _____
(Name of Investee Firm)
_____ is as follows:
(Current Date)

	Number of Shares		Amount (in PHP)	%
	Common	Preferred		
Issued and Paid				
Filipino				
Foreign				
Additional Paid-In Capital				
Deposit for future subscription				

3. That as of date, total foreign investments in the percentage stated above in the _____ is within the limit for foreign investor under _____
(Name of Investee-Firm)
the Constitution and existing laws of the Philippines.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____ 20__ at _____.

(Signature over Printed Name)

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SUBSCRIBED AND SWORN TO before me this ____ day of _____ 20 __,
Affiant exhibiting his/her Community Tax Certificate No. _____ issued
on _____ at _____.

Notary Public
Until: _____

Doc. No. _____
Page No. _____
Book No. _____
Series of 200 _____

N.B. The above form may be amended as appropriate for non-stock corporation and/or other business organizations, and/or for purchases of secondary shares from existing shareholder/s.

AUTHORITY TO DISCLOSE INFORMATION

The undersigned, [name of foreign investor or duly authorized representative of the foreign investor, pursuant to the sworn special authority (copy attached) issued by the foreign investor], hereby grants unto (name of custodian bank) the authority to disclose to the Bangko Sentral ng Pilipinas (“BSP”) any information as may be required to comply with the post-audit requirements for the registration of his investments in peso-denominated government securities amounting to PHP _____ covered by Confirmation of Sale dated _____ by (name of accredited dealer), and/or peso time deposits with tenor of at least 90 days amounting to PHP _____ under Certificate of Time Deposit No. _____ with (name of depository bank).

It is understood that the authority granted to (name of custodian bank) does not include the disclosure of any information on said investment/s to parties other than the BSP.

This authority is being executed to facilitate the BSP registration of said investment/s through (name of custodian bank).

Date

Signature over Printed Name

Inward Foreign Investments

Procedures for Repatriation of Capital and
Remittance of Dividends/Profits/Earnings

I. Capital Repatriation/Remittance of Dividends/Profits/Earnings

The repatriation of sales/divestments proceeds, including remittance of dividends/profits/earnings which accrued to duly BSP-registered foreign investments, may be effected by AABs without prior BSP approval upon presentation of the original BSRD together with the supporting documents under Item C.1 and C.2 of Appendix 1 of the Manual.

Whenever the repatriation/remittance shall be effected through an AAB other than the custodian bank or the selling transaction was made through a stock broker other than the custodian broker, the custodian bank/broker, upon request from the remitting bank or selling broker, shall issue a BSRD Letter Advice authorizing the latter to use fully or in part the remaining shares covered by the pertinent BSRD. The remitting AAB shall only effect the remittance upon presentation of the supporting documents under Item C.1 and C.2 of Appendix 1 of the Manual.

II. Investments registered under the old Central Bank Registration Documents (Transitory Procedures)

For capital repatriation:

The repatriation of capital of Central Bank registered direct foreign equity investments shall be effected through a commercial bank, without prior BSP approval, upon presentation of the following documents:

- 1) Proof of Central Bank Registration; and
- 2) Proof of Sale.

For remittance of dividends/profits/earnings:

- 1) Board Resolution declaring dividend and the amount due the foreign investor; and
- 2) Audited financial statements covering the dividend declaration period.

III. Reporting Requirements

1. All remitting AABs shall duly accomplish and submit to the BSP-International Department (ID) a Statement of Remittance Report pertaining to the repatriation of capital and outward remittance of cash dividends, profits and earnings of BSP-registered inward direct foreign equity investments to be submitted daily accompanied by supporting documents mentioned in this Appendix within two (2) banking days from date of actual remittance.

2. The report form shall cover all remittances pertaining to foreign direct equity investments (namely, investments in kind and in cash in non-PSE listed firms) registered directly by the BSP.

3. The following data shall be annotated at the back of the BSRD duly certified correct by the authorized officer of the remitting bank:

a. On Capital Repatriation:
Identity of Investments; Sale or Transaction Date; No. of Shares Sold; Net Peso Sales Proceeds After Tax; Net USD Equivalent of Amount Remitted; Date of Actual Remittance; Country To Which Remitted; and Name of Remitting Bank.

b. On Dividends/Profits/Earnings Remittance
Identity of Investments; Record Date; Number of Base Shares; Dividend Rate; Net Peso Amount Remitted After Tax; Net USD

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Equivalent of Amount Remitted; Date of Actual Remittance; Country to Which Remitted; and Name of Remitting Bank.

These data shall be arranged in one line per remittance basis. If the space at the back of the BSRD is not enough, additional page/s may be used for this purpose, which page/s shall be duly marked and certified by the bank’s

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authorized officer as forming part of the BSRD.

4. Transactions of BSP-registered investments in PSE-listed securities, government securities, money market instruments and peso time deposits shall be reported in the Consolidated Daily Foreign Portfolio Investment Registration and Outward Remittance Report.

**Checklist of Required Documents, in Lieu of Stock Transfer Agent's Certification, for
Registration of Inward Foreign Investments Prior to 15 March 1973**

- ☐ Investee’s corporate secretary’s/authorized officer’s sworn certification that a) the foreign investments were made prior to 15 March 1973; b) stock certificates for said investments were issued to the investor; and c) such investments are still intact and existing
- ☐ Investee’s latest audited financial statements or, in case the investee is under liquidation, liquidator’s notarized statement of net assets in liquidation
- ☐ For corporations, copies of the stock certificates issued to the foreign investor, certified by the investee’s corporate secretary as true copies
- ☐ For stock dividend shares, copies of Board Resolutions declaring the dividends endorsed by the investee’s authorized officer
- ☐ Relevant Securities and Exchange Commission (SEC) documents showing the existence of the investments prior to 15 March 1973, i.e.: a) copy of SEC certificate of registration including articles of incorporation and any amendments thereto, as applicable; and/or b) copy of SEC’s resolution approving the issuance of new shares from the unissued capital stock and as exemption from SEC registration requirements, or certificate of increase of capital stock (or deed of sale/assignment).
- ☐ Others: _____

Note:
Please submit the above documents (with check mark) together with your letter request to the International Department at Room 301, 5-Storey Building, Bangko Sentral ng Pilipinas, A. Mabini, Malate, Manila.

Guidelines on the Availment of US Dollar-Denominated Repurchase Agreement Facility with the BSP

The following terms and conditions shall be observed in the availment of the USD-denominated repurchase agreement facility of banks with the BSP (USD R/P):

A. Eligible Borrowers

RBU's or FCDU/EFCDU's of banks who can demonstrate legitimate funding needs can avail of this facility.

B. Qualifying Purposes

- Proceeds from the borrowings shall be used for legitimate liquidity requirements of FCDU/EFCDU or RBU for local operations as follows:
 - Compliance with FCDU/EFCDU cover requirements;
 - Servicing of withdrawals of FCDU/EFCDU; and
 - Servicing trade-related requirements.
- Borrowing shall be for the account of the applicant bank and shall not be used to fund liquidity requirements of foreign head office, foreign branches, affiliates, or subsidiaries.

C. Acceptable Collateral

- Eligible securities shall cover USD denominated evidence of indebtedness issued directly by the Government of the Philippines (ROP Bonds) held by the applicant bank. These can be lodged in FCDU/EFCDU's or RBU's Available-for Sale (AFS), Held-for-Trading (HFT) and Held to-Maturity (HTM) portfolios.
- ROP Bonds to be pledged have to be transferred/credited to BSP's designated

securities account before availment of the USD R/P facility.

- The tenor of the underlying security should not be shorter than the overlying instrument.

D. Valuation of Securities

- The haircut on the underlying securities shall be determined by the Treasury Department, with the concurrence of the Governor. Collateral cover will be maintained through periodic margin calls as specified in the repurchase agreement.
- Said valuation will be subject to periodic review and will be modified when necessary.

E. Available Credit Line

- Credit lines shall be based on outstanding USD-denominated evidence of indebtedness issued directly by the Government of the Philippines (ROP Bonds) held by the applicant bank as of 30 September 2008.

F. Rate, Term and Trading Time

- The rates of the USD R/P facility shall be set by the Treasury Department, with the concurrence of the Governor, taking into account prevailing liquidity market conditions.
- The term of the USD R/P facility shall be set by the Treasury Department, with the concurrence of the Governor; Provided, that, should a bank become disqualified for the R/P facility, the outstanding repurchase agreement shall immediately become due and payable.

- Trading time for the USD R/P transactions shall be set from 10:00 AM to 12 Noon, then from 1:00 PM to 2:00 PM.

G. Application Requirements

Applicant bank shall submit the following information/documents, and such other documents as may be deemed necessary, to the Treasury Department, copy furnished the appropriate Central Point of Contact Department (CPCD) of the Supervision and Examination Sector (SES), to aid BSP evaluate applications:

- Application for availment of the facility stating therein the amount, requested term, specific purpose of the borrowing, including disclosure of the specific collateral, including source, i.e. RBU or FCDU/EFCDU;
- Notarized undertaking/certification signed by the bank’s President or Country Manager (in the case of local branch of a foreign bank), Compliance Officer and Head of Treasury, indicating the following:
 - Specific purpose of fund utilization;
 - Proceeds of borrowing shall be used exclusively to fund liquidity requirements of FCDU/EFCDU or RBU local operations;
- That the Bank is not a conduit for another bank nor will the Bank take arbitrage positions on the availment of the R/P facility.

H. Reportorial Requirements

Banks with outstanding USD R/P agreement with the BSP are required to submit to the appropriate Central Point of Contact Department (CPCD) of the Supervision and Examination Sector (SES) the following :

- Report on the deployment utilization of USD repo borrowing and other documents and supplemental information, as may be required, to enable BSP to assess the legitimacy of the utilization of such funds, within three (3) banking days from release of the proceeds of the R/P agreement; and

- All documents and records relative to the Bank’s availment and use of proceeds of the US dollar denominated R/P facility shall be made available to the BSP upon request.

I. Pre-termination

- The R/P agreement may be paid at any time before maturity, subject to mutual agreement of both parties.
- The BSP may unilaterally pre-terminate the borrowing arrangements under the following conditions:
 - Funds are found to have been used for ineligible purposes
 - Collateral margins, if any, are not met.

J. Documentation

- The repurchase agreement between the bank and the BSP shall be covered by a master repurchase agreement, repurchase agreement confirmation and such other documentation as may be necessary to facilitate the transaction.

K. Accounting treatment

- The US dollar denominated R/P facility shall be treated as collateralized borrowings from the BSP and shall be accounted for in accordance with the Financial Reporting Package (FRP) issued under Subsection X191.2 of the MORB, as amended.

- Eligible securities booked under the HTM category shall be subject to the tainting provision provided under Subsection X388.5 of the MORB upon default/non payment of the amount due three (3) banking days after the maturity of the R/P agreement or disqualification of borrowers.

L. Penalty Clauses

- Violations of the terms and conditions of the USD R/P facility are governed by sanctions provided under Section 72 of the Manual, including but not limited, to termination of eligibility and pre-termination of any outstanding balance through repayment and/or sale of the collateral.

SWORN CERTIFICATION OF FCDU/EFCDU LENDING TO RBU

(Name of Bank)

CERTIFICATION

Pursuant to Section 72 of the Manual of Regulations on Foreign Exchange Transactions, we hereby certify¹ that on all banking days of the month ended _____, <Year>:

There were no foreign currency borrowings by the Regular Banking Unit (RBU) from the Foreign Currency Deposit Unit (FCDU)/Expanded FCDU (EFCDU)

RBU had foreign currency borrowings from FCDU/EFCDU and –

- 1. Total outstanding balance of such foreign currency borrowings did not exceed the prescribed cap (i.e., lower of total outstanding balance on RBU’s on-balance sheet foreign currency trade assets or thirty percent (30%) of the level of FCDU/EFCDU deposit liabilities, and
- 2. The borrowed foreign currency funds were utilized by RBU solely for its foreign currency trade transactions.

We further certify that, to the best of our knowledge, the foregoing statements are true and correct.

_____ President or Country Manager (for foreign banks)	_____ Compliance Officer	_____ Head of Treasury Department
TIN:	TIN:	TIN:
CTC No.	CTC No.	CTC No.
Issued on:	Issued on:	Issued on:
Issued at:	Issued at:	Issued at:

Subscribed and sworn to before me this ____ day of _____ affiants exhibiting their Community Tax Certificates indicated above.

Person Administering Oath

¹ Check appropriate box

BANK NAME
REPORT ON COMPLIANCE WITH E/FCDU COVER REQUIREMENT
AS OF MONTH END _____

	Schedule	Total	Ratio
A. Total E/FCDU Liabilities Requiring Cover [A1 + A2 - A3 - A4]		<u>0.00</u>	
1. E/FCDU Liabilities (excluding Due to HO/Br Abroad)	BS	<u>0.00</u>	
2. Net Due to HO/Br Abroad - E/FCDU ^{1/}	BS Item L31 - A25	<u>0.00</u>	
3. Due to RBU - E/FCDU [3.a + 3.b]		<u>0.00</u>	
a. Due to RBU - E/FCDU Realized Losses from Operation	Sch. 42	<u>0.00</u>	
b. Due to RBU - E/FCDU Unrealized Losses Recognized in Profit or Loss and in Equity	Sch. 42	<u>0.00</u>	
4. Bills Payable - Repurchase Agreements with BSP	Sch. 24	<u>0.00</u>	
		Liquid Assets	Other Assets
		0.00	0.00
B. Total E/FCDU Asset Cover^{2/}		0.00	0.00
a. Foreign currency cash on hand	BS Item 1	0.00	0.00
b. Foreign currency checks and other cash items	BS Item 2	0.00	0.00
c. Due from BSP Foreign Currency - E/FCDU	BS Item 3, Sch. 39a	0.00 ^{5/6}	0.00
d. Due from Other Banks - E/FCDUs/OBUs/Non-Resident	Sch. 2	0.00	0.00

		Liquid Assets	Other Assets	Total	Ratio
e. Derivative with Positive Fair Value Held for Trading/Hedging					
1. Derivatives with Positive Fair Value Held for Trading	BS Item 5.b		0.00	0.00	
2. Derivatives with Positive Fair Value Held for Hedging	BS Item 13		0.00	0.00	
f. Investments in foreign currency-denominated debt instruments:					
1. Held for Trading (HFT) - E/FCDU	BS Item 5(a)]				
a. Sold/Lent/Collateralized in Repurchase/SLB Transactions	Sch. 3A		0.00	0.00	
b. Structured Products	Sch. 3		0.00	0.00	
c. Others		0.00 ^{7/}	0.00	0.00	
2. Financial Assets DFVPL - E/FCDU	BS Item 6				
a. Sold/Lent/Collateralized in Repurchase/SLB Transactions			0.00	0.00	
b. Structured Products	Sch. 5		0.00	0.00	
c. Others	Sch. 5	0.00 ^{7/}	0.00	0.00	
3. Available for Sale (AFS) - E/FCDU	BS Item 7(i)				
a. Sold/Lent/Collateralized in Repurchase/SLB Transactions	Sch. 6A		0.00	0.00	
b. Structured Products	Sch.6		0.00	0.00	
c. Others	Sch. 6	0.00 ^{7/}	0.00	0.00	
4. Held to Maturity (HTM) - E/FCDU	BS Item 8				
a. Sold/Lent/Collateralized in Repurchase/SLB Transactions	Sch. 7A	0.00 ^{7/}	0.00	0.00	
b. Structured Products	Sch. 7		0.00	0.00	
c. Others	Sch. 7	00.00 ^{7/}	0.00	0.00	

		Liquid Assets	Other Assets	Total	Ratio
g. Unquoted Debt Securities Classified as Loans - EFCDU	BS Item 9		0.00 ^{8/}	0.00	
h. Loans and Receivables - E/FCDU authorized by BSP, except those classified by the BSP as loss					
1. Loans to BSP	BS Item 11.a	0.00 ^{5/}	0.00	0.00	
2. Interbank loans receivable	Sch. 10, Sch. 39A	0.00 ^{5/}	0.00	0.00	
3. Loans and receivables - others	Sch. 11				
a. Outstanding export bills purchased	Sch. 11	0.00 ^{8/}		0.00	
b. Short-term E/FCDU loans to exporters in the form of export packing credits up to the sextent guaranteed by TIDCORP or SBGFC, provided not overdue	Sch.12	0.00 ^{8/}		0.00	
c. Others					
(i) Loans with specific approval by the BSP	Sch. 11		0.00 ^{9/}	0.00	
(ii) Short - term loans to resident private sector borrowers which under existing regulations requires no prior BSP approval and allowed to be serviced using foreign exchange purchased from the banking system	Sch. 11		0.00	0.00	
(iii) Loans to resident private sector borrowers to be serviced using foreign exchange purchased from outside the banking system	Sch.11		0.00 ^{9/}	0.00	
(iv) Loans to non-resident to be serviced using foreign exchange purchased from outside the banking system	Sch. 11		0.00 ^{8/}	0.00	
i. Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions - E/FCDU	Sch. 12, Sch. 39A	0.00 ^{5/}	0.00	0.00	

		Liquid Assets	Other Assets	Total	Ratio
j. Foreign currency accrued interest from financial assets - E/FCDU	BS Item 16		0.00	0.00	
k. Accounts receivable arising from the sale of financial assets under trade date accounting - E/FCDU ^{3/}	Sch. 19	0.00 ^{10/}	0.00	0.00	
l. Loans to RBU by E/FCDU net of transactions outstanding for over 1 year	Sch. 19		0.00	0.00	
C. Exempt Liabilities^{4/}				0.00	
D. Excess/(Deficiency) in Liquid Assets [Liquid Assets - 30% * (Item A - Item C)]				0.00^{11/}	
E. Excess/(Deficiency) in Cover Requirement (Total Assets - Item A)				0.00^{12/}	

^{1/} Applicable to Philippine branches of foreign banks only. If 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 both the 100% asset and 30% liquid asset cover.

^{2/} At net carrying amount (i.e. net of premiums/(discounts), accumulated market gains/(losses) and allowance for impairment loss)

^{3/} Accounts Receivable arising from sale of financial assets under the trade date accounting pending actual settlement/delivery of the underlying assets/securities

^{4/} Refers to liabilities exempt from 30% liquid cover requirement as may be approved by the Monetary Board

^{5/} Maturing within 1 year

^{6/} Unencumbered

^{7/} Readily marketable

^{8/} EFCDU only

^{9/} Maturing within 1 year for FCDU and regardless of maturity for EFCDU

^{10/} Arising from sale of readily marketable debt instruments

^{11/} [Liquid Assets / (A - C)]*100

^{12/} [Total Assets / A] *100

SWORN CERTIFICATION OF COMPLIANCE WITH
THE FCDU/EFCDU COVER REQUIREMENTS

< Name of Bank >

CERTIFICATION

Pursuant to the requirement of BSP Circular Letter dated 6 June 1997 we hereby certify that we have fully complied with the FCDU cover requirements (both 100% Foreign Currency Cover and 30% Liquid Asset Cover) on all banking days of the quarter ended _____ <Year> .

We further certify to the best of our knowledge that above statement is true and correct.

_____ President or Country Head (for foreign banks)	_____ Compliance Officer	_____ Head of Treasury Department
TIN:	TIN:	TIN:
CTC No.	CTC No.	CTC No.
Issued on:	Issued on:	Issued on:
Issued at:	Issued at:	Issued at:

Subscribed and sworn to before me this ____ day of _____ affiants exhibiting their Community Tax Certificates indicated above.

Person Administering Oath

**Guidelines on the Transfer of Net Realized/Unrealized Losses Recognized
In Profit Or Loss And In Equity’ And Undivided Profits/(Losses)
from FCDU/EFCDU Books to the RBU Books**

Following are the guidelines on the transfer of ‘Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’ and ‘Undivided Profits/(Losses)’ from the FCDU/EFCDU to the RBU book:

- 1. ‘Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’. Whenever the total of the following:
 - a. ‘Retained Earnings Free – FCDU/EFCDU’;
 - b. ‘Undivided Profits/(Losses) - FCDU/EFCDU’ comprising of the following:
 - (1) Net realized profits/(losses);
 - (2) ‘Net Unrealized Gains/(Losses) from Operations’ as defined in Item 2.
 - c. Net unrealized gains/(losses) recognized directly in equity comprising of the following:
 - (1) ‘Net Unrealized Gains/(Losses) on AFS Financial Assets – FCDU/EFCDU’ recognized directly in equity; and
 - (2) ‘Gains/(Losses) on Fair Value Adjustments of Hedging Instruments – FCDU/EFCDU’ recognized directly in equity.

results to a net debit balance (referred to as ‘Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’ in this Appendix), the bank shall immediately transfer from the RBU book to the FCDU/EFCDU book eligible foreign currency assets by a credit to ‘Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’, which account shall not be subject to asset and liquid asset cover requirements.

For purposes of this Appendix, a net credit balance in the total of the foregoing

Items 1.a, 1.b and 1.c shall be considered as a zero balance in ‘Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’.

The amount of eligible foreign currency assets to be transferred from the RBU book to the FCDU/EFCDU book shall be that which will bring the balance of ‘Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’ equal to the ‘Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’.

Whenever the balance of ‘Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’ exceeds the ‘Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’, the excess shall be settled at the end of the reference month by the FCDU/EFCDU to the RBU book by a debit to ‘Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’ and a credit to the eligible foreign currency assets.

For purposes of this Appendix, the eligible foreign currency assets shall be in the form of:

- a. Due from BSP – Foreign Currency;
- b. Due from other banks (Other FCDUs/EFCDUs, OBUs and non-resident banks);
- c. Investments in readily marketable foreign currency denominated debt instruments, except for the following:
 - (1) those which are sold/lent in repurchase agreement/securities lending and borrowing transactions and those used as additional collateral in repurchase agreements or as collateral of the borrowing

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bank in securities lending and borrowing transactions;

(2) those investments in structured products; and

(3) those Philippine debt papers which were restructured during the period of moratorium in the payment of external debt.

Provided, That these shall likewise be booked under the same category in the RBU book/(in the FCDU/EFCDU book) as they were before the transfer from the FCDU/EFCDU book/(from the RBU book).

2. Undivided Profits/(Losses). The transfer of ‘Undivided Profits/(Losses) – FCDU/EFCDU’ to the ‘Retained Earnings Free’ account in the RBU book at the end of calendar or fiscal year adopted by the bank shall refer to net realized profits/(losses) only and shall exclude the following:

a. ‘Unrealized Gains/(Losses) from Marking to Market of Financial Assets and Liabilities Held for Trading (HFT)’;

b. ‘Unrealized Gains/(Losses) from Marking to Market of Financial Assets and Liabilities Designated at Fair Value through Profit or Loss (DFVPL)’;

c. ‘Foreign Exchange Profit/(Loss)’, (i.e., arising from revaluation of foreign exchange transactions);

d. ‘Unrealized Gains/(Losses) from Remeasurement of Hedging Instruments’, and

e. ‘Unrealized Gains/(Losses) from Remeasurement of Hedged Items’

(collectively referred to as ‘Net Unrealized Gains/(Losses) from Operations’ in this Appendix): Provided, That prior to the transfer of net realized FCDU/EFCDU profits/(losses) to the ‘Retained Earnings Free’

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in the RBU book, the FCDU/EFCDU shall fully comply with BSP’s provisioning requirements.

The net realized and unrealized FCDU/EFCDU profits/(losses) shall be credited/(debited) to ‘Undivided Profits/(Losses) – FCDU/EFCDU’ at the end of each reference month which account shall be credited/(debited) to ‘Retained Earnings Free - FCDU/EFCDU’ at the end of calendar or fiscal year adopted by the bank.

The transfer of net realized FCDU/EFCDU profits/(losses) to the RBU shall be made by a debit/(credit) to ‘Retained Earnings Free – FCDU/EFCDU’ and a corresponding transfer of eligible foreign currency assets from the FCDU/EFCDU to the RBU book/(from the RBU to the FCDU/EFCDU book) within a period of one month from the end of the calendar or fiscal year adopted by the bank: Provided, however, That if after the transfer of net realized FCDU/EFCDU profits/(losses) the balance of ‘Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’ exceeds the balance of ‘Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’, the bank shall transfer eligible foreign currency assets from the RBU to the FCDU/EFCDU book on the same date of transfer of the net realized FCDU/EFCDU profits/(losses) by a credit to ‘Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’: Provided, further, That if after the transfer of net realized FCDU/EFCDU profits/(losses) the balance of ‘Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’ exceeds the balance of ‘Net

Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’, the bank shall transfer eligible foreign currency assets from the FCDU/EFCDU to the RBU book on the same date of transfer of the net realized FCDU/EFCDU profits/(losses) by a debit to ‘Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’. The amount of eligible foreign currency assets to be transferred from the RBU to the FCDU/EFCDU book or from the FCDU/EFCDU to the RBU book, as the case may be, shall be that which will bring the balance of ‘Due to RBU – FCDU/EFCDU Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’ equal to the ‘Net Realized/Unrealized Losses Recognized in Profit or Loss and in Equity’.

The balance of ‘Retained Earnings Free – FCDU/EFCDU’ account shall, after the transfer of net realized FCDU/EFCDU profits/(losses) to the RBU book, correspond to the cumulative unrealized gains/(losses) from operations from prior years arising from the following:

- a. Marking-to-market of ‘Financial Assets and Liabilities Held for Trading (HFT)’;
- b. Marking-to-market of ‘Financial Assets and Liabilities Designated at Fair Value through Profit or Loss (DFVPL)’;
- c. Revaluation of foreign exchange transactions;

d. Remeasurement of ‘Hedging Instruments’; and

e. Remeasurement of ‘Hedged Items’.

For purposes of this Appendix, ‘Retained Earnings – Free – FCDU/EFCDU’, shall, in the case of Philippine branches of foreign banks refer either to ‘Due to Head Office/Branches/Agencies Abroad – Unremitted Profits not yet approved by the BSP – FCDU/EFCDU’ if credit balance or ‘Due from Head Office/Branches/Agencies Abroad – Losses in Operation of Philippine Branch of Foreign Banks – FCDU/EFCDU’ if debit balance: Provided, That for purposes of determining compliance with FCDU/EFCDU cover requirements the balance of ‘Due to Head Office/Branches/Agencies Abroad – Unremitted Profits not yet approved by the BSP – FCDU/EFCDU’ shall not be subject to FCDU/EFCDU asset and liquid asset cover requirements, while the balance of ‘Due from Head Office/Branches/Agencies Abroad – Losses in Operation of Philippine Branch of Foreign Banks – FCDU/EFCDU’ shall not be offset against the ‘Due to Head Office/Branches/Agencies’ account.

The amended illustrative accounting entries on the transfer of FCDU/EFCDU profits/(losses) which shall supercede *Appendix 85* is under *Appendix 16.1* of the FX Manual.

(As amended by Circular No. 691 dated 23 June 2010)

**Guidelines on the Conversion to Peso Loans/ROPA and
Transfer to RBU of FCDU/EFCDU Loans/ROPA**

A. FCDU/EFCDU loans may be transferred to the RBU without prior BSP approval, subject to the following conditions:

i. The FCDU/EFCDU loan to be transferred must meet the following criteria: (a) current and performing; and (b) eligible to be serviced by the banking system: *Provided*, That a past due FCDU/EFCDU loan may be transferred to the RBU if it meets the following criteria: (a) eligible to be serviced by the banking system; (b) fully secured by real estate mortgage; (c) foreclosure of the collateral shall be effected within six (6) months from the date of transfer to the RBU if the loan remains to be past due; and (d) they are not eligible to be serviced by the banking system but loan is already outstanding as of 27 October 2000: *Provided, further*, That a past due partially secured or unsecured FCDU/EFCDU loan shall only be eligible for conversion/transfer to RBU if part of a multi-creditor rehabilitation or work-out plan acceptable to all creditors where the said plan requires the conversion of FCDU/EFCDU loans to peso;

ii. There shall be actual settlement in foreign currency, simultaneous with the transfer, by the RBU to the FCDU/EFCDU of the total amount of foreign currency-denominated loans being transferred to the RBU using the prevailing foreign exchange/conversion rate at the time of transfer;

iii. The transfer and conversion of foreign currency-denominated loans from the FCDU/EFCDU books to the RBU books including the prevailing foreign exchange/conversion rate to be used shall have the prior approval of the bank's board of directors, or the Country Head, in case of branches of foreign banks, and the prior

written consent of the borrower whose account will be transferred/converted, except for loans covered by credit/loan agreement allowing the bank to unilaterally convert and transfer the FCDU/EFCDU loan in which case the prior written consent requirement may be dispensed with;

iv. The converted/transferred FCDU/EFCDU loans are properly documented/covered by a written agreement/contract. *Provided*, That if the original loan agreement allows the bank to unilaterally convert/transfer the FCDU/EFCDU loan to peso, the said loan agreement should indicate the general terms and conditions of the converted/transferred peso loan: *Provided, further*, That upon conversion/transfer, the borrower must be informed in writing of the peso loan's new terms and conditions: *Provided, finally*, That once converted/transferred to a peso loan, the same loan should not be converted back to an FCDU/EFCDU loan;

v. No income shall be recognized by the FCDU/EFCDU or RBU on the transfer of FCDU/EFCDU loans to RBU;

vi. The status of the FCDU/EFCDU loan prior to the transfer, i.e., current or past due, performing or non-performing, and the loan classification, i.e., especially mentioned, substandard, doubtful or loss, shall be retained once the loan is transferred to the RBU books, which transfer shall also include the corresponding booked allowance for probable losses.

B. FCDU/EFCDU ROPA may also be transferred to the RBU without prior BSP approval, subject to items ii to vi above;

C. Conversions and transfers of FCDU/EFCDU loans and ROPA to RBU books that do not meet the above guidelines shall be subject to prior Monetary Board approval; and

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All foreign currency-denominated loans and ROPA in the FCDU/ EFCDU converted to peso and transferred to the books of the RBU shall be reported monthly to the BSP Supervision and Examination Sector within ten (10) banking days from end of reference month. The report, classified as Category B, shall include name of borrower, date

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transferred/converted, outstanding balance in foreign currency in the FCDU/ EFCDU, peso amount booked in the RBU, prevailing foreign exchange rate used, status and classification on date of transfer, collateral (if any) and date approved by bank’s board Country Head. (A report is not required if no transfers were effected during the month.)

**Guidelines and Minimum Documentary Requirements for
Foreign Exchange Forward and Swap Transactions**

The following is a list of minimum documentary requirements for foreign exchange forward and swap transactions. Unless otherwise indicated, original documents* shall be presented on or before deal date to banks.

A. FORWARD SALE OF FOREIGN EXCHANGE TO COVER OBLIGATIONS – DELIVERABLE AND NON-DELIVERABLE

1. FORWARD SALE OF FOREIGN EXCHANGE – TRADE

- 1.1 Trade Transactions
 - 1.1.1. Under Letters of Credit (LC)
 - a. Copy of LC opened; and
 - b. Accepted draft or Commercial invoice/ Bill of Lading
 - 1.1.2. Under Documents against Acceptances (DA)/Open Account (OA) Arrangements
 - a. Certification of reporting bank on the details of DA/OA under Schedule 10 (Import Letters of Credits Opened and D/A-O/A Import Availments and Extensions) of FX Form 1 (Consolidated Report on Foreign Exchange Assets and Liabilities);
 - b. Copy of commercial invoice.
- In addition to the above requirements, the bank shall require the customer to submit a Letter of Undertaking that:
 - i. Before or at maturity date of the forward contract, it (the importer) shall comply with the documentation requirements on sale of foreign exchange for trade transactions under Appendix 4 of the Manual; and

- ii. No double hedging has been obtained by the customer for the covered transactions.

1.1.3 Direct Remittance
Original shipping documents indicated in item II.a of Appendix 4 of the Manual, as amended.

2. NON-TRADE TRANSACTIONS
Only non-trade transactions with specific due dates shall be eligible for forward contracts, and shall be subject to the same documentation requirements under Appendix 1 of the Manual, with the following additional guidelines for foreign currency loans and investments.

2.1 Foreign Currency Loans owed to non-residents or AABs

- 2.1.1 Deliverable Forwards
The maturing portion of the outstanding eligible obligation, i.e., those that are registered with the BSP, including interest and fees thereon as indicated in the BSP registration letter, may be covered by a deliverable forward subject to the documentary requirements under Item B of Appendix 1 of the Manual. A copy of the creditor’s billing statement may be submitted on or before the maturity date of the contract.

- 2.1.2 NDFs
The outstanding eligible obligation, i.e., those that are registered with the BSP, including interests and fees thereon as indicated in the BSP registration letter, may be covered by a NDF, subject to the documentary requirements under Item B of Appendix 1 of the Manual, except for the creditor’s billing statement which need not be submitted.

* If copy is indicated, it shall mean photocopy, electronic copy or facsimile of original

The amount of the forward contract shall not exceed the outstanding amount of the underlying obligation during the term of the contract.

2.2 Inward Foreign Investments

The unremitted amount of sales/maturity proceeds due for repatriation to non-resident investors pertaining to BSP-registered investments in the following instruments issued by a Philippine resident:

- a. shares of stock listed in the Philippine Stock Exchange (PSE);
- b. government securities;
- c. money market instruments; and
- d. peso time deposits with a minimum tenor of 90 days

may be covered by FX forward contracts subject to the presentation of the original Bangko Sentral Registration Documents (BSRD) on or before deal date. However, for Item 2.2.a above, original BSRD or BSRD Letter-Advice, together with the broker’s sales invoice, shall be presented on or before maturity date of the FX forward contract, which date coincides with the settlement date of the PSE transaction.

Sales proceeds of BSP-registered investments in shares of stock that are not listed in the PSE may be covered by a deliverable FX forward contract only if determined to be outstanding as of deal date for the contract and payable on a specific future date as may be indicated in the Contract To Sell/Deed of Absolute Sale and subject to the same documentary requirements under Item C of Appendix 1 of the Manual.

B. FORWARD SALE OF FOREIGN EXCHANGE TO COVER EXPOSURES – DELIVERABLE AND NON-DELIVERABLE

1. TRADE (DELIVERABLE AND NON-DELIVERABLE)

1.1 Under LC

- a. Copy of LC opened; and
- b. Proforma Invoice, or Sales Contract /Purchase Order

1.2 Under DA/OA, Documents Against Payment (DP) or Direct Remittance (DR)

Any of the following where delivery or shipment shall be made not later than one (1) year from deal date:

- a. Sales Contract
- b. Confirmed Purchase Order
- c. Accepted Proforma Invoice
- d. Shipment/Import Advice of the Supplier

In addition to the above requirements, the bank shall require the customer to submit a Letter of Undertaking that:

- i. At maturity of the forward contract, it shall comply with the documentation requirements on the sale of foreign exchange for trade transactions under Appendix 4 of the Manual; and
- ii. No double hedging has been obtained by the customer for the covered transactions.

2. NON-TRADE (NON-DELIVERABLE)

The outstanding balance of BSP-registered foreign investments without specific repatriation date, appearing in the covering BSRD may only be covered by an NDF contract, based on its market/book value on deal date, subject to prior BSP approval and if already with BSRD, presentation of the covering BSRD and the proof that the investment still exists (e.g., stock certificate, or broker’s buy invoice, or confirmation of sale, or certificate of investment in money market instruments, or certificate of peso time deposits). Hedging of permanently assigned capital of Philippine branches of foreign banks/firms is not allowed.

C. FORWARD PURCHASE OF FOREIGN EXCHANGE

Such foreign exchange forward contracts shall be subject to the bank’s

“Know Your Customer” policy and existing regulations on anti-money laundering. In addition, counterparties must be limited to those that are manifestly eligible to engage in foreign exchange forwards as part of the normal course of their operations, and which satisfy the bank’s suitability and eligibility rules for such transactions.

D. FOREIGN EXCHANGE SWAP TRANSACTIONS

1. FOREIGN EXCHANGE SALE (first leg)/FORWARD FOREIGN EXCHANGE PURCHASE (second leg) –

The same minimum documentary requirements for sale of foreign exchange under Appendix 1 of the

Manual for non-trade transactions, and Appendix 4 of the Manual for trade transactions, shall be presented on or before deal date.

2. FOREIGN EXCHANGE PURCHASE (first leg)/FORWARD FOREIGN EXCHANGE SALE (second leg)-

The first leg of the swap will be subject to the bank’s “Know Your Customer” policy and existing regulations on anti-money laundering. The second leg of the swap will be subject to the swap contract between the counterparties.

Swap contracts of this type intended to fund peso loans to be extended by non-residents in favor of residents shall require prior BSP approval.

Implementing Guidelines on the Computation of Open Foreign Exchange (FX) Position of AABs and Reporting Requirements under FX Form 1

1. The following AABs shall render a daily report to the Supervisory Data Center (SDC) of the Supervision and Examination Sector (SES), on their net foreign exchange positions using Schedule 13 of FX Form 1:

 - a) Universal Banks (UBs); and
 - b) Commercial Banks (KBs)

2. The FX Form 1 together with all schedules shall be reported in USD equivalent except for Schedules 8 and 13 which shall be in multi-currency. All reports shall be submitted in accordance with Section 101 of the Manual.

In addition, an end of month report (Schedule 14) which shall be in multi currency shall be submitted not later than, fifteen (15) banking days from end of reference month.

3. The data shall be reported in whole currency units (e.g. nearest USD1; EURO1, etc.). The original currencies to be reported in Schedule 13 and Schedule 14 shall be converted to USD using the foreign exchange rates provided in the BSP Reference Exchange Rate Bulletin. The report for a particular banking day shall use the foreign exchange rates in the said BSP Bulletin issued the next banking day.

4. The balances to be reported in Schedules 13 and 14 shall be sourced from the banks’ Multi Currency Control Ledgers (MCCL) or such other control records maintained by the reporting bank which contain the breakdown of foreign exchange assets and liabilities in their original currencies. The data from such MCCL or other control records should be equal to the balance of the corresponding accounts in the reporting bank’s general ledger.
5. All transactions for the reference date shall be included. Transactions with deficient documents shall be reflected in the schedules with appropriate footnotes.

6. For purposes of computing the net FX position of reporting banks, AABs shall use the total USD equivalent of their net FX position as reflected in Item E of Schedule 13 and as computed in item 3 above.

7. The reporting bank’s unimpaired capital as used in Schedule 13, shall be in accordance with the definition under Section X111 of the MORB and shall be converted to USD as in Item 3 above. AABs shall use the Unimpaired Capital Accounts as of the immediately preceding month-end. Thus, beginning with the month of February, end of month January balances shall be used for this purpose.

8. The following shall likewise be observed in the computation of banks’ net open FX position limit:

 - a. A bank shall have the option to exclude from its FX assets the following:
 - i. its foreign exchange holdings resulting from original investments in New Money Bonds (NMB),
 - ii. “Due from Head Office/Branches Agencies Abroad-Assigned Capital” account, to the extent of the lower of assigned capital approved by the BSP or the amount of capital actually remitted; and
 - iii. Amount of foreign currency denominated assets pertaining to the net proceeds of outstanding issues of foreign currency denominated Hybrid Tier 1 (HT1) capital instruments.

Banks shall signify in writing to the BSP through the International Department, their

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intention whether to exclude or to include their above assets from the computation of their net open FX position. Once a bank has opted to include (or to exclude) the said assets, the option signified can no longer be subsequently reversed or changed.

b. The following accounts shall be excluded:

i. 100% FX cover required by the foreign Monetary Authority to be deposited by Philippine UBs/KBs with its advising confirming bank in the foreign country for letters of credit issued; and,

ii. Equity investments in foreign subsidiaries.

c. Banks shall submit a supporting schedule in prescribed format (Annex O) on the Details of Accounts Excluded in the Computation of Net Open Exchange Position, which is an attachment to Schedule 13 of the FX Form I report.

9. Reporting. Banks shall submit a report on the daily consolidated foreign exchange position of banks which shall include a foreign currency position against pesos of any of the banks' branches/offices, subsidiaries and affiliates, here and abroad whether or not they are financial institutions, as long as the 'banks and their shareholders officers exercise reasonable influence or control over them, as well as any entity that is engaged in foreign exchange trading or foreign exchange corporation that is affiliated with the banks either by ownership, management control or influence by banks, their retirement fund, officers, directors or shareholders.

10. While it is recognized that the principal reason for being of forex subsidiaries/affiliates of banks is to trade in foreign exchange, they are nevertheless discouraged from taking net foreign exchange positions and whatever net foreign exchange positions are kept or maintained by them, are to be consolidated into the total

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net foreign exchange position of the respective banks with whom they are affiliated or are subsidiaries of.

The monthly certification by the President/Chief Executive Officer (CEO) or Country Manager (in case of branches of foreign banks) and Treasurer of the banks as well as the daily reportorial requirement on consolidated foreign exchange position of banks as required shall continue to be in effect. The Certification, as amended, by the President/CEO or Country Manager and Treasurer in the form and language substantially similar to the sample certification shown in Annex P and P.1, shall be deemed to satisfy and to be in compliance with this requirement.

11. UBs/KBs with expanded authority to write options shall include the net delta weighted positions of foreign currency options in their computation of the net FX position. UBs/KBs without authority to write options shall include the notional amounts of purchased options that are in or at the money and exclude those that are out of the money in their computation of the net FX position.

The USD equivalent of the positions arising from foreign currency options shall be reported as a manual adjustment to the net FX position amount reported in the bank's Consolidated Foreign Exchange Position Report (CFXPR). For banks with authority to write options, the USD equivalent of the foreign currency options position is equal to the sum of long delta weighted positions minus the sum of short delta-weighted positions arising from FX options contracts. The breakdown of the options positions by currency and a listing of outstanding contracts shall be annexed to the CFXPR. The amended format of the CFXPR, the detailed schedule for options positions, and the listing of outstanding contracts for banks with and without authority to write options (Annex C of the

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CFXPR) are attached as Annexes “Q”, “R” and “R.1”, “S” and “S.1”. Bank shall submit the report on the daily consolidated foreign exchange position of Banks to the Supervisory Data Center of the BSP.

Deadline of submission of Consolidated Foreign Exchange Position Report (CFXPR) shall be on the third (3rd) banking day after reference date, to allow the banks more time to consolidate all transactions of branches, affiliates and subsidiaries. The reports submitted should be properly signed by the authorized Officer of the bank. Faxed reports shall be considered received within the prescribed deadline provided these are signed and the

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original is transmitted the following day. The monthly certification by the CEO and Treasurer in the form and language, as corrected, shall be submitted at the end of each month but not later than five (5) banking days from reference month. Banks that have certified that they do not have any affiliate/subsidiary need no longer submit the consolidated FX position report and monthly certification for the purpose. Late or incomplete submission within the above prescribed deadline shall constitute violation of the BSP reportorial requirements and subject the bank concerned to the fines and penalties provided under Section 103 of the Manual.

**PROCESSING GUIDELINES FOR MICROFINANCE OTHER
BANKING OFFICES OR MICROBANKING OFFICES**
(Appendix to Subsection X160.3)

The establishment of other banking offices and the notes on microfinance shall be guided by the following processing guidelines:

The processing of applications will be undertaken in a two-stage process.

Stage 1: Letter of Intent and Pre-qualification

Stage 2: Business Plan (Strategic and Operational Plan Assessment)

Stage 1: The applicant QB shall submit a letter of intent duly authorized by the Board of Directors, signed by the President or equivalent rank. The letter will be evaluated by the appropriate Supervision and Examination Sector (SES) Department based on safety and soundness considerations.

Stage 2: The applicant QB will be required to submit a business plan containing the strategic and operational details. Among others, such plan shall address the following questions:

1. Why is the QB establishing micro-banking offices and how does it relate to the overall corporate strategy?

2. How many are to be established in the next 1 (one) year, 3 (three) years, 5 (five) years? Where are these to be established? Why have these areas been identified?

3. What are the products and services to be offered?

4. How is the expansion to be funded?

5. How does the QB plan to maintain adequate command and control over the expanded network?

6. The proposed MBOs are to be linked operationally to which branches?

7. How does the QB propose to comply with the minimum fifty percent (50%) microfinance transaction requirement per MBO? (Microfinance transactions comprise of micro-loans and micro-deposits)

8. What is the policy on the minimum cash position of the MBO? This shall include arrangement for replenishment.

9. What are the management and organizational arrangements for the MBO? This shall include proposed staffing pattern and functions and qualification of the personnel in accordance with the requirements in X160.3.

10. What are the Management Information Systems (MIS) and financial accounting arrangements to support customer handling and proper recording and reporting of transactions?

11. What are the physical security arrangements? These arrangements shall be included in the overall security program of the bank.

A final decision will be made based on the quality of Stage 2 submissions. Stage 2 submissions will be evaluated whether the proposed operational plan is commensurate and proportionate to the strategy to ascertain safe and sound MBO operations. A QB may apply for additional MBOs, after six (6) months from approval of the initial set/batch. All MBOs must be opened within one (1) year from their approval. If not deemed satisfactory, the application may be denied. Re-application shall only be allowed after six (6) months from the date of receipt of denial.

All applications are to be submitted through the Central Application and Licensing Group (CALG) of the SES.

(M-2010-040 dated 04 November 2010)

**GUIDELINES ON THE GRANT OF REGULATORY RELIEF UNDER THE
STRENGTHENING PROGRAM FOR RURAL BANKS
(Appendix to Subsec. 3108.3)**

The following are the guidelines and the documentary requirements (Annex “A”) on the grant of regulatory relief under the Strengthening Program For Rural Banks (SRPB). Said guidelines contain the merger or consolidation incentives which recipient RBs under the SRPB may avail in accordance with the provisions of the guidelines.

The SRPB is a joint undertaking of the BSP and the Philippine Deposit Insurance Corporation (PDIC) aimed at promoting mergers and consolidations as a means to further strengthen the rural banking system through the grant of financial assistance (FA) by the PDIC and regulatory relief by the BSP to eligible strategic third party investors (STPIs) which shall be RBs, desiring to enter into mergers and consolidations with eligible distressed RBs that may be considered under the SRPB.

Constituent RBs may, subject to prior BSP approval, avail themselves of any or all of the following merger or consolidation incentives under the SRPB:

1. Conversion of the existing head offices, branches and/or extension offices of the merging or consolidating RBs into head office, branches or extension offices of the merged/consolidated RB;
2. Relocation/opening of existing/approved but unopened branches, extension offices and/or other banking offices of the merged/consolidated RB within two (2) years from date of merger or consolidation subject to applicable requirements on relocation of branches, extension offices and/or banking offices;
3. Condonation of liquidated damages on past due rediscounting/emergency loans and/or monetary penalties for violation of BSP issuances on rediscounting/emergency

loans of eligible RBs as of the end of the month immediately preceding the date of request for loan restructuring;

4. Restructuring of past due rediscounting/emergency loans of the eligible RBs with the BSP, subject to compliance with the following guidelines:

- a) Amount to be restructured

The amount to be restructured shall consist of the following:

Principal – outstanding balance of the principal obligation as of the end of the month immediately preceding the date of request for loan restructuring.

Accrued interest – accrued interest on the outstanding principal obligation as of the end of the month immediately preceding the date of request for loan restructuring.

- b) Interest rate

Only the restructured principal obligation shall be charged interest at the rate equal to the prevailing 364-day treasury bill rate of the last auction immediately preceding the date of request for loan restructuring. No interest shall be charged on the restructured accrued interest.

- c) Terms of repayment

The amount to be restructured shall be paid by the merged/consolidated RB in monthly amortizations over a period not exceeding ten (10) years.

- d) Collateralization

A surety agreement shall be executed by the stockholders owning at least sixty seven percent (67%) of the shares of stock of the merged/consolidated RB.

- e. Default clause

i. Event of default – failure to pay two (2) amortizations shall constitute an event of default and shall render the entire obligation due and demandable.

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ii. Consequence of default – the amount of liquidated damages on past due rediscounting/ emergency loans waived shall be restored and the payments already made shall be re-applied, first to liquidated damages, and the balance, if any, to interest, then to the principal loan. Monetary penalties for violation of BSP issuances on rediscounting, if any, shall also be restored and payment thereof in full shall be demanded against the defaulting merged/ consolidated RB.

iii. Legal action – The BSP may institute appropriate legal action without further need for demand or notice to the defaulting merged/ consolidated RB.

f) Documentary requirement

The merged/ consolidated RB shall execute a Letter of Understanding with the BSP covering the terms and conditions of the approved restructured loan/s together with the authority for the BSP to debit the surviving/ consolidated RB's demand deposit account with the BSP for the amortizations due. Documentary requirements in applying for the regulatory relief are attached as *Annex "A"*.

5. Preferred shares for staggered redemption.

The shares for staggered redemption shall be the LBP preferred shares of stock of the eligible RBs, representing the rediscounting arrearages with BSP converted into LBP equity. Repayment arrangement should be made by the merged or consolidated RB directly with the LBP.

a) Dividend rate

The dividend rate shall be four percent (4%).

b) Redemption term

The staggered redemption shall be effected by the merged/ consolidated RB in monthly installments over a period not exceeding ten (10) years.

c) Waiver of dividends

Dividends due on the LBP preferred shares of stock of the eligible RBs as of date of merger or consolidation shall be waived.

d) Documentary requirement

Upon approval, the merged/ consolidated RB shall execute a written agreement with the LBP for the staggered redemption of LBP preferred shares of stock of the eligible RBs, copy furnished the BSP.

6. Rediscount ceiling of at least 150% of the adjusted capital accounts of the merged/ consolidated RB for a period of one (1) year reckoned from the date of merger or consolidation, subject to compliance with the existing eligibility requirements of the BSP as provided under Subsec. X268.3.

7. Waiver of monetary penalties imposed on the eligible RBs for violations of existing laws and BSP rules and regulations, except penalties accruing to the other parties, e.g. Micro, Small and Medium Enterprises), as amended, and Agricultural Guarantee Fund Pool (AGFP) and Philippine Corp. Insurance Corporation (PCIC) as provided under Section 10 of R.A. No. 10000 (The Agri-Agra Reform Credit Act of 2009), as of date of merger/consolidation.

STENGTHENING PROGRAM FOR RURAL BANKS
Documentary Requirements

1. Articles of Merger or Consolidation duly signed by the President or Vice President and certified by the corporate secretary or assistant corporate secretary of each of the Eligible STPI and Eligible RB (constituent institutions) setting forth the following as required in Section 78 of the Corporation Code:

- The Plan of Merger or Consolidation;
- The number of shares outstanding; and
- The number of shares voting for and against the Plan, respectively.

2. Plan of Merger or Consolidation setting forth the following:

- The names of the constituent institutions;
- The terms of merger or consolidation and the mode of carrying the same into effect;
- A statement of the changes, if any, in the Articles of incorporation of the surviving institution in the case of merger; and in the case of consolidation, all the statements required to be set forth in the Articles of Incorporation; and
- Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or desirable.

3. Resolution of the Board of Directors of the respective constituent institution approving the Plan of Merger or Consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

4. Resolution of the meeting of the stockholders in which at least two-thirds

(2/3) of the outstanding capital stock of each constituent institution have approved the plan of merger or consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

5. Financial statements:

- Latest financial statements as of month immediately preceding the date of application and latest three (3) year audited financial statements of the constituent institutions; and
- Ten (10)-year financial projections with valid assumptions of the merged or consolidated institutions' balance sheet and income statement.

6. List of regulatory relief the constituent institutions will avail from BSP;

7. Letter to BSP requesting restructuring of past due rediscounting/emergency loan; and letter to LBP requesting staggered redemption of matured LBP preferred shares;

8. List of stockholdings of each of the constituent institutions before and after the merger;

9. List of directors and officers of each of the constituent institutions;

10. List of proposed officer and directors of the merged or consolidated institution and the summary of their qualifications;

11. Organizational chart of the merged or consolidated institution including the number of offices and location thereof;

12. Inter-company transactions relative to the submitted Financial Statements;

13. Computation of Risk Based Capital Adequacy Ratio on the submitted financial statements;

14. Schedule of unbooked valuation reserves based on the latest BSP-ROE;

15. Viable operational plan with the following components:

- Marketing strategies
- Proposed target market
- Proposed loan portfolio diversification
- Deposit generation
- Proposed improvements in accounting system
- Operational control
- Computerization plan
- Communication system

16. The appraiser's report of reappraisal of bank premises, if any, done by an independent and licensed appraiser;

17. Proposed increase of capital stock of surviving bank;

18. Proposed amendments in the articles of incorporation of surviving bank;

19. Director's certificate (surviving bank) on the proposed amendment of the Articles of Incorporation increasing the authorized capital stock;

20. Copy of due diligence report on the eligible RB, if any; and

21. Any other reasonable requirement deemed material in the proper evaluation of the merger or consolidation as may subsequently be requested by the BSP and/or PDIC.

(Circular 693 dated 06 August 2010)

STRENGTHENING PROGRAM FOR RURAL BANKS (SPRB) PLUS FRAMEWORK
[Appendix to Subsec. X108.4]

PROGRAM PERIOD

The SPRB Plus shall be available from 2 August 2012 until 31 December 2013, subject to extension if necessary.

ELIGIBILITY

- 1. Basic criteria for eligible banks:
 - a. RBs with risk-based CAR of less than ten percent (10%); TBs with CAR of less than ten percent (10%) and must be serving the countryside and/or low income sectors
- 2. Basic criteria for eligible STPIs, which may also be a group:
 - a. UKBs, TBs and RBs
 - (1) BSP CAMELS rating of at least 3;
 - (2) Not under BSP's PCA;
 - (3) No findings of unsafe and unsound banking practice by the Bangko Sentral or PDIC; and
 - b. Non-bank corporations with strong financial condition and good reputation.

MODE OF ENTRY

Mode of entry shall be via merger, consolidation, acquisition via purchase of assets and assumption of liabilities (P&A) or purchase of controlling shares, as follows:

Eligible STPIs	Eligible Banks	
	RB	TB
RB	Merger, consolidation or P& A	Merger, consolidation or P&A
TB	Merger, consolidation or P& A	Merger, consolidation or P& A
UB/KB	Acquisition of control	Acquisition of control or P&A
Non-Bank	Acquisition of control	Acquisition of control

FINANCIAL ASSISTANCE (FA)

The FA shall be extended only to STPIs who are TBs and RBs. Non-bank corporations which are not subsidiaries of UBs/KBs or not part of banking groups may also be extended FA when circumstances strongly warrant as allowed under Section 17.d of R.A. No. 3591, as amended.

- The FA will be a combination of:
- a) Preferred shares (PS) – intended to provide additional capital to bring eligible bank's CAR to ten percent (10%); and
 - b) Direct Loan (DL) – to build up sinking fund (SF) to provide an automatic payment mechanism for PS.
- Provided, however, That pursuant to Section 17d of R.A. No. 3591, as amended, (the PDIC Charter), the total cost (in present value terms) of providing the above combination of FA (PS and DL) should not exceed the cost of closure of the eligible bank.
- a. Features/Terms of PS will be as follows:
 - (1) Non-voting, cumulative, convertible to common
 - (2) Redeemable starting at the end of 5th year but not later than the 10th year
 - (3) Put option to be exercised by PDIC as follows:
 - In the event of any default on the part of the bank to comply with its covenants under the rehabilitation plan
 - SF is equal to the amount of PS
 - (4) Amount – up to fifty percent (50%) of the required additional capital to bring the eligible bank's CAR to ten percent (10%)
 - (5) Dividend rate – equal to prevailing 5-year FXTN

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- b. Terms of DL
 - (1) Purpose – to purchase Government Securities (GS)
 - (2) Principal – equivalent to such amount that will allow the annual Net Interest Spread (NIS) from GS to accumulate over the tenor of DL to such amount equal to the PS using the following formula:

Principal = (PS/Tenor of DL)/NIS rate

- (3) Interest rate per annum – prevailing ten (10)-year FXTN (net of final tax) less NIS rate of three percent (3%)
 - (4) Tenor – ten (10) years, due and demandable upon redemption of PS or exercise of put option
 - (5) Collateral/Security – Pledge of GS to be purchased using proceeds of DL.

MAJOR TERMS AND CONDITIONS

- a. Quasi-reorganization and capital restructuring
- b. Compliance with the FA agreement terms and conditions as follows:
 - Financial Covenants
 - payment terms and conditions
 - achievement of rehabilitation plan performance targets
 - Non-financial covenants
 - submission of required reports
 - improvement of bank operations and governance
 - conduct by PDIC of periodic on-site inspection and review
 - appointment of consultant’s and/or nomination of representative in the bank’s board of directors
- c. Compliance with PDIC regulatory issuances and banking rules and regulations.

REGULATORY/OTHER INCENTIVES

In addition to the incentives/regulatory

reliefs granted by Bangko Sentral under the SPRB Module 1, eligible STPIs can avail of additional branching¹ and other incentives as follows:

For Eligible STPI UBs/KBs and TBs

1. The special branch licensing fees² to be waived by the Bangko Sentral shall be equivalent to the amount of capital contribution of the STPIs to bring the eligible banks’ CAR to ten percent (10%). Under Subsec. X151.5, a bank applying for a branch license in restricted areas shall be charged a licensing fee of P20 million for UBs/KBs and P15 million for TBs. Hence, if an STPI’s capital contribution in a TB is P50 million, said STPI bank is qualified to establish three (3) branches (P50 million/ P15 million=3.33 branches) in restricted areas for free.

In case the capital contribution of an STPI in the acquired bank is less than the amount of branch licensing fees, that is, P20 million for UBs/KBs and P15 million for TBs, the STPI can still avail of one (1) branch license in restricted area for free.

2. The STPI banks may be allowed, subject to Bangko Sentral approval, to convert the status of the acquired bank from RB to TB, consistent with the STPI’s over-all business plan and strategy.

For Eligible STPI RBs

1. In the case of RBs which are not eligible to establish branches outside Metro Manila, they can establish branches outside Metro Manila equivalent to the number of branches of the acquired bank/s. Branch processing fee applicable to RBs of P25,000 shall be waived and the following

¹Branching incentives for non-bank STPIs will depend on the type of banks they will acquire.
²This is different from the branch processing fees under Subsec. X151.5. Branch processing fees will still be charged from the STPI UBs/KBs and TBs.

theoretical capital requirement under Subsec. X151.2 shall not be imposed:

Location of Branch	Date of Implementation	Theoretical Capital (in P Mil)
Metro Manila	Up to 30 June 2012	5.0
Cebu and Davao	From 18 Jan. 2006	5.0
1 st to 3 rd Class Cities	Up to 30 June 2012	2.5
4 th to 6 th Class Cities	Up to 30 June 2012	1.5
1 st to 3 rd Class Municipalities	From 18 Jan. 2006	1.0
4 th Class Municipalities	Up to 30 June 2012	0.5
5 th to 6 th Class Municipalities	From 18 Jan. 2006	0.5

Note: Please refer to Subsec. X151.2 for applicable theoretical capital requirement after 30 June 2012.

2. For STPI RBs which will acquire single/one unit RBs, they are still entitled to establish one (1) branch outside Metro Manila.

3. For STPI-RBs which have availed under Module I of the SPRB, the above proposed branching incentives for RBs under SPRB Plus may be granted subject to the same conditions.

For All Eligible STPIs

1. As additional premium, STPI UBs/KBs and TBs shall be granted one additional branching license in restricted areas while STPI RBs shall be granted one additional branching license in areas outside Metro Manila for every three (3) eligible banks resolved under the Program.

STRENGTHENING PROGRAM FOR RURAL BANKS PLUS
Additional Documentary Requirements for
Potential Eligible Strategic Third Party Investor (STPI)

Eligible STPIs and eligible banks shall submit to the SPRB Lane¹ a joint letter, separately addressed to the Bangko Sentral and the PDIC indicating their intention to merge or consolidate, or enter into P & A or acquisition of control under the SPRB Plus, together with the following documents/ requirements:

- 1. Full name and detailed description of the potential STPI, including details on licenses obtained from the Bangko Sentral or any regulatory agency, products and services offered and current distribution network.
- 2. Corporate history/overview (including principal shareholders and their respective shareholdings).
- 3. Brief background and experience of directors and senior management.
- 4. Audited financial statements (FS) for the last three (3) fiscal years.
- 5. Notarized certification from the potential STPI, that:
 - a. For UBs, KBs, TBs and RBs as Eligible STPI
 - (i) It is not under Bangko Sentral’s prompt corrective action (PCA);
 - (ii) There is no finding of unsafe and unsound banking practices by the PDIC or Bangko Sentral.
 - b. For non-bank corporation:
 - (i) It has strong financial condition and has good reputation.

- A. For merger or consolidation:
 - 1. Plan of Merger or Consolidation duly approved by at least two-thirds (2/3) of the outstanding capital stock of each of the

eligible STPI and eligible bank (constituent institution) present and constituting a quorum;

- 2. Notarized Secretary’s Certificate on the resolution of the board of directors of the respective constituent institutions approving the Plan of Merger or Consolidation;
- 3. Notarized Secretary’s Certificate attesting approval of at least two thirds (2/3) of the outstanding capital stock of each constituent institution approving the Plan of Merger or Consolidation duly certified by the Secretaries and attested by the respective Chairpersons;
- 4. Proof of posting/publication of the announcement of merger or consolidation in a newspaper of general circulation;
- 5. Notarized Secretary’s Certificate attesting to the following facts:
 - a) That creditors and investors are informed by mail of the merger or consolidation; and
 - b) That no objection/opposition has been filed, or if any, the same has been resolved;
- 6. Additional requirements
 - a. For merger
 - i. Articles of Merger duly attested to by the incumbent directors of the surviving entity
 - ii. Certificate of merger/registration of the surviving entity
 - b. For consolidation
 - i. Articles of Consolidation duly attested to by the incumbent directors of the consolidated entity

¹With address as follows: Strengthening Program for Rural Banks (SPRB) Lane, 7th Floor, SSS Building, 6782 Ayala Avenue cor. Rufino St., 1226 Makati City. SPRB Hotline: 813-3673

- ii. New certificate of consolidated entity

B. For purchase of assets and assumption of liabilities (P&A)

1. Sale and Purchase Agreement

2. Stockholder’s resolution approving the sale of all assets and P&A of the eligible bank by an eligible STPI duly certified by the Secretaries and attested by the President/Chairperson of the eligible bank. The P&A must be approved by at least two thirds (2/3) of the outstanding capital stock of each constituent institution present and constituting a quorum;

3. Proof of notice to creditors of the eligible bank;

4. Joint certification from eligible bank and eligible STPI signed by their respective authorized signatories that all requirements under the Bulk Sales Law and all laws relevant have been complied with;

C. For acquisition of control through purchase of shares of the eligible bank subject to the applicable laws and rules

1. Stock Purchase Agreement duly signed by the authorized signatory of the eligible STPI and eligible bank and certified by their respective board secretary

2. Notarized Secretary’s Certificate on the board resolution of the Eligible STPI approving the acquisition of control/ purchase of majority shares of the eligible bank

D. Financial statements (FS)

1. Latest FS as of month immediately preceding the date of application and latest three (3)-year audited FS of the constituent institutions; and

2. 5-year financial projections with valid assumptions of the surviving institution’s balance sheet and income statement.

E. List of regulatory relief/incentives the constituent institution’s will avail from Bangko Sentral;

F. Letter to Bangko Sentral requesting restructuring of past due rediscounting/emergency loan;

G. List of shareholders with their share capital/shareholdings of each of the constituent institutions duly certified by the respective Board Secretaries and attested by the respective Board Chairpersons before and after the transaction;

H. List of directors and officers of each of the constituent institutions

I. List of proposed officers and directors of the surviving/consolidated bank and the summary of their qualifications;

J. Organizational chart of the surviving/ consolidated bank including the number of offices and locations thereof;

K. Inter-company transactions relative to the submitted FS;

L. Computation of risk based CAR on the submitted FS;

M. Schedule of unbooked valuation reserves based on latest Bangko Sentral report of examination, if any;

N. Viable operational plan with the following components:

□ Marketing strategies

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- Proposed target market
- Proposed loan portfolio diversification
- Deposit generation
- Proposed improvements in accounting system
- Operations control
- Computerization plan
- Communication system

O. The appraiser’s report of reappraisal of bank premises, if any, done by an independent and licensed appraiser;

P. Proposed increase of capital stock of surviving/consolidated bank;

Q. Proposed amendments in the Articles of Incorporation of surviving/consolidated bank;

R. Director’s certificate (surviving/consolidated bank) on the proposed amendment of the Articles of Incorporation increasing the authorized capital stock;

S. Any other reasonable requirement deemed material in the proper evaluation of the transaction as may subsequently be requested by the PDIC or Bangko Sentral.
(M-2012-040 dated 08 August 2012)

**GUIDELINES ON OUTSOURCING OF
SERVICES BY ELECTRONIC MONEY ISSUERS (EMIs) TO
ELECTRONIC MONEY NETWORK SERVICE PROVIDERS (EMNSP)
(Appendix to Subsec. X780.11)**

I. *Statement of Policy.* It is the goal of the BSP to achieve a truly inclusive financial system. In line with achieving this goal, the BSP recognizes the potential of electronic money (E-Money) as an instrument to facilitate delivery of financial services affordably to the low-income, unbanked or underserved segments of the population, particularly in non-urbanized areas. The BSP likewise recognizes that efficient and effective delivery of financial services may necessitate Electronic Money Issuers (EMI) to develop business models that utilize outsourcing arrangements, considering the specialized operational and technological requirements in an E-money business. Outsourcing, however may introduce an EMI to certain operational and reputational risks that need to be properly managed. The BSP hereby issues the following guidelines to govern the outsourcing of E-Money related services.

II. *Definition.* An Electronic Money Network Service Provider (EMNSP) shall refer to a non-financial institution that provides automated systems, network infrastructure, including a network of accredited agents utilizing the systems, to enable clients of an EMI to perform any or all of the following:

- a. Convert cash to E-money and monetize e-money;
- b. Transfer funds from one electronic wallet to another;
- c. Use E-money as a means of payment for goods and services; and
- d. Conduct other similar and/or related e-money activities/transactions.

III. *Application to outsource.* An EMI intending to outsource the services

contemplated under Item “2” shall limit itself to an EMNSP as an outsource entity, and shall follow the procedures for outsourcing information technology systems/processes as provided under Subsec. X162.2. In addition to the documentary requirements under said Subsec., an EMI should also submit a certification signed by its President or any officer of equivalent rank and function certifying that a due diligence review had been conducted and that the selected EMNSP has met the minimum requirements provided under Item “V”.

IV. *Responsibilities of an EMI.* Relative to the outsourcing of services to an EMNSP, it shall be the responsibility of an EMI to:

- a. Conduct due diligence review on an EMNSP in accordance with Item “V”;
- b. Ensure that the relationship/arrangement with an EMNSP is supported by a written contract that should contain, at a minimum, the requirements prescribed under Subsec. X162.2. The contract should also stipulate that:

(1) the EMNSP shall allow the BSP to have access and to examine the E-money system, network infrastructure, operation of the network of accredited agents and all operations related to E-money services being outsourced by the EMI for the purpose of assessing the confidentiality, integrity, and reliability of the E-money system and determining compliance with BSP rules and regulations;

(2) that the EMNSP shall not further outsource or subcontract the activity being outsourced to the EMNSP; and

(3) that interconnection by the EMNSP with other networks shall be limited to networks of other EMNSPs and the BSP-recognized ATM consortia.

- c. Ensure that the EMNSP employs a high degree of professional care in performing the outsourced activities as if these were conducted by the EMI itself. This would include, among others, making use of monitoring and control procedures to ensure compliance at all times with applicable BSP rules and regulations;
- d. Ensure that the EMNSP has an accreditation process in the selection of agents participating in the retail network for the conversion of cash to E-money and its monetization and that the EMNSP has instituted mechanism to manage sufficient liquidity in the system/network.
- e. Ensure that the EMNSP enforces a program that requires all cash-in and cash out agents under its network to undergo AML trainings and re-trainings every two (2) years; and
- f. Comply with all laws and BSP rules and regulations covering the activities outsourced to the EMNSP, especially on compliance with anti-money laundering (AML) requirements.

V. *Due Diligence and Continuing Operational Review.* Prior to entering into an outsourcing arrangement with an EMNSP, an EMI should conduct appropriate due diligence review to assess the capability of an EMNSP in performing the service to be outsourced. The due diligence should take into consideration both qualitative and quantitative factors affecting the performance of the outsourced service, such as the financial condition and results of operation for the previous year/s, risk management practices, technical expertise which involve monitoring the velocity of e-money transactions and aggregation of monthly limits, among others, market share, reputation (both the company and its stockholders) and compliance with

anti-money laundering requirements and BSP rules and regulations.

An EMI should make sure that the EMNSP adheres to international standards on IT governance, information security, and business continuity in the performance of its outsourced activities. An EMI should endeavor to obtain independent reviews and market feedback on the EMNSP to supplement its own findings.

Operational review by an EMI of the EMNSP should be undertaken at least on an annual basis as part of risk management. This review should be documented as part of an EMI’s monitoring and control process.

VI. *Delineation of Responsibilities.* The EMI and EMNSP shall identify, delineate and document the responsibilities and accountabilities of each party as regards the outsourcing arrangement, including planning for contingencies. Notwithstanding any contractual agreement between an EMI and an EMNSP on the sharing of responsibility, the EMI shall be responsible to its customers, without prejudice to further recourse, if any, by the EMI to the EMNSP.

VII. *Confidentiality and Security.* An EMI should review and monitor the security practices and control processes of the EMNSP on a regular basis, including commissioning or obtaining periodic expert reports on adequacy of security to maintain the confidentiality and integrity of data, and compliance with internationally-recognized standards in respect to the operations of the EMNSP. Considering that the EMNSP may service more than one EMI, the EMI should ensure that records pertaining to its transactions are segregated from those of other EMIs.

The EMI and EMNSP shall identify circumstances under which each party has

the right to change security requirements. An EMNSP should be required to report immediately any security breaches to the EMI.

In addition, the EMI should make sure the EMNSP have documented business continuity plans in place and that said plan periodically reviewed and tested with no significant test findings. An EMNSP shall provide the EMI with timely and adequate notification on any adverse development that may impact the former’s performance and delivery of service to the EMI.

VIII. EMI-Others intending to be an EMNSP. An EMI-Others that intend to be an EMNSP because of its specialized technical expertise shall comply with the requirements for an EMNSP. In addition, an EMI-Others shall undertake risk-mitigating measures to ensure that liquid assets, corresponding to the outstanding balance of E-money issued by the EMI-

Others and maintained pursuant to Sec. X780 and Subsecs. X780.1 to X780.7, be insulated from risks arising from its liabilities as EMNSP. These measures may include ring fencing the liquid assets through an escrow or trust account in a financial institution acceptable to BSP.

IX. *Sanctions.* Violations committed by EMIs pertaining to outsourcing of activities to EMNSP shall be subject to monetary penalties as graduated under *Appendix 29* and/or other non-monetary sanctions under Section 37 of RA No. 7653.

X. *Transitory Provisions.* EMIs that were granted an authority to outsource their E-Money activities to an EMNSP may continue to exercise such authority provided that they have to conform to this guidelines within a six (6)-month period from date of its effectivity.

(Circular No. 704 dated 22 December 2010)

Deadline Within Five (5) banking days
from date of reclassification

CERTIFICATION ON COMPLIANCE WITH RULES AND REGULATIONS ON THE
RECLASSIFICATION OF REAL AND OTHER PROPERTIES ACQUIRED (ROPA) TO BANK
PREMISES, FURNITURE, FIXTURE AND EQUIPMENT

(Name of Bank)

I hereby certify that the reclassification of Real and Other Properties Acquired (ROPA) to Bank Premises, Furniture, Fixture and Equipment was made in accordance with the provisions of Subsec. X160.3 of the MORB, in particular, I certify that:

1. The reclassification, which involves the property(ies) described in Schedule 1 was duly authorized by (name of bank)’s board of directors, in a (specify whether regular/special meeting of the board) held on (specify date of board meeting) for the purpose stated therein;
2. The approval of said reclassification was manifested in a resolution passed by the board of directors of (name of bank) during the meeting, a certified true copy of which is attached as Annex A. Said resolution of the board of directors, along with the supporting records and documents involving the reclassified ROPA account, shall be made available for inspection by BSP examiners;
3. Only such acquired asset or a portion thereof, that will be (i) immediately used, or (ii) ready and available for use within a two (2)-year period from the date of reclassification (in case of ROPA earmarked for future use) was reclassified to Bank Premises, Furniture, Fixture and Equipment;
4. ROPA reclassified to Bank Premises, Furniture, Fixture and Equipment was recorded at its net carrying amount where the amounts booked as cost, accumulated depreciation and allowance for losses for bank premises, furniture, fixture and equipment corresponds to the balance of these accounts under ROPA at the time of reclassification. As such no gains/(losses) were recognized in our books from such reclassification; and
5. The reclassification did not cause the bank to exceed the prescribed ceiling on investment in real estate and improvements thereon, including bank equipment, under Subsection X160.2 of the MORB, as shown below.

Description	Before Reclassification	After Reclassification
Ratio of bank's investment in real estate andimprovements thereon, including bank equipment, to net worth		

Signature above Printed Name
President/Officer of Equivalent Rank

Date _____

SUBSCRIBED and SWORN to before me, this _____ day of _____, affiant
exhibiting his Community Tax Certificate as indicated below:

Name	Community Tax Certificate No.	Date/Place of Issue
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Notary Public

**GUIDELINES GOVERNING THE IMPLEMENTATION/EARLY ADOPTION OF
PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS 9) FINANCIAL
INSTRUMENTS
(Appendix to Subsec. X191.3)**

Section 1. Statement of Policy

It is the policy of the Bangko Sentral to promote fairness, transparency and accuracy in financial reporting. It is in this light that the BSP aims to adopt all Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) to the greatest extent possible.

Section 2. Classification and Measurement of Financial Assets and Financial Liabilities under PFRS 9

PFRS 9 shall apply to financial assets and financial liabilities within the scope of PAS 39. FIs shall classify and measure financial assets and financial liabilities in accordance with the provisions of PFRS 9 upon its initial application. FIs shall likewise observe the following guidelines in the implementation of PFRS 9:

1. Classification of financial assets. Financial assets that are debt instruments shall be classified as subsequently measured at either amortized cost or fair value based on the (a) FI's business model for managing financial assets, and (b) the contractual cash flow characteristics of the financial asset. Financial assets that are equity securities shall be classified at either fair value through profit or loss (FVPL) or irrevocably designated at initial recognition at fair value through other comprehensive income (DFVOCI).

2. Business model for managing financial assets. An FI's business model pertains to the manner by which it actually manages its business or portfolio of financial instruments.

An FI's business model need not be assessed at the level of the FI. The business model criteria may be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the FI) but not on an instrument-by-instrument basis (i.e., not based on intention for each individual financial instrument). This may include, for instance, a portfolio of investments that an FI manages in order to collect contractual cash flows and another portfolio of investments that an FI manages in order to trade to realize fair value changes.

An FI's business model for managing financial assets shall be documented and approved by the FI's board of directors or its equivalent governing body. The documentation shall include, at a minimum, the following:

- a. clearly documented policies and procedures on the specific business model for managing financial assets and for measuring/evaluating performance of those financial assets within a specific business model;
- b. type and frequency of reports which shall be presented to management to measure/evaluate performance of financial instruments within a specific business model; and
- c. accountable officers and their specific responsibilities with respect to the management, monitoring and evaluation of the performance of financial instruments within a specific business model.

3. Financial assets measured at fair value through profit or loss (FVPL). A financial asset shall be measured at fair value through profit or loss, except in the following cases:

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a. The financial asset is part of a hedging relationship, in which case the provisions of PAS 39 on hedge accounting shall apply;

b. The financial asset that is an equity security that is not held for trading and is irrevocably elected upon initial recognition to be measured at fair value through other comprehensive income as provided under Item No. “5”; or

c. The financial asset that is a debt instrument is measured at amortized cost as provided under Item No. “7”.

Financial assets measured at fair value through profit or loss shall consist of the following:

a. Financial assets held for trading (HFT) as defined in PFRS 9;

b. Financial assets designated at fair value through profit or loss (FA DFVPL) as defined in PFRS 9; and

c. Other financial assets mandatorily measured at fair value through profit or loss (FA MMFVPL) under PFRS 9.

Investments in hybrid securities, securities overlying securitization structures and other structured products shall be measured at FVPL, unless these meet the criteria for amortized cost measurement in accordance with PFRS 9.

Investments in credit-linked notes (CLNs) and similar structured products with embedded credit derivatives, as defined under Section 1628, including those that were reclassified from HFT to Available for Sale (AFS)/Held to Maturity (HTM)/Unquoted Debt Securities Classified as Loans (UDSCL) or from AFS to HTM/UDSCL in accordance with the reclassification rules under *Appendix 33*, shall be classified and measured at FVPL upon initial application of PFRS 9.

The accounting treatment for investments in CLNs and other structured products under *Appendix 66a* and the guidelines on the reclassification of CLNs and other similar instruments that are linked

to the ROP under BSP Memorandum No. M-2009-012 dated 16 April 2009 shall no longer apply to financial assets that are accounted for in accordance with PFRS 9.

4. Financial assets designated at fair value through profit or loss (DFVPL). An FI may, at initial recognition, designate financial assets that are debt instruments as measured at fair value through profit or loss in accordance with the conditions mentioned under PFRS 9, subject to the following requirements:

a. FIs shall have in place appropriate risk management systems (including related risk management policies, procedures and controls) prior to initial application of the fair value option for a particular activity or purpose and on an ongoing basis;

b. FIs shall apply the fair value option only to instruments for which fair values can be reliably estimated; and

c. FIs shall provide BSP with supplemental information as may be necessary, to enable BSP to assess the impact of the FI’s use of the DFVPL option.

5. Equity securities designated at fair value through other comprehensive income (DFVOCI). Financial assets that are equity securities that are not held for trading may be irrevocably elected at initial recognition by an FI to be accounted for as at fair value through other comprehensive income, subject to the conditions provided under PFRS 9.

Unrealized gains/(losses) arising from changes in fair value of investment in equity securities classified as DFVOCI, including any related foreign exchange gains/(losses), shall be credited/(charged) to Other Comprehensive Income (OCI) under the equity section of the balance sheet: *Provided*, That the realized gains/(losses) on sale or derecognition of equity securities booked under the DFVOCI account shall be credited/(charged) to the “Retained Earnings – Free” account on sale/derecognition date.

6. Investments in unquoted equity securities. Investments in unquoted equity securities shall be recorded at fair value from the date of initial application of PFRS 9.

However, in limited circumstances, cost may be an appropriate measure of fair value. For this purpose, FIs shall be guided by the provisions of PFRS 9 in making its assessment.

7. Financial assets measured at amortized cost

a. Classification criteria

Financial assets that are debt instruments, other than those that are DFVPL, which meet all of the following conditions shall be measured at amortized cost:

i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b. Hold to collect contractual cash flows (HTC) business model

In addition to those provided under PFRS 9, the following instances are, likewise, deemed inconsistent with an HTC business model; hence, should not qualify for amortized cost measurement category:

i. a portfolio of debt instruments that is managed in order to benefit from actual or expected price movements/fair value changes (e.g., changes in credit spreads, yield curve, etc.) or to lock in arbitrage profits;

ii. a portfolio of debt instruments held for market-making by an FI who is a market maker in those instruments (e.g., government securities);

iii. positions in debt instruments which arise from the execution of trade orders from customers; or

iv. a portfolio of debt instruments that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy as evidenced by management reports provided to senior management.

A “more than infrequent sale” of financial assets in a portfolio of debt instruments measured at amortized cost shall be assessed as to whether such sales are consistent with an HTC business model.

The following sales/derecognition of financial assets shall not be considered inconsistent with an HTC business model:

(1) sales which no longer meet the FI’s investment policy (e.g., due to downgrade in credit rating below that required by the entity’s investment policy);

(2) sales of financial assets in order to fund capital expenditures;

(3) sales of financial assets to reflect the change in expected timing of payouts;

(4) sales which are so close to maturity (e.g., less than three (3) months) or the security’s call date that changes in the market rate of interest would not have a significant effect on the security’s fair value;

(5) sales that occur after the FI has substantially collected all of the security’s original principal through scheduled payments or prepayments.

(6) sales attributable to an isolated event that is beyond the FI’s control, is non-recurring and could not have been reasonably anticipated by the FI (e.g., a run on a bank);

(7) sales attributable to a change in tax law that eliminates or significantly reduces the tax exempt status of interest on the security under the amortized cost category;

(8) sales attributable to a major combination or major disposition that necessitates the sale of securities under the amortized cost category to maintain the FI’s interest rate risk position or credit risk policy;

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(9) sales attributable to a change in statutory or regulatory requirements significantly modifying either what constitutes a permissible investment or the maximum level of particular investments, thereby causing the FI to dispose a security under the amortized cost category;

(10) sales attributable to a significant increase in regulatory capital requirements that causes the FI to downsize by selling securities under the amortized cost category;

(11) sales attributable to a significant increase in the risk weights of securities under the amortized cost category used for regulatory risk-based capital purposes; and

(12) sales/derecognition attributable to the changes in the payment structure as initiated by the creditor (e.g., bond swap or exchange, options, changes in tenor and other related debt restructuring).

An FI shall clearly document in its policies and procedures the instances and the manner by which sales of financial assets under the amortized cost category would not be inconsistent with the HTC business model in accordance with PFRS 9 and the requirements of this *Appendix*.

Any sale/derecognition of financial assets under the amortized cost category shall be documented by the FI. The documentation shall include, at a minimum, the following information:

- i. details of the financial asset sold/derecognized;
- ii. gain or loss on sale/derecognition; and
- iii. the specific reason/s for derecognizing the financial asset and a justification on how such sale/derecognition is consistent with the HTC business model.

c. Amortized cost of financial assets at date of initial application. The amortized cost of financial assets that are reclassified from the fair value category (i.e., HFT, DFVPL, AFS) to the amortized cost category

at the date of initial application of PFRS 9 shall be determined retrospectively (i.e., using the original acquisition cost and the original effective interest rate at the date of acquisition) in accordance with the provisions of PFRS 9, except in cases when it is “impracticable” to do so, as defined in PAS 8, in which case the fair value of the financial asset at the date of initial application of PFRS 9 shall be treated as the new amortized cost of that financial asset at the date of initial application.

The retrospective determination of amortized cost at initial application of PFRS 9 under the preceding paragraph shall, likewise, apply to financial assets accounted for under the amortized cost category under PFRS 9 that were reclassified from the HFT and AFS categories to the HTM and the UDSCl categories in accordance with the reclassification guidelines under Annex A of *Appendix 33*.

In the case of financial assets reclassified from AFS to the HTM/UDSCl category under Annex A of *Appendix 33*, any remaining balance (i.e., unamortized amount) of previously recognized net unrealized gains/(losses) under the “Other Comprehensive Income - Net Unrealized Gains/(Losses) on AFS Financial Assets” account in the balance sheet that correspond to those reclassified AFS financial assets shall be closed to the appropriate accounts upon initial application of PFRS 9.

8. Classification of financial liabilities. Financial liabilities shall be classified as subsequently measured at amortized cost using the effective interest method, except for:

a. Financial liabilities which are part of a hedging relationship, in which case the provisions of PAS 39 on hedge accounting shall apply;

b. Financial liabilities measured at fair value through profit or loss; and

c. The following financial liabilities which shall be subsequently measured in accordance with the provisions of PFRS 9 :

- i. Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- ii. Financial guarantee contracts, as defined under Appendix A of PFRS 9 ; and
- iii. Commitments to provide a loan at a below-market interest rate.

9. Financial liabilities measured at fair value through profit or loss. Financial liabilities measured at fair value through profit or loss shall consist of the following:

- a. Financial liabilities HFT, including derivative liabilities that are not accounted for as hedging instruments, and
- b. Financial liabilities designated at fair value through profit or loss.

10. Financial liabilities designated at fair value through profit or loss (DFVPL). An FI may, at initial recognition, irrevocably designate financial liabilities at fair value through profit or loss subject to the conditions mentioned under PFRS 9 and the regulatory requirements for financial assets DFVPL under Item No. 40 above.

Net unrealized gains/losses arising from changes in the fair value of financial liabilities DFVPL shall be recognized in profit or loss: *Provided*, That those net unrealized gains/losses that are attributable to changes in the liability's credit risk shall be recognized in "Other Comprehensive Income (OCI)", *Provided, however*, That if the recognition of net unrealized gains/losses in OCI would create or enlarge an accounting mismatch in the FI's profit or loss, the FI shall present all net unrealized gains/losses on that financial liability DFVPL in profit or loss.

11. Reclassification of financial assets and financial liabilities.

- a. Financial assets shall be reclassified when, and only when, an FI changes its

business model for managing financial assets in accordance with the provisions of PFRS 9 and of this *Appendix*. Reclassifications other than due to change in business model are not permitted.

A change in an FI's business model is expected to be very infrequent and must be determined as a result of external and internal changes that are significant to the FI's operations and demonstrable to external parties. Hence, such change in business model must be approved by the FI's board of directors or its equivalent governing body, and such fact properly documented. The documentation, at a minimum, shall include the following information:

- a. A certified true copy of the board resolution approving the change in the business model for managing financial assets;
- b. The reasons for the change in the FI's business model and how it is aligned with the objectives and strategies of the FI;
- c. A description of the new business model; and
- d. A qualitative description of the new business model's implication on the FI's financial statements.

In addition to the foregoing items, the BSP may require additional documents from FIs to support the reclassification of financial assets due to change in business model.

A change in the objective of the entity's business model must be effected before the reclassification date.

An FI shall not effect a reclassification within the period of change in the business model. Any reclassification of financial assets due to change in business model should take effect from the beginning of the next reporting period of the FI's financial statements: *Provided*, That the change in business model shall be disclosed in the financial statements in the period of change consistent with PFRS 7 *Financial Instruments*: Disclosures which require

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among others the disclosure of an entity's objectives, policies and processes for managing the risk from financial instruments and any changes to those objectives, policies, and procedures.

b. Financial liabilities shall not be reclassified.

12. Operations and Accounting Manual. An FI shall maintain an operations and accounting manual on the classification and measurement of financial assets and financial liabilities which shall be consistent with PFRS 9 and the provisions of this *Appendix*. The said manual shall cover processes and procedures that will capture the reconfiguration and/or modification of existing systems, interface and data requirements, changes to the chart of accounts and implementation of new accounting/information systems to ensure compliance with the PFRS/PAS and the reportorial requirements of the SEC and the Bangko Sentral, as applicable.

Section 3. Early Adoption of PFRS 9

The guidance provided in this Section shall apply to FIs that early adopt PFRS 9 prior to 01 January 2015. The date of initial application of PFRS 9 is the date when the FI first applies the requirements of PFRS 9. If the date of initial application is prior to 01 January 2011, the date of initial application can be any date between 01 January 2010 up to 31 December 2010. If the date of early application is on or after 01 January 2011, the date of initial application must be the first day of the calendar year or fiscal year adopted by the FI (e.g., 01 January).

An FI that elects to apply PFRS 9 prior to 01 January 2015 shall observe the requirements of PFRS 9 and any amendments thereto.

FIs shall, likewise, observe the following guidelines:

1. Board/Senior management approval. FIs that early adopt PFRS 9 must assess the financial statement implications of early adoption of PFRS 9 and must ensure that it has the capability to comply with the requirements of that standard, including the required disclosures in the financial statements. The early adoption of PFRS 9 must be approved by the FI's board of directors.

2. Inapplicability of *Appendix 33*. The guidelines set forth under *Appendix 33*, including Annex A of *Appendix 33* on the classification and accounting of debt and equity securities shall no longer be applicable when an FI opts to adopt PFRS 9.

3. FRP reporting. Banks shall report financial assets and financial liabilities in accordance with the following guidelines on the mapping of financial assets and liabilities (Annexes A and A-1) using the existing FRP template issued under Circular No. 512 dated 03 February 2006, as amended:

a. Debt securities measured at amortized cost under PFRS 9 shall be booked under the HTM account, in the case of debt securities that are quoted in an active market, or the UDSCL account, in the case of debt securities that are not quoted in an active market.

The "tainting rule" for HTM securities shall no longer apply to early adopters of PFRS 9.

b. Financial assets measured at fair value through profit or loss under PFRS 9 shall be booked under the following accounts/sub-accounts.

(i) Held for Trading (HFT) Financial Assets

- The "HFT Securities" sub-account shall be used to record held for trading debt and equity securities.

- The "Derivatives with Positive Fair Value Held for Trading" account shall be used to record the positive fair value of

derivatives, other than those that are designated and effective hedging instruments.

- The sub-account “Derivatives with Positive Fair Value Held for Trading (stand-alone derivatives)” in the FRP shall be used to record the positive fair value of stand alone derivatives, other than those that are designated and effective hedging instruments.

- The sub-account “Derivatives with Positive Fair Value Held for Trading” (embedded derivatives)” in the FRP, shall be used to record the positive fair value of embedded derivatives where the host contract is a financial liability of the FI.

(ii) Financial Assets Designated at Fair Value through Profit or Loss (DFVPL). This account shall be used to record investments in FA DFVPL and FA MMFVPL, as follows:

- FA DFVPL refers to investments in debt instruments that are designated as at fair value through profit or loss in accordance with PFRS 9.

- FA MMFVPL refers to financial assets that are required to be measured at fair value through profit or loss under PFRS 9, other than those that are HFT and DFVPL.

c. The “Available for Sale (AFS) Financial Asset – Equity Securities” account shall be used to record investments in equity securities (other than those that are held for trading) that are irrevocably designated at initial recognition to be accounted for as DFVOCI in accordance with PFRS 9. The “Other Comprehensive Income – Net Unrealized Gains/(Losses)” account under the equity section of the balance sheet shall be used to record unrealized gains/(losses) from changes in fair value, including any related foreign exchange gains/(losses), of those equity securities under the DFVOCI category.

d. Financial liabilities measured at fair value through profit or loss under PFRS 9

shall continue to be booked under the following accounts/sub-accounts:

i. The “Financial Liabilities Held for Trading” account shall be used to record financial liabilities HFT.

- The “Derivatives with Negative Fair Value Held for Trading” account shall be used to record the negative fair value of derivatives, other than those that are designated and effective hedging instruments.

- The sub-account “Derivatives with Negative Fair Value Held for Trading (stand-alone derivatives)” shall be used to record the negative fair value of stand-alone derivatives, other than those that are designated and effective hedging instruments.

- The sub-account “Derivatives with Negative Fair Value Held for Trading (embedded derivatives)” shall be used to record the negative fair value of embedded derivatives where the host contract is a financial liability of the FI.

- The “Liability for Short Position” account shall be used to record the (a) obligation of the purchaser/borrower of securities under Reverse Repurchase Agreements/Certificates of Assignment/Participation with Recourse/Securities Lending and Borrowing Agreements to return the securities purchased/ borrowed from the seller/lender which the former sold to third parties.

ii. The “Financial Liabilities designated at Fair Value Through Profit or Loss’ account shall be used to record financial liabilities that are designated as at fair value through profit or loss. The “Other Comprehensive Income – Others” account under the equity section of the balance sheet shall be used to record net unrealized gains/(losses) from changes in fair value attributable to own credit risk of financial liabilities DFVPL that are accounted for in accordance with PFRS 9.

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e. The following accounts/sub-accounts shall no longer be used upon initial application of PFRS 9.

(i) Financial assets HFT (c) Derivatives Carried at Cost,

(ii) AFS Financial Assets (i) Debt Securities, and

(iii) Investment in Non-Marketable Equity Securities (INMES).

f. All the required information in the main schedules, sub-schedules, and additional disclosures/information in the FRP shall be accomplished for completeness.

4. Consolidated Statement of Condition (CSOC). QBs and other NBFIs shall report financial assets and financial liabilities in accordance with the following guidelines on the mapping of financial assets and financial liabilities (Annexes B and B-1) using the existing CSOC template:

a. Debt securities measured at amortized cost under PFRS 9 shall be booked under the “Investments in Bonds and Other Debt Instruments” account.

The “tainting rule” for HTM securities shall no longer apply to early adopters of PFRS 9.

b. The use of the “Trading Account Securities – Loans” account shall be limited to the recording of the amortized cost of loans arising from repurchase agreements, certificates of assignment, participation with recourse transactions.

(i) The “Government Securities Purchased under Resale Agreements” sub-account shall be used to record the amortized cost of loans arising from repurchase agreements involving government securities.

(ii) The “Government Securities Purchased under Certificates of Assignment/ Participation with Recourse” sub-account shall be used to record the amortized cost of loans arising from certificates of assignment and participation with recourse

agreements involving government securities.

(iii) The “Government Securities Purchased under Reverse Repurchase Agreements with the BSP” sub-account shall be used to record the amortized cost of loans arising from repurchase agreements with the BSP.

(iv) The “Private Debt Securities/ Commercial Papers Purchased Under Resale Agreements” sub-account shall be used to record the amortized cost of loans arising from repurchase agreements involving private debt securities.

(v) The “Private Debt Securities/ Commercial Papers Purchased under Certificates of Assignment/Participation with Recourse” sub-account shall be used to record the amortized cost of loans arising from certificates of assignment and participation with recourse agreements involving private debt securities.

c. Financial assets measured at fair value through profit or loss under PFRS 9 shall be booked under the following accounts/sub-accounts.

(i) Trading Account Securities (TAS)

• The “TAS - Investments” account shall be used to record held for trading debt securities under PAS 39.

• The “TAS - Equity” account shall be used to record held for trading equity securities.

(ii) Underwriting Accounts – Debt/ Equity Securities. This account shall be used to record investments in FA DFVPL and FA MMFVPL, as follows:

• FA DFVPL refers to investments in debt securities that are designated as at fair value through profit or loss in accordance with PFRS 9.

• FA MMFVPL refers to financial assets that are required to be measured at fair value through profit or loss under PFRS 9, other than those that are HFT and DFVPL.

d. The “Available for Sale (AFS) Securities” account shall be used to record investments in equity securities (other than those that are held for trading) that are irrevocably designated at initial recognition to be accounted for as DFVOCI in accordance with PFRS 9. The “Net Unrealized Gains/(Losses) on Securities Available for Sale” account under the equity section of the balance sheet shall be used to record unrealized gains/(losses) from changes in fair value, including any related foreign exchange gains/(losses), of those equity securities under the DFVOCI category.

e. The “Bills Payable–Others” account shall temporarily be used to record financial liabilities held for trading and financial liabilities DFVPL.

f. Changes in fair value of financial liabilities DFVPL attributable to own credit risk shall temporarily be recorded in the account “Net Unrealized Gains/Losses on Available for Sale Financial Asset”.

g. The following sub-accounts in the balance sheet of the CSOC shall no longer be used upon initial application of PFRS 9.

(i) Underwriting Accounts – Debt Securities

- a. Underwritten Debt Sec. Purchased,
- b. Accum. Market Gains/(Losses) UA,
- c. Receivables – Underwritten Debt Securities Sold,

(ii) Trading Accounts Securities – Loans

d. Private Debt Sec./Commercial Papers (CPs) Purchased,

h. Private Debt Sec./Commercial Papers (CPs) Sold Under Repurchase Agreements,

(iii) Underwriting Accounts – Equity Securities

a. Underwritten Equity Securities Purchased,

b. Accumulated Market Gains/(Losses) UA,

c. Receivables – Underwritten Equity Securities Sold.

5. FRP for Trust Institutions (FRPTI) reporting. Trust institutions shall report financial assets in accordance with the following guidelines on the mapping of financial assets (Annexes C and C-1) using the existing FRPTI template issued under Circular No. 609 dated 26 May 2008, as amended:

a. Debt securities measured at amortized cost under PFRS 9 shall be booked under the HTM account, in the case of debt securities that are quoted in an active market, or the UDSCL account, in the case of debt securities that are not quoted in an active market.

The “tainting rule” for HTM securities shall no longer apply to early adopters of PFRS 9.

b. Financial assets measured at fair value through profit or loss under PFRS 9 shall be booked under the “Financial Assets at Fair Value Through Profit or Loss-Debt and Equity Securities” sub-account.

c. The “Derivatives with Positive Fair Value Held for Trading” account shall be used to record the positive fair value of derivatives, other than those that are designated and effective hedging instruments.

d. The “Available for Sale (AFS) Financial Assets” account shall be used to record investments in equity securities (other than those that are held for trading) that are irrevocably designated at initial recognition to be accounted for as DFVOCI in accordance with PFRS 9. The “Net Unrealized Gains/(Losses) on AFS Financial Assets” account under the equity section of the balance sheet shall be used to record the unrealized gains/(losses) arising from changes in fair value, including any related foreign exchange gains/(losses), of those equity securities under the DFVOCI category.

e. The following accounts/sub-accounts in the balance sheet of the FRPTI shall no

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longer be used upon initial application of PFRS 9.

(i) AFS Financial Assets (i) Debt Securities, and

(ii) INMES account.

f. All the required information in the main schedules, sub-schedules, and additional disclosures/information in the FRPTI shall be accomplished for completeness.

g. Trust institutions that early adopt PFRS 9 on or before 31 December 2010 need not submit revised FRPTI reports that conform with the guidelines under Section 2 of this Circular for periods prior to 31 December 2010.

6. Supplementary report. Early adopters shall submit a Supplementary Report on Early Adoption of PFRS 9 which shall be a Category A-1 report to the SDC together with the prescribed monthly/quarterly FRP/CSOC reports, as follows:

a. Banks shall submit the solo and consolidated supplementary (Annex D) in accordance with the submission frequency and deadline of the prescribed FRP.

b. NBFIs, other than trust institutions, shall submit the solo supplementary report (Annex E) in accordance with the submission frequency and deadline of the Consolidated Statement of Condition report.

7. Report on initial application of PFRS 9. A bank and each of its subsidiary banks/QBs, that opt to early adopt PFRS 9 shall submit a one-time solo Report on Initial Application of PFRS 9 to the Bangko Sentral through the SDC. The report which shall be considered a Category A-1 report shall be submitted to the Bangko Sentral in accordance with the following timelines:

a. For FIs which initially apply PFRS 9 on or before 31 December 2010 - not later than 31 January 2011;

b. For FIs which initially apply PFRS 9 in 2011 – not later than fifteen (15) banking

days from the end of the month when such initial adoption is reflected in their books, and

c. For FIs which initially apply PFRS 9 on or after 01 January 2012 – not later than fifteen (15) banking days from the end of the calendar or fiscal year of initial application of PFRS 9.

The report shall disclose the cumulative impact of the FIs adoption of PFRS 9 on selected balance sheet accounts, net income and capital position reckoned from the beginning of the FIs calendar of fiscal year, as applicable.

Section 4. Transition Rules

FIs shall observe the transition rules provided under PFRS 9 as well as the following:

1. PFRS 9 shall not be applied to financial assets and financial liabilities that have already been derecognized at the date of initial application.

2. An FI shall assess whether a financial asset shall be classified under the amortized cost, FVPL, or DFVOCI category on the basis of the facts and circumstances that exist at the date of initial application of PFRS 9. However, the resulting classification shall be applied retrospectively, irrespective of the FIs business model in prior reporting periods.

3. The tainting rule for HTM securities and the related holding period for HTM securities that are classified to the AFS category under *Appendix 33* shall no longer apply to FIs upon initial application of PFRS 9.

4. An FI may choose to adopt the provisions of PFRS 9 issued in 2009 or the provisions of PFRS 9 issued in 2010 before 01 January 2015.

5. An FI that has adopted PFRS 9 on financial assets in 2010 need not submit revised FRP/CSOC reports for periods prior to 31 December 2010. It may adopt the provisions of PFRS 9 on financial liabilities

before 01 January 2015: *Provided*, That it does not re-apply the transitional provisions of the said standard on its financial assets: *Provided, further*, That the FI complies with the submission guidelines set forth under Nos. 6, 7 and 8 below, as applicable: *Provided, finally*, That the FI limits the information that it shall report in the one-time solo Report on Initial Application of PFRS 9 to that arising from its adoption of the provisions of PFRS 9 on financial liabilities.

6. An FI which intends to early adopt PFRS 9 in 2011 is given up to 31 December 2011 within which to reflect the requirements of PFRS 9 in its prudential reports: *Provided*, That it notifies the Bangko Sentral, through the SDC, of the details of its actual implementation of adoption of the said standard, including the month-end date when such initial adoption is reflected in its books, in its one-time solo Report on initial Application of PFRS 9.

7. An FI that intends to early adopt PFRS 9 on or after 01 January 2012 shall reflect

the requirements of the said standard in its FRP/CSOC report as of the end of the calendar or fiscal year of initial application of PFRS 9.

8. An FI is expected to comply with the reportorial and disclosure requirements of the Securities and Exchange Commission on the adoption of PFRS 9.

9. An FI which adopts PFRS 9 on the mandatory effective date shall present prior period comparative general purpose financial statements which reflect all of the requirements of PFRS 9. FIs are, therefore, expected to have an implementation program in place to ensure compliance with the said requirements by 01 January 2015.

Section 5. Sanction

The penalties and sanctions provided under Subsec. X388.5(c) shall be imposed on FIs and officers concerned found to have violated any of the provisions of this Appendix.

(Circular No. 708 dated 10 January 2011, as amended by Circular No. 761 dated 20 July 2012, M-2011-048 dated 26 August 2011 and Circular No. 733 dated 05 August 2011)

Documentary Requirements to be Submitted to Bangko Sentral for the Election/Appointment of Directors/Officers of Banks^{1/}
(Appendix to Subsecs. X141.4, X180.4 and X406.10)

Requiring Bangko Sentral Confirmation ^{2/}		Not Requiring Bangko Sentral Confirmation nor Monetary Board Approval		Requiring Monetary Board Approval
Directors	Officers with rank of SVP and above (or equivalent ranks)	Officers below the rank of SVP requiring a different set of minimum qualifications ^{3/}	All other officers below the rank of SVP ^{4/}	Compliance Officer
□ Letter-request for Bangko Sentral confirmation signed by authorized officer ^{5/} with an affirmative statement that the institution has conducted a fit and proper test on the director/s concerned	□ Letter-request for Bangko Sentral confirmation signed by authorized officer ^{5/} with an affirmative statement that the institution has conducted a fit and proper test on the officer/s concerned			□ Letter-request for Bangko Sentral approval signed by authorized officer ^{5/} with an affirmative statement that the institution has conducted a fit and proper test on the officer concerned
□ Secretary's Certificate attesting to the resolution of the stockholders or board of directors approving the election	□ Secretary's Certificate attesting to the resolution of the board of directors approving the appointment ^{6/}			□ Secretary's Certificate attesting to the resolution of the board of directors approving the appointment ^{7/}
□ Bio-data with a photograph (2□ x 2□) taken within the last six (6) months	□ Bio-data with a photograph (2□ x 2□) taken within the last six (6) months	□ Bio-data with a photograph (2□ x 2□) taken within the last six (6) months		□ Bio-data with a photograph (2□ x 2□) taken within the last six (6) months

^{1/} To be submitted within ten (10) banking/business days from date of election/re-election/appointment/promotion to the appropriate department of the SES. For interlocks requiring Monetary Board approval, the following shall be submitted:(a) Letter-request for Monetary Board approval with justification; and (b) Bio-data.

^{2/} Including those exempted from the required Bangko Sentral confirmation as provided in Subsecs. X141.4 and X406.10.

^{3/} E.g., Internal Auditor, Security Officer, Head/In-Charge of E/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs),

^{4/} No documentary requirements to be submitted to the Bangko Sentral

^{5/} Authorized signatory is the President of the institution, except for appointment of President, in which case the authorized signatory shall be the Chairman of the Corporate Governance Committee or of the Board of Directors, as may be applicable. For those exempted from the required Bangko Sentral confirmation as provided in Subsec. X141.4 submit letter-notice to the Bangko Sentral, in lieu of letter-request for Bangko Sentral confirmation, signed by the aforementioned authorized officer with an affirmative statement that the institution has conducted a fit and proper test on the director/officer concerned.

^{6/} In case of foreign bank branches, consularized letter of appointment of the officer concerned from the Head Office and/or Regional Office

^{7/} In case of foreign bank branches, letter of appointment from the Country Head

Requiring Bangko Sentral Confirmation ^{1/}		Not Requiring Bangko Sentral Confirmation nor Monetary Board Approval		Requiring Monetary Board Approval
Directors	Officers with rank of SVP and above (or equivalent ranks)	Officers below the rank of SVP requiring a different set of minimum qualifications ^{2/}	All other officers below the rank of SVP ^{3/}	Compliance Officer
<div>□ Certification under oath of the director concerned that he/she possesses all the qualifications and none of the disqualifications to become a director</div>	<div>□ Certification under oath of the officer concerned that he/she possesses all the qualifications and none of the disqualifications to become an officer</div>			<div>□ Certification under oath of the officer concerned that he/she possesses all the qualifications and none of the disqualifications to become an officer</div>
<div>□ For first-time directors in a particular bank/ banking group as defined in Subsec. X141.4</div> <div>a. Copy of certificate of attendance in Corporate Governance seminar</div> <div>b. Certification under oath that the director has received copies of the general responsibility and specific duties and responsibilities of the board of directors and of a director and that he/she fully understands and accepts the same</div>	<div>□ For first-time officers to be subject to Bangko Sentral confirmation in a particular bank with trust authority/ trust corporation/banking group as defined in Subsec. X141.4</div>			

^{1/} Including those exempted from the required Bangko Sentral confirmation as provided in Subsec. X141.4.

^{2/} E.g., Internal Auditor, Security Officer, Head/In-Charge of E/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs),

^{3/} No documentary requirements to be submitted to the Bangko Sentral

Requiring Bangko Sentral Confirmation ^{1/}		Not Requiring Bangko Sentral Confirmation nor Monetary Board Approval		Requiring Monetary Board Approval
Directors	Officers with rank of SVP and above (or equivalent ranks)	Officers below the rank of SVP requiring a different set of minimum qualifications ^{2/}	All other officers below the rank of SVP ^{3/}	Compliance Officer
c. Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the director concerned	a. Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the officer concerned			□ Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the officer concerned
□ For independent directors, certification under oath that he/she is an independent director as defined in BSP regulations				
□ For re-elected directors, Secretary's Certificate on the attendance by the director concerned to the board meetings held for the last twelve (12) months covering the term of service, indicating percentage of attendance to board meetings	□ Brief description of his/her duties and responsibilities	□ Brief description of his/her duties and responsibilities		□ Brief description of his/her duties and responsibilities
	□ Alien Employment Permit issued by the Department of Labor and Employment for foreigners appointed as officers			□ Alien Employment Permit issued by the Department of Labor and Employment for foreigners appointed as officers

(As amended by Circular No. 758 dated 11 May 2012)

^{1/} Including those exempted from the required BSP confirmation as provided in Subsec. X141.4/4141Q.4 of the MORB/MORNBFI and Sections 4901N- 4999N for trust corporations.

^{2/} E.g., Internal Auditor, Security Officer, Head/In-Charge of E/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs),

^{3/} No documentary requirements to be submitted to the BSP

LIST OF DOCUMENTARY REQUIREMENTS
APPROVAL OF THE APPOINTMENT OF TRUST AND COMPLIANCE OFFICERS OF BANKS
(Appendix to Subsecs. X180.2 and X406.10)

(Superseded by Circular Nos. 766 dated 17 August 2012 and 758 dated 11 May 2012 ; See Appendix 98)

Deadline : Within ten (10) banking days from
approval of the board of directors
Submission: Appropriate Department of SES

CERTIFICATION ON REAL ESTATE/CHattel TRANSACTIONS
With Director(s), Officer(s), Stockholders(s)
(Appendix to Subsec. X148.1)

(Name of Bank)

We hereby certify that the real estate/chattel transaction(s) entered into by the (name of bank) with its DOSRI and employees as described in Schedule 1 was made in accordance with the provisions of Section X148 of the MORB and its corresponding Subsections. In particular, we certify that:

- 1. The transactions were approved by a majority of the (name of bank)'s board of directors, excluding the director(s) concerned [in case of transactions involving the director(s) or his related interest(s)], in a (specify whether regular/special) meeting held on (specify date of board meeting) for such purpose as stated therein;
- 2. A certified true copy of said approval as manifested in a resolution passed by the board of directors is attached as Annex A;
- 3. The reported transaction have been thoroughly reviewed and verified as having been entered into in the best interest of the bank; and
- 4. The records and underlying documents supporting such transactions are adequately maintained and shall be (a) made available for inspection by BSP examiners, and (b) submitted upon request of the appropriate department of the SES.

Signature above Printed Name
Director

Signature above Printed Name
Director

Signature above Printed Name
Director

Signature above Printed Name
Director

Signature above Printed Name
Director

(include additional signatories, if necessary)

Date

SUBSCRIBED and SWORN to before me, this day of , with affiant(s) exhibiting his/her valid identification as indicated below:

<u>Names</u>	<u>Government ID/ Passport No.</u>	<u>Date/Place of Issue</u>
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Doc. No. _____	<u>Notary Public</u>
Page No. _____	
Book No. _____	
Series of _____	

(Circular No. 737 dated 19 September 2011)

**DOCUMENTS REQUIRED UNDER THE
REVISED OUTSOURCING FRAMEWORK FOR BANKS
(Appendix to Sec. X162.6)**

1. A comprehensive policy on outsourcing duly approved by the board of directors of the bank.

2. Service level agreement of contract between the bank and the service provider, which shall, at a minimum, include all of the following:

a. Complete description of the work to be performed or services to be provided;

b. Fee structure;

c. Provisions governing amendment and pretermination of contract;

d. Responsibility, fines, penalties and accountability of the service provider for errors, omissions and frauds;

e. Confidentiality clause covering all data and information; solidarity liability of service provider and bank for any violation of R.A. No. 1405, (the Bank Deposits Secrecy Law) actions that the bank may take against the service provider for breach of confidentiality or any form of disclosure of confidential information; and the applicable penalties;

f. Segregation of the data of the bank from that of the service provider and its other clients;

g. Disaster recovery/business continuity contingency plans and procedures;

h. Guarantee that the service provider will provide necessary levels of transition assistance if the bank decides to convert to other service providers or other arrangements;

i. Access to the financial information of the service provider;

j. Access of internal and external auditors to information regarding the outsourced activities/ services which they need to fulfill their respective responsibilities;

k. Access of Bangko Sentral to the operations of the service provider in order to review the same in relation to the outsourced activities/ services;

l. Provision which requires the service provider to immediately take the necessary corrective measures to satisfy the findings and

recommendations of Bangko Sentral examiners and those of the internal and/or external auditors of the bank and/or the service provider;

m. Remedies for the bank in the event of change of ownership, assignment, attachment of assets, insolvency, or receivership of the service provider; and

n. Provision allowing the bank to cancel the contract by contractual notice of dismissal or extraordinary notice of cancellation if so required by the Bangko Sentral.

Additional Requirements for IT outsourcing:

o. Provisions regarding on-line communication availability, transmission line security, and transaction authentication;

p. Responsibilities regarding hardware, software and infrastructure upgrades;

q. Mandatory notification by the service provider of all systems changes that will affect the bank;

r. Details of all security procedures and standards;

s. Adequate insurance for fidelity and fire liability; and

t. Ownership/maintenance of the computer hardware, software (program source code), user and system documentation, master and transaction data files.

3. Secretary's certificate on the minutes of meeting of the board of directors of the bank (or a local/regional management committee, in case of foreign banks), explicitly approving the activity to be outsourced, the determination of whether an outsourcing arrangement is considered material or non-material and the specific service provider with which the bank is entering into an outsourcing contract;

4. Profile of the selected service provider; and

5. A central record of all outsourcing arrangements which shall be periodically updated and shall form part of the corporate governance reviews undertaken by the bank.

(Circular No. 764 and 765 dated 03 August 2012)
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