



MANUAL OF REGULATIONS

FOR **B**BANKS

Volume 1



FOREWORD

The Manual of Regulations for Banks (MORB) is designed to be an authoritative codification of regulations governing banks which are all under the supervision of the Bangko Sentral ng Pilipinas.

Prepared by the Committee on the Updating of the Manual of Regulations for Banks and Non-Bank Financial Institutions, the MORB methodically and logically organizes the rules and policy issuances that implement the broader provisions of Republic Act No. 8791, also known as the General Banking Law of 2000, as well as other pertinent banking laws.

Principally, the MORB fosters adherence to banking standards that are ultimately aimed at strengthening the country's financial system stability.

While the MORB was designed to guide the operations of banks in the Philippines, it may also serve as a useful reference material for any individual, institution or agency with interest in the domestic banking system.

To keep pace with the developments in the financial markets, the MORB is constantly updated to incorporate domestic financial sector reforms, as well as the latest international standards and best practices, which are embodied in Bangko Sentral issuances as these affect the banking business.

This edition covers rules and regulations cumulatively issued as of December 2014.


AMANDO M. TETANGCO, JR.
Governor

5 November 2015

PREFACE

Manual of Regulations for Banks

The 2014 Manual of Regulations for Banks (MORB) is the latest edition from the initial issuance in 1996. The updates consist of the banking legislative reforms and its implementing rules and regulations and amendments to existing policies. It shall serve as the **principal source** of banking regulations issued by the Monetary Board and the Governor of the Bangko Sentral and shall be cited **as the authority** for enjoining compliance with the rules and regulations embodied therein.

The Monetary Board of the Bangko Sentral, in its Resolution No. 1203 dated 07 December 1994, directed the creation of a multi-departmental Ad Hoc Review Committee with representatives from the Supervision and Examination Sector (SES) and Office of the General Counsel and Legal Services (OGCLS). The Committee was officially constituted under Office Order No. 2 series of 1995 and was reconstituted several times thereafter, the latest of which was Office Order No. 0458 dated 21 June 2013. Under the aforesaid Office Order, the Committee is tasked to update the Manuals on a continuing basis to:

1. Incorporate relevant issuances;
2. Propose revisions/amendments/deletions of provisions which have become obsolete, redundant, irrelevant or inconsistent with laws/rules and regulations;
3. Reformulate provisions as the need arises; and
4. Oversee the publication and printing of the MORB in coordination with the Economic and Financial Learning Center and Corporate Affairs Office.

The present Committee, as reconstituted under Office Order No. 0458 dated 21 June 2013 is composed of:

| | | |
|---------------|---|---|
| Adviser | - | Nestor A. Espenilla Jr. Deputy Governor Supervision and Examination Sector |
| Chairman | - | Judith E. Sungsai Director Office of Supervisory Policy Development (OSPD) |
| Vice Chairman | - | Atty. Ma. Loretta S. Esquivias-Conlu Deputy Director OGCLS |

Members:

| | |
|--|--|
| Ma. Belinda G. Caraan Director Integrated Supervision Department (ISD) I | Betty Christine C. Bunyi Officer-In-Charge Central Point of Contact Department (CPCD) I |
| Ma. Corazon T. Alva Deputy Director Examination Department (ED) II | Andrea A. Vitangcol Deputy Director OSPD |
| Atty. Florabelle S. Madrid Deputy Director CPCD I | Atty. Asma A. Panda Legal Officer IV OGCLS |
| Lucila F. Ocampo Manager ISD I | Celedina P. Garbosa Manager CPCD I |
| Atty. Lord Eileen S. Tagle Legal Officer III OGCLS | Amelia B. Damian Bank Officer IV OSPD |
| Concepcion A. Garcia Bank Officer IV ED III | Atty. Ma. Corazon Bilgera-Cordero Bank Officer III Anti-Money Laundering Specialist Group (AMLSG) |

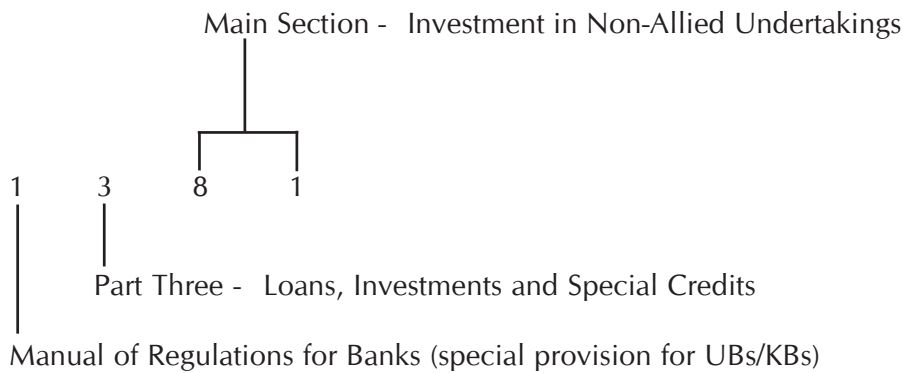
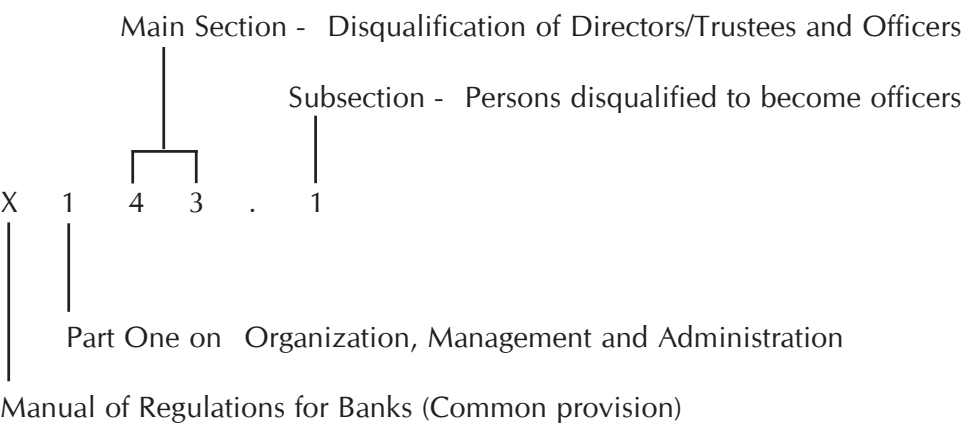
The Committee Secretariat is headed by Ms. Ma. Cecilia U. Contreras, Supervision and Examination (SE) Specialist II, OSPD, and is assisted by Maria Evette T. Santos, SE Analyst II, OSPD, and two (2) other personnel.

The Bangko Sentral ng Pilipinas

INSTRUCTIONS TO USERS
(2014 Edition)

The Manual of Regulations for Banks (the Manual) is divided into nine (9) Parts. For provisions common to all types of banks, the sections and subsections of each part is prefixed by the letter X . Special provisions do not contain the prefix X but instead, the section/subsection applicable only to universal/commercial banks (UBs/KBs), thrift banks (TBs) and rural banks (RBs) and cooperative banks (Coop Banks) are indicated by the first digit showing the numbers 1, 2, and 3 applicable to said banks, respectively. The second digit refers to the Part of the Manual. The third and fourth digits refer to the section number of the Part while the number/s after the decimal point, if any, refer to the subsection.

Thus, to illustrate, Subsection X143.1 and Section 1381 would indicate



The runners in the upper-right or left hand corners of each page show the sections/subsections and the cut-off date of the regulatory issuances included in the page of the Manual where the runner is shown.

MANUAL OF REGULATIONS FOR BANKS

TABLE OF CONTENTS

POWER OF THE BANGKO SENTRAL TO EXAMINE BANKS

Examination by the Bangko Sentral

PART ONE - ORGANIZATION, MANAGEMENT AND ADMINISTRATION

A. CLASSIFICATIONS AND POWERS OF BANKS

| | | |
|---------|--------|--|
| SECTION | X101 | Classifications, Powers and Scope of Authorities of Banks |
| | 1101.1 | (Reserved) |
| | 2101.1 | Authority of thrift banks to issue foreign letters of credit and pay/accept/negotiate import/export drafts/bills of exchange |
| | 2101.2 | Application for authority to issue foreign letters of credit and pay/accept/negotiate import/export drafts/bills of exchange |

B. ESTABLISHMENT AND ORGANIZATION

| | | |
|---------|--------|--|
| SECTION | X102 | Basic Guidelines in Establishing Banks |
| | X102.1 | Prerequisites for the grant of a universal banking authority |
| | X102.2 | Suspension of the grant of new banking licenses or the establishment of new banks |
| | X102.3 | Partial lifting of general moratorium on the licensing of new thrift banks and rural banks |
| | X102.4 | Conditions for the grant of authority to convert into a lower category |
| | X102.5 | Conversion of microfinance-oriented thrift banks/rural banks |
| SECTION | X103 | Certificate of Authority to Register |
| SECTION | X104 | Business Name |
| | X104.1 | Bank advertisements |

| | | |
|---------|---------|---|
| SECTION | X105 | Liberalized Entry and Scope of Operations of Foreign Banks |
| | X105.1 | Modes of entry of foreign banks |
| | X105.2 | Qualification requirements |
| | X105.3 | Guidelines for selection |
| | X105.4 | Capital requirements of foreign banks |
| | X105.5 | Prescribed ratio of "Net Due to" account (<i>Deleted by Circular No. 858 dated 21 November 2014</i>) |
| | X105.6 | Risk-based capital for foreign bank branch |
| | X105.7 | Head office guarantee |
| | X105.8 | Scope of authority for locally incorporated subsidiaries of foreign banks as well as branches with full banking authority |
| | X105.9 | Control of the resources of the banking system |
| | X105.10 | Change from one mode of entry to another |
| | X105.11 | Listing of shares with the Philippine Stock Exchange (<i>Deleted by Circular No. 858 dated 21 November 2014</i>) |
| | X105.12 | Equal treatment |

SECTIONS X106 - X107 (Reserved)

C. MERGER AND CONSOLIDATION

| | | |
|---------|--------|---|
| SECTION | X108 | Merger or Consolidation to Meet Minimum Capital |
| | X108.1 | Requirement of Bangko Sentral approval |
| | X108.2 | Rules on exchange of shares |
| | X108.3 | Merger or consolidation incentives |
| | 1108.3 | (Reserved) |
| | 2108.3 | (Reserved) |
| | 3108.3 | Regulatory relief under the strengthening program for RBs (SPRB) |
| | X108.4 | SPRB Plus and Strengthening Program for Cooperative Banks (SPCB) Plus |

SECTIONS X109 - X110 (Reserved)

D. CAPITALIZATION

| | | |
|---------|--------|---|
| SECTION | X111 | Minimum Required Capital |
| | X111.1 | Minimum capitalization |
| | X111.2 | Capital build-up program (<i>Deleted by Circular No. 696 dated 29 October 2010</i>) |
| | X111.3 | Memorandum of Understanding; Prompt Corrective Action Program; Sanctions (<i>Deleted by Circular No. 696 dated 29 October 2010</i>) |

| | | |
|----------|-------------|---|
| | X111.4 | Guidelines on proposed investment from third party investors (TPIs) for purposes of complying with the minimum capital requirements |
| SECTIONS | X112 - X114 | (Reserved) |

E. RISK-BASED CAPITAL

| | | |
|---------|-----------------|---|
| SECTION | X115 | Basel III Risk-Based Capital |
| | X115.1 | Scope |
| | X115.2 | (Reserved) |
| | 1115.2 | Market risk capital requirement |
| | 2115.2 | (Reserved) |
| | 3115.2 | (Reserved) |
| | X115.3 | Capital treatment of exposures/investments in certain products |
| | X115.4 | Required reports |
| | X115.5 | Domestic systemically important banks |
| | X115.6 - X115.8 | (Reserved) |
| | X115.9 | Sanctions |
| SECTION | X116 | Basel I Risk-Based Capital (<i>Deleted by Circular No. 827 dated 28 February 2014</i>) |
| | X116.1 | Scope (<i>Deleted by Circular No. 827 dated 28 February 2014</i>) |
| | X116.2 | Qualifying capital (<i>Deleted by Circular No. 827 dated 28 February 2014</i>) |
| | X116.3 | Risk-weighted assets (<i>Deleted by Circular No. 827 dated 28 February 2014</i>) |
| | X116.4 | Definitions (<i>Deleted by Circular No. 827 dated 28 February 2014</i>) |
| | X116.5 | Required reports (<i>Deleted by Circular No. 827 dated 28 February 2014</i>) |
| | X116.6 | Sanctions (<i>Deleted by Circular No. 827 dated 28 February 2014</i>) |
| | X116.7 | Temporary relief (<i>Deleted by Circular No. 827 dated 28 February 2014</i>) |
| SECTION | X117 | Internal Capital Adequacy Assessment Process and Supervisory Review Process |
| SECTION | X118 | Revised Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks |

F. CAPITAL INSTRUMENTS

| | | |
|----------|-------------------|---|
| SECTION | X119 | Unsecured Subordinated Debt |
| | X119.1 | Minimum features of unsecured subordinated debt |
| | X119.2 | Prior Bangko Sentral approval |
| | X119.3 | Pre-qualification requirements of issuing bank |
| | X119.4 | Public issuance of unsecured subordinated debt |
| | X119.5 | Private or negotiated issuance of unsecured subordinated debt |
| | X119.6 | Issuance abroad of unsecured subordinated debt |
| | X119.7 | Qualified investors/buyers |
| | X119.8 | Prohibitions on holdings of unsecured subordinated debt |
| | X119.9 | Accounting treatment |
| | X119.10 - X119.12 | (Reserved) |
| | X119.13 | Sanctions |
| SECTION | X120 | Interim Tier 1 Capital for Banks Under Rehabilitation |
| SECTIONS | X121 - X125 | (Reserved) |

G. STOCK, STOCKHOLDERS AND DIVIDENDS

| | | |
|---------|-----------------|--|
| SECTION | X126 | Shares of Stock of Banks |
| | X126.1 | Limits of stockholdings in a single bank |
| | X126.2 | Transactions involving voting shares of stocks |
| | X126.3 | Other foreign equity investment in domestic banks |
| | X126.4 | Convertibility of preferred stock to common stock |
| | X126.5 | Issuance of redeemable shares: conditions; certification and report; sanctions |
| | X126.6 | Stock options/warrants |
| | X126.7 - X126.9 | (Reserved) |
| | X126.10 | Dealings with stockholders and their related interests |
| SECTION | X127 | (Reserved) |
| SECTION | 1127 | Shares of Stock of Universal/Commercial Banks |
| | 1127.1 | Limits on stockholdings in several banks |
| | 1127.2 - 1127.5 | (Reserved) |
| SECTION | 2127 | Shares of Stock of Thrift Banks |
| | 2127.1 | Moratorium on ownership ceilings |
| | 2127.2 | Preferred shares |
| | 2127.3 - 2127.5 | (Reserved) |

| | | |
|----------|-------------|---|
| SECTION | 3127 | Shares of Stock of Rural Banks and Cooperative Banks |
| | 3127.1 | Moratorium on ownership ceiling |
| | 3127.2 | Government-held shares |
| | 3127.3 | Limits on stockholdings in several rural banks |
| | 3127.4 | Convertibility of preferred stock to common stock |
| | 3127.5 | Guidelines for selection |
| SECTION | X128 | Deposits for Stock Subscription |
| SECTIONS | X129 - X135 | (Reserved) |
| SECTION | X136 | Dividends |
| | X136.1 | Definitions |
| | X136.2 | Requirements on the declaration of dividends |
| | X136.3 | Net amount available for dividends |
| | X136.4 | Reporting and verification |
| | X136.5 | Recording of dividends |
| | X136.6 | Issuance of fractional shares |
| SECTION | X137 | (Reserved) |
| SECTION | 1137 | (Reserved) |
| SECTION | 2137 | (Reserved) |
| SECTION | 3137 | Limitations/Amount Available on Dividends Declared by Rural Banks and Cooperative Banks |
| | 3137.1 | Dividends on government shares |
| SECTIONS | X138 - X140 | (Reserved) |

H. DIRECTORS, OFFICERS AND EMPLOYEES

| | | |
|---------|--------|--|
| SECTION | X141 | Definition; Qualifications; Powers/Responsibilities and Duties of Board of Directors; Confirmation of the Election/ Appointments of Directors and Officers; Place of Board of Directors Meeting; Reports Required; Sanctions |
| | X141.1 | Definition/limits |
| | X141.2 | Qualifications of a director |
| | X141.3 | Powers/responsibilities and duties of directors |
| | X141.4 | Confirmation of the election/appointment of directors/officers |
| | X141.5 | Place of board of directors meeting |

| | | |
|---------|-----------------|---|
| | | X141.6 - X141.8 (Reserved) |
| | | X141.9 Certifications required |
| | | X141.10 Sanctions |
| SECTION | X142 | Definition; Qualifications; and Duties and Responsibilities of Officers |
| | X142.1 | Definition of officers |
| | X142.2 | Qualifications of an officer |
| | X142.3 | Duties and responsibilities of officers |
| | X142.4 | Appointment of officers <i>(Deleted by Circular No. 758 dated 11 May 2012)</i> |
| SECTION | X143 | Disqualification and Watchlisting of Directors and Officers |
| | X143.1 | Persons disqualified to become directors |
| | X143.2 | Persons disqualified to become officers |
| | X143.3 | Effect of non-possession of qualifications or possession of disqualifications |
| | X143.4 | Disqualification procedures |
| | X143.5 | Watchlisting |
| SECTION | X144 | Bio-data of Directors and Officers |
| SECTION | X145 | Interlocking Directorships and/or Officerships |
| | X145.1 | Representatives of government |
| SECTION | X146 | Profit Sharing Programs |
| SECTION | X147 | Compensation and Other Benefits of Directors and Officers |
| SECTION | 1147 | (Reserved) |
| SECTION | 2147 | (Reserved) |
| SECTION | 3147 | Bonding/Training of Directors, Officers and Employees |
| SECTION | X148 | Real Estate and Chattel Transactions with DOSRI and Employees |
| | X148.1 | Certification on real estate/chattel transactions with DOSRI and employee(s) |
| | X148.2 - X148.8 | (Reserved) |
| | X148.9 | Sanctions |
| SECTION | X149 | Conducting Business in an Unsafe/Unsound Manner |
| | X149.1 - X149.7 | (Reserved) |

| | | | |
|---------|------|--|---|
| | | X149.8 | Reportorial requirement |
| | | X149.9 | Sanctions |
| SECTION | X150 | Rules of Procedure on Administrative Cases Involving Directors and Officers of Banks | |
| | | I. BANKING OFFICES | |
| SECTION | X151 | Establishment/Relocation/Voluntary Closure/Sale of Branches | |
| | | X151.1 | Prior Monetary Board approval |
| | | X151.2 | Prerequisites for the grant of authority to establish a branch |
| | | X151.3 | Application for authority to establish branches |
| | | X151.4 | Branching guidelines |
| | | X151.5 | Branch processing and special licensing fee |
| | | X151.6 | Establishment of other banking offices |
| | | X151.7 | Opening of banking offices |
| | | X151.8 | Requirements for opening a branch/other banking office |
| | | X151.9 | Relocation of branches/other banking offices |
| | | X151.10 | Temporary closure, permanent closure and surrender of branch/other banking office license, and sale/acquisition of branches/other banking offices |
| | | X151.11 | Relocation/transfer of branch licenses of closed banks |
| | | X151.12 | Sanctions |
| | | X151.13 - X151.18 (Reserved) | |
| | | X151.19 | Teller booths |
| SECTION | X152 | Relocation of Head Offices | |
| | | X152.1 | Sanctions |
| SECTION | X153 | Establishment of Sub-Branches of Foreign Bank Branches | |
| | | X153.1 | Application for authority to establish sub-branches |
| | | X153.2 | Requirements for establishment of sub-branches |
| | | X153.3 | Date of opening |
| | | X153.4 | Requirements for opening a sub-branch |
| | | X153.5 | Limitations on establishment of sub-branches |
| | | X153.6 | Sanctions |
| SECTION | X154 | Establishment of Offices Abroad | |
| | | X154.1 | Application for authority to establish an office abroad |
| | | X154.2 | Requirements for establishing an office abroad |
| | | X154.3 | Conditions attached to the approved application |
| | | X154.4 | Date of opening |

| | | | |
|---------|------|-----------------|---|
| | | X154.5 | Requirements for opening an office abroad |
| | | X154.6 | Sanctions |
| | | X154.7 - X154.8 | (Reserved) |
| | | X154.9 | Establishment of a foreign subsidiary by a bank subsidiary |
| SECTION | X155 | | Mobile Foreign Exchange Booth; Off-Site Automatic Multi-Currency Money Changers |
| | | X155.1 | Mobile foreign exchange booths |
| | | X155.2 | Off-site automatic multi-currency money changers |

J. BANKING DAYS AND HOURS

| | | | |
|----------|-------------|--------|--|
| SECTION | X156 | | Banking Days and Hours |
| | | X156.1 | Banking hours beyond the minimum; banking services during holidays |
| | | X156.2 | Report of, and changes in, banking days and hours |
| | | X156.3 | Posting of schedule of banking days and hours |
| SECTIONS | X157 - X159 | | (Reserved) |

K. BANKING PREMISES

| | | | |
|---------|------|-----------------|--|
| SECTION | X160 | | Bank Premises and Other Fixed Assets |
| | | X160.1 | Appreciation or increase in book value |
| | | X160.2 | Ceiling on total investments |
| | | X160.3 | Reclassification of real and other properties acquired to bank premises, furniture, fixture and equipment; Sanctions |
| | | X160.4 - X160.9 | (Reserved) |
| | | X160.10 | Batas Pambansa Blg. 344 - An Act to Enhance the Mobility of Disabled Persons by Requiring Certain Buildings, Institutions, Establishments and Public Utilities to Install Facilities and Other Devices |
| | | X160.11 | Republic Act No. 9994 - An Act Granting Additional Benefits and Privileges to Senior Citizens, Further Amending Republic Act No. 7432 of 1992 as Amended by Republic Act No. 9257 of 2003 |

L. MANAGEMENT CONTRACTS AND OUTSOURCING OF BANKING FUNCTIONS

| | | | |
|---------|------|--|---------------------------------------|
| SECTION | X161 | | Management Contracts |
| SECTION | X162 | | Statement of Principle on Outsourcing |

| | | |
|--|---------|---|
| | X162.1 | Governance in all case of outsourcing of banking functions |
| | X162.2 | Prohibition against outsourcing of inherent banking functions |
| | X162.3 | Definition |
| | X162.4 | Managing outsourcing-related risks |
| | X162.5 | Authority to outsource |
| | X162.6 | Documentations |
| | X162.7 | Intra-group outsourcing |
| | X162.8 | Offshore outsourcing |
| | X162.9 | Service providers |
| | X162.10 | Transitory provision |
| | X162.11 | Penalties |

SECTIONS X163 - X171 (Reserved)

M. BANK OFFICES AS OUTLET OF FINANCIAL PRODUCTS OF ALLIED UNDERTAKINGS/INVESTMENT HOUSE

| | | |
|---------|---------|---|
| SECTION | X172 | Statement of Principles |
| | X172.1 | Definition |
| | X172.2 | Financial products |
| | X172.3 | Governance |
| | X172.4 | Minimum documentary requirements |
| | 1172.4 | Financial ratios and other related requirements |
| | X172.5 | Fair and balanced view of the product |
| | X172.6 | Cross-selling of collective investment schemes and its suitability to customers |
| | X172.7 | Financial product providers |
| | 1172.7 | Training <i>(Deleted by Circular No. 801 dated 27 June 2013)</i> |
| | X172.8 | Authority to cross-sell |
| | 1172.8 | Other requirements <i>(Deleted by Circular No. 801 dated 27 June 2013)</i> |
| | X172.9 | Complaints handling |
| | X172.10 | Sanctions |
| SECTION | 2172 | Marketing, Sale and Servicing of Microinsurance Products by Thrift Banks |
| SECTION | 3172 | Marketing, Sale and Servicing of Microinsurance Products by Rural and Cooperative Banks |

N. RISK MANAGEMENT

| | | |
|---------|------|---|
| SECTION | X173 | Supervision by Risks |
| SECTION | X174 | Risk Management Function |
| | | X174.1 Chief Risk Officer (CRO) |
| SECTION | X175 | Market Risk Management |
| SECTION | X176 | Liquidity Risk Management |
| SECTION | X177 | Information Technology Risk Management (ITRM) |
| | | X177.1 Declaration of policy |
| | | X177.2 Purpose and scope |
| | | X177.3 Complexity of IT risk profile |
| | | X177.4 IT rating system |
| | | X177.5 Definition of terms |
| | | X177.6 Description of IT-related risks |
| | | X177.7 IT Risk Management Systems (ITRMS) |
| | | X177.8 Reports |
| | | X177.9 Sanctions and penalties |
| SECTION | X178 | Credit Risk Management; Statement of Policy |
| | | X178.1 Evaluation of credit risk management system |
| | | A. Establishing an Appropriate Credit Risk Environment |
| | | X178.2 Role of the board and senior management |
| | | X178.3 Credit risk management structure |
| | | X178.4 Credit risk strategy |
| | | X178.5 Credit policies, process and procedure |
| | | B. Operating Under a Sound Credit Granting Process |
| | | X178.6 Credit approval process |
| | | X178.7 Credit granting and loan evaluation/analysis process |
| | | and underwriting standards |
| | | X178.8 Renewal or extension of maturity date of credits |
| | | X178.9 Credit limits, large exposures, and credit risk |
| | | concentrations |
| | | X178.10 Country and transfer risks |
| | | X178.11 Credits granted to related parties |
| | | C. Maintaining an Appropriate Credit Administration, |
| | | Measurement and Monitoring Process |
| | | X178.12 Credit administration |
| | | X178.13 Credit risk measurement, validation and stress |
| | | testing |

| | | | |
|----------|-------------|--|--|
| | | X178.14 | Credit risk management information and reporting systems |
| | | X178.15 | Credit monitoring |
| | | D. Maintaining an Appropriate Credit Control Process | |
| | | X178.16 | Credit review process |
| | | X178.17 | Credit classification and provisioning |
| | | X178.18 | Credit workout and remedial management of problem credits |
| | | X178.19 | Writing off problem credits |
| | | X178.20 | Enforcement actions |
| | | X179 | (Reserved) |
| SECTION | X180 | Compliance System; Compliance Officer | |
| | | X180.1 | Definition of business risk |
| | | X180.2 | Status of the compliance functions |
| | | X180.3 | Compliance system |
| | | X180.4 | Chief Compliance Officer (CCO) |
| | | X180.5 | Responsibilities of the board of directors and senior management on compliance |
| | | X180.6 | Cross-border compliance issues |
| | | X180.7 | Outsourcing of compliance risk assessment and testing |
| SECTION | X181 | Bank Protection | |
| | | X181.1 | Objectives |
| | | X181.2 | Designation of a chief security officer |
| | | X181.3 | Qualifications and responsibilities of the CSO |
| | | X181.4 | Security program |
| | | X181.5 | Minimum security measures |
| | | X181.6 | Reports |
| | | X181.7 | Bangko Sentral inspection |
| | | X181.8 | Sanctions |
| SECTIONS | X182 - X184 | (Reserved) | |
| SECTION | X185 | Internal Control System | |
| | | X185.1 | Proper accounting records |
| | | X185.2 | Independent balancing |
| | | X185.3 | Division of duties and responsibilities |
| | | X185.4 | Joint custody |
| | | X185.5 | Signing authorities |
| | | X185.6 | Dual control |
| | | X185.7 | Number control |

| | | | |
|----------|-------------|--|---|
| | | X185.8 | Rotation of duties |
| | | X185.9 | Independence of the internal auditor |
| | | X185.10 | Confirmation of accounts |
| | | X185.11 | Other internal control standards |
| | | X185.12 | Internal control procedures for dormant/inactive accounts |
| SECTION | X186 | Internal Audit Function | |
| | | X186.1 | Independence of internal audit function |
| | | X186.2 | Scope |
| | | X186.3 | Qualification standards of the internal auditor |
| | | X186.4 | Code of Ethics and Internal Auditing Standards |
| SECTIONS | X187 - X188 | (Reserved) | |
| SECTION | X189 | Selection, Appointment, Reporting Requirements and Delisting of External Auditors and/or Auditing Firm; Sanctions; Effectivity | |
| SECTION | X190 | Audited Financial Statements of Banks | |
| | | X190.1 | Financial audit |
| | | X190.2 | Posting of audited financial statements |
| | | X190.3 | Disclosure of external auditor's adverse findings to the Bangko Sentral; sanction |
| | | X190.4 | Disclosure requirement in the notes to the audited financial statements |
| | | X190.5 | Disclosure requirements in the annual report |
| | | X190.6 | Posting and submission of annual report |
| SECTION | X191 | Records | |
| | | X191.1 | Adoption of the Manual of Accounts |
| | | X191.2 | Financial Reporting Package |
| | | X191.3 | Philippine Financial Reporting Standards/Philippine Accounting Standards |
| | | X191.4 - X191.9 | (Reserved) |
| | | 1191.9 | (Reserved) |
| | | 2191.9 | (Reserved) |
| | | 3191.9 | Retention and disposal of records of rural/cooperative banks |
| SECTION | X192 | Reports | |
| | | X192.1 | Categories and signatories of bank reports |
| | | X192.2 | Sanctions in case of willful delay in the submission of reports/refusal to permit examination |
| | | X192.3 | Submission of certain required information |

| | |
|---------|--|
| X192.4 | Report on crimes/losses |
| X192.5 | Report on real estate/chattel transactions (<i>Deleted by Circular No. 737 dated 19 September 2011</i>) |
| X192.6 | Reconciliation of head office and branch transactions |
| X192.7 | List of stockholders and their stockholdings |
| X192.8 | Bangko Sentral offices, where reports are submitted |
| X192.9 | Publication/Posting of balance sheet |
| X192.10 | Consolidated financial statements of banks and their subsidiaries engaged in financial allied undertakings |
| X192.11 | Reports of other banking offices |
| X192.12 | Reports required of foreign subsidiaries/affiliates/ banking offices or non-bank entities of domestic banks |
| X192.13 | Report on cross-border financial positions |
| 1192.13 | Additional reports from UBs/KBs |
| 2192.13 | (Reserved) |
| 3192.13 | (Reserved) |
| X192.14 | Reports of strikes and lockouts |
| X192.15 | Report on the Sworn Statement on Real Estate/Chattel Transactions (<i>Deleted by Circular No. 737 dated 19 September 2011</i>) |
| X192.16 | Notarized contracts/agreements between banks and their related microfinance (MF) non-governmental organizations (NGO s)/foundations. |

O. PROMPT CORRECTIVE ACTION FRAMEWORK

| | | |
|---------|-------------|------------------------------------|
| SECTION | X193 | Prompt Corrective Action Framework |
| SECTION | X194 - X195 | (Reserved) |

P. LIQUIDATION AND RECEIVERSHIP

| | | |
|---------|-----------------|-------------------------------|
| SECTION | X196 | Voluntary Liquidation |
| | X196.1 | Prior Monetary Board approval |
| | X196.2 | Liquidation plan |
| | X196.3 - X196.7 | (Reserved) |
| | X196.8 | Final liquidation report |
| SECTION | X197 | (Reserved) |

| | | |
|---------|-----------------|-------------------------------------|
| SECTION | X198 | Insolvency or Receivership of Banks |
| | X198.1 | Definition of terms |
| | X198.2 | Prohibited acts |
| | X198.3 - X198.8 | (Reserved) |
| | X198.9 | Penalties and sanctions |

Q. GENERAL PROVISION ON SANCTIONS

| | | |
|---------|------|--------------------------------|
| SECTION | X199 | General Provision on Sanctions |
|---------|------|--------------------------------|

PART TWO - DEPOSIT AND BORROWING OPERATIONS

A. DEMAND DEPOSITS

| | | |
|----------|--------|---|
| SECTION | X201 | Authority to Accept or Create Demand Deposits |
| | X201.1 | Prerequisites to accept or create demand deposits for thrift banks/rural banks/cooperative banks |
| | X201.2 | Requirements for accepting demand deposits |
| | X201.3 | Sanctions |
| SECTION | X202 | Temporary Overdrawings; Drawings Against Uncollected Deposits |
| SECTION | X203 | Returned Checks |
| SECTION | X204 | Current Accounts of Bank Officers and Employees |
| SECTION | X205 | Check Clearing Rules for Banks Authorized to Accept Demand Deposits |
| SECTION | 1205 | (Reserved) |
| SECTION | 2205 | Check Clearing Rules for Thrift Banks Authorized to Accept Demand Deposits (<i>Deleted by Circular No. 825 dated 27 February 2014</i>) |
| SECTION | 3205 | Check Clearing Rules for Rural Banks Who Are Members of the Philippine Clearing House Corporation (<i>Deleted by Circular No. 825 dated 27 February 2014</i>) |
| SECTIONS | X206 | Clearing Operations |

SECTION X207 Check Clearing Operations During Public Sector Holidays

SECTIONS X208 - X212 (Reserved)

B. SAVINGS DEPOSITS

SECTION X213 Servicing Deposits Outside Bank Premises

SECTION X214 Withdrawals

SECTION X215 Rental Deposits of Lessees

SECTIONS X216 - X220 (Reserved)

SECTION X221 Peso Savings Deposit Accounts of Embassy Officials

SECTION X222 (Reserved)

C. NEGOTIABLE ORDER OF WITHDRAWAL ACCOUNTS

SECTION X223 Authority to Accept Negotiable Order of Withdrawal Accounts

X223.1 Prerequisites to accept negotiable order of withdrawal accounts for thrift banks/rural banks/cooperative banks

X223.2 Requirements for accepting negotiable order of withdrawal accounts

X223.3 Sanctions

SECTION X224 Rules on Servicing Negotiable Order of Withdrawal Accounts

SECTION X225 Minimum Features

SECTION X226 Clearing of Negotiable Order of Withdrawal Accounts

SECTIONS X227 - X230 (Reserved)

D. TIME DEPOSITS

SECTION X231 Term of Time Deposits

SECTION X232 Special Time Deposits

| | | |
|---------|-----------------|--|
| SECTION | X233 | Certificates of Time Deposits |
| | X233.1 | Prerequisites to issue negotiable certificates of time deposits for thrift banks/rural banks/cooperative banks |
| | X233.2 | Requirements for issuing negotiable certificates of time deposits |
| | X233.3 | Minimum features |
| | X233.4 | Insurance coverage |
| | X233.5 | Desistance from issuing new negotiable certificates of time deposits |
| | X233.6 | Sanctions |
| | X233.7 - X233.8 | (Reserved) |
| | X233.9 | Long-term negotiable certificates of time deposit |
| | X233.10 | (Reserved) |
| | X233.11 | Long-term non-negotiable tax-exempt certificates of time deposit |

E. DEPOSIT SUBSTITUTE OPERATIONS (QUASI-BANKING FUNCTIONS)

| | | |
|---------|------------------|---|
| SECTION | X234 | Scope of Quasi-Banking Functions |
| | X234.1 | Elements of quasi-banking |
| | X234.2 | Definition of terms and phrases |
| | X234.3 | Transactions not considered quasi-banking |
| | X234.4 | Pre-conditions for the exercise of quasi-banking functions |
| | X234.5 | Certificate of Authority from the Bangko Sentral |
| | X234.6 | Sale, discounting, assignment or negotiation by banks of their credit rights arising from claims against the BSP |
| SECTION | X235 | Deposit Substitute Instruments |
| | X235.1 | Prohibition against use of acceptances, bills of exchange and trust certificates |
| | X235.2 | Negotiation of promissory notes |
| | X235.3 | Minimum features |
| | X235.4 | Interbank loan transactions |
| | X235.5 | Delivery of securities |
| | X235.6 | Other rules and regulations governing the issuance and treatment of deposit substitute instruments |
| | X235.7 - X235.11 | (Reserved) |
| | X235.12 | Repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments |

| | | |
|---------|--------|---|
| SECTION | X236 | Minimum Trading Lot and Minimum Term of Deposit Substitute |
| SECTION | X237 | Money Market Placements of Rural Banks |
| | X237.1 | Definition of terms |
| | X237.2 | Conditions required on accepted placements not covered by prohibition |
| | X237.3 | Sanctions |
| SECTION | X238 | Without Recourse Transactions |
| | X238.1 | Delivery of securities |
| | X238.2 | Sanctions |
| | X238.3 | Securities custodianship operations |
| SECTION | X239 | Issuance of Bonds |
| | X239.1 | Definition of terms |
| | X239.2 | Compliance with Securities and Exchange Commission rules on registration of bond issues |
| | X239.3 | Notice to Bangko Sentral ng Pilipinas |
| | X239.4 | Minimum features |
| | X239.5 | Issuance of commercial papers |

F. GOVERNMENT DEPOSITS

| | | |
|---------|-------------------|--|
| SECTION | X240 | Statement of Policy |
| | X240.1 | Prior Monetary Board approval |
| | X240.2 | Banks which may accept government funds |
| | X240.3 | Prerequisites for the grant of authority to accept deposits from the Government and government entities |
| | X240.4 | Application for authority |
| | X240.5 | Limits on funds of the Government and government entities that may be deposited with banks |
| | X240.6 | Liquidity floor |
| | X240.7 | Exempt transactions |
| | X240.8 | Reports |
| | X240.9 | Sanctions |
| | X240.10 - X240.14 | (Reserved) |
| | X240.15 | Acceptance by banks with internet banking facility of payment of fees for account of government entities |
| SECTION | X241 | (Reserved) |

G. INTEREST

| | | |
|----------|-------------|--|
| SECTION | X242 | Interest on Deposits/Deposit Substitutes |
| | X242.1 | Time of payment of interest on time deposits/deposit substitutes |
| | X242.2 | Treatment of matured time deposits/deposit substitutes |
| SECTION | X243 | Disclosure of Effective Rates of Interest |
| SECTIONS | X244 - X252 | (Reserved) |

H. RESERVES AGAINST DEPOSIT AND DEPOSIT SUBSTITUTE LIABILITIES

| | | |
|----------|-----------------|--|
| SECTION | X253 | Accounts Subject to Reserves; Amounts Required |
| | X253.1 | Required reserves against deposit and deposit substitute liabilities |
| | X253.2 | Liquidity reserves (<i>Deleted by Circular No. 753 dated 29 March 2012</i>) |
| SECTION | X254 | Composition of Reserves |
| | X254.1 | Allowable drawings against reserves |
| | X254.2 | Exclusion of uncleared checks and other cash items |
| | X254.3 | Interest income on reserve deposits |
| | X254.4 | Book entry method for reserve securities |
| SECTION | X255 | Exemptions from Reserve Requirements |
| SECTION | X256 | Computation of Reserve Position |
| | X256.1 | Measurement of reserve requirement |
| | X256.2 - X256.4 | (Reserved) |
| | X256.5 | Guidelines in calculating and reporting to the Bangko Sentral the required reserves on deposit substitutes evidenced by repurchase agreements covering government securities |
| SECTION | X257 | Reserve Deficiencies; Sanctions |
| | X257.1 | Chronic reserve deficiency; penalties |
| | X257.2 | Failure to cover overdrawings with the Bangko Sentral |
| | X257.3 | Payment of penalties on reserve deficiencies |
| SECTION | X258 | Report on Compliance |
| SECTIONS | X259 - X260 | (Reserved) |

I. SUNDRY PROVISIONS ON DEPOSIT OPERATIONS

| | | |
|---------|--------|---|
| SECTION | X261 | Booking of Deposits and Withdrawals |
| | X261.1 | Clearing cut-off time |
| | X261.2 | Definitions |
| | X261.3 | Booking of cash deposits |
| | X261.4 | Booking of non-cash deposits |
| | X261.5 | Booking of deposits after regular banking hours |
| | X261.6 | Other records required |
| | X261.7 | Notice required |
| SECTION | X262 | Miscellaneous Rules on Deposits |
| | X262.1 | Specimen signatures, identification photos |
| | X262.2 | Insurance on deposits |
| | X262.3 | Certification of compliance with Subsection 55.4 of R.A. No. 8791 |
| SECTION | X263 | Service and Maintenance Fees |
| | X263.1 | Amendments to terms and conditions for the imposition of service charges/fees |
| SECTION | X264 | Unclaimed Balances |
| SECTION | X265 | Acceptance, Encashment or Negotiation of Checks Drawn in Favor of Commissioner/Collector of Customs |
| SECTION | X266 | Deposit Pick-up/Cash Delivery Services |
| | X266.1 | Operation of armored cars |
| SECTION | 1266 | (Reserved) |
| SECTION | 2266 | (Reserved) |
| SECTION | 3266 | Qualifying Criteria Before a Rural/Cooperative Bank Engages in Deposit Pick-up Services |
| SECTION | X267 | Automated Teller Machines |

J. BORROWINGS FROM THE BANGKO SENTRAL

| | | |
|---------|--------|------------------------------|
| SECTION | X268 | Rediscounting Line |
| | X268.1 | Credit Information System |
| | X268.2 | Application procedures |
| | X268.3 | Approval/Renewal of the line |
| | X268.4 | Amount of line |
| | X268.5 | Term of the line |

| | | |
|---------|---------|--|
| | | X268.6 - X268.9 (Reserved) |
| | | X268.10 Constitutional prohibition |
| SECTION | X269 | Rediscounting Availments |
| | X269.1 | Eligibility requirements at the time of availment |
| | X269.2 | Eligible papers and collaterals |
| | X269.3 | Loan availment procedures |
| | X269.4 | Loan value |
| | X269.5 | Maturities |
| | X269.6 | Rediscount/lending rates and liquidated damages |
| | X269.7 | Release of proceeds |
| | X269.8 | Repayments/remittance of collections/arrearages |
| | X269.9 | Prohibited transactions |
| | X269.10 | Monitoring and credit examination of borrowing banks |
| | X269.11 | Penalties/sanctions |
| | X269.12 | Interlocking directorship/officership |
| SECTION | X270 | Repurchase Agreements with the Bangko Sentral |
| SECTION | X271 | Bangko Sentral Liquidity Window |
| | X271.1 | Nature of liquidity window |
| | X271.2 | Terms of credit |
| | X271.3 | Limit |
| SECTION | X272 | Emergency Loans or Advances to Banking Institutions |
| | X272.1 | Nature of emergency loans or advances |
| | X272.2 | When an emergency loan or advance may be availed of |
| | X272.3 | Allowable amount of emergency loan or advance |
| | X272.4 | Application procedures |
| | X272.5 | Other documentary requirements |
| | X272.6 | Acceptable collaterals and their corresponding loan values |
| | X272.7 | Manner and conditions of release |
| | X272.8 | Interest rates, liquidated damages, and penalties |
| | X272.9 | General terms and conditions |
| | X272.10 | Maturity/Conditions for renewals |
| | X272.11 | Remittance of collections/repayments/arrearages |
| | X272.12 | Default |
| SECTION | X273 | Facility to Committed Credit Line Issuers |
| | X273.1 | Nature of special credit accommodations |
| | X273.2 | Conditions to access |

| | | | |
|----------|-------------|--|---|
| | | X273.3 | Terms of credit |
| | | X273.4 | Ceiling |
| SECTION | X274 | (Reserved) | |
| SECTION | 1274 | (Reserved) | |
| SECTION | 2274 | Countryside Financial Institutions Enhancement Program for Thrift Banks | |
| SECTION | 3274 | Countryside Financial Institutions Enhancement Program for Rural and Cooperative Banks | |
| SECTION | X275 | Recording and Reporting of Borrowings | |
| SECTION | X276 | Rediscounting Window for Low-Cost Housing as Defined by the Housing and Urban Development Coordinating Council | |
| SECTION | X277 | (Reserved) | |
| SECTION | 1277 | Rediscounting Window Available to All Universal and Commercial Banks for the Purpose of Providing Liquidity Assistance to Investment Houses | |
| SECTION | 2277 | Rediscounting Window Available to TBs for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs | |
| SECTION | 3277 | Rediscounting Window Available to Rural and Cooperative Banks for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs | |
| | | 3277. 1 | Eligibility requirements |
| | | 3277. 2 | Microcredit line |
| | | 3277. 3 | Terms and conditions |
| | | 3277. 4 | Documentary requirements |
| | | 3277. 5 | Remittance of collections/payments/repayments |
| | | 3277. 6 | Reports required |
| | | 3277. 7 | Accounts verification |
| | | 3277. 8 | Sanctions |
| SECTION | X278 | Enhanced Intraday Liquidity Facility | |
| SECTIONS | X279 - X280 | (Reserved) | |

K. OTHER BORROWINGS

| | | |
|----------|-------------|--|
| SECTION | X281 | Borrowings from the Government |
| | X281.1 | Exemption from reserve requirement |
| SECTION | X282 | Borrowings from Trust Departments or Investment Houses |
| SECTION | X283 | (Reserved) |
| SECTION | 1283 | (Reserved) |
| SECTION | 2283 | Mortgage/CHM Certificates of Thrift Banks |
| SECTION | 3283 | (Reserved) |
| SECTION | X284 | (Reserved) |
| SECTION | 1284 | (Reserved) |
| SECTION | 2284 | (Reserved) |
| SECTION | 3284 | Borrowings of Rural Banks/Cooperative Banks |
| SECTIONS | X285 - X298 | (Reserved) |
| SECTION | X299 | General Provision on Sanctions |

PART THREE - LOANS, INVESTMENTS AND SPECIAL CREDITS

| | | |
|---------|-----------------|---|
| SECTION | X301 | Lending Policies (Deleted by Circular No. 855 dated 29 October 2014) |
| | X301.1 | (Reserved) |
| | 1301.1 | Rules and regulations to govern the development and implementation of banks internal credit risk rating systems (Deleted by Circular No. 855 dated 29 October 2014) |
| | 2301.1 | (Reserved) |
| | 3301.1 | (Reserved) |
| | X301.2 - X301.5 | (Reserved) |
| | X301.6 | Large exposures and credit risk concentrations |
| SECTION | X302 | Loan Portfolio and Other Risk Assets Review System (Deleted by Circular No. 855 dated 29 October 2014) |
| | X302.1 | Provisions for losses; booking (Deleted by Circular No. 855 dated 29 October 2014) |

- X302.2 Sanctions (*Deleted by Circular No. 855 dated 29 October 2014*)
- X302.3 Regulatory relief for banks under rehabilitation program approved by the Bangko Sentral

A. LOANS IN GENERAL

| | | |
|---------|-------------------|---|
| SECTION | X303 | Credit Exposure Limits to a Single Borrower |
| | X303.1 | Definition of terms |
| | X303.2 | Rediscounted papers included in loan limit |
| | X303.3 | Credit risk transfer |
| | X303.4 | Exclusions from loan limit |
| | X303.5 | Sanctions |
| | X303.6 - X303.7 | (Reserved) |
| | X303.8 | Limit for wholesale lending activities of government banks |
| SECTION | X304 | Grant of Loans and Other Credit Accommodations |
| | X304.1 | Additional requirements |
| | X304.2 | Purpose of loans and other credit accommodations (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| | X304.3 | Prohibited use of loan proceeds |
| | X304.4 | Signatories |
| | X304.5 - X304.8 | (Reserved) |
| | X304.9 | Policies on loans to non-immigrants and embassy officials |
| | X304.10 | Minimum required disclosure |
| | X304.11 | Unfair collection practices |
| | X304.12 | Confidentiality of Information |
| | X304.13 - X304.14 | (Reserved) |
| | X304.15 | Sanctions |
| SECTION | X305 | Interest and Other Charges |
| | X305.1 | Rate of interest in the absence of stipulation |
| | X305.2 | Escalation clause; when allowable |
| | X305.3 | Floating rates of interest |
| | X305.4 | Accrual of interest earned on loans |
| | X305.5 | Method of computing interest |
| SECTION | X306 | Past Due Accounts |
| | X306.1 | Accounts considered past due |
| | X306.2 | Demand loans |

| | | | |
|---------|------|-----------------|--|
| | | X306.3 | Renewals/extensions (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| | | X306.4 | Restructured loans (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| | | X306.5 | Write-off of loans, other credit accommodations, advances and other assets as bad debts (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| | | X306.6 | Writing-off microfinance loans as bad debts (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| | | X306.7 | Updating of information provided to credit information bureaus |
| SECTION | X307 | | Truth in Lending Act Disclosure Requirement |
| | | X307.1 | Definition of terms |
| | | X307.2 | Information to be disclosed |
| | | X307.3 | Inspection of contracts covering credit transactions |
| | | X307.4 | Posters |
| | | X307.5 | Sanctions and penal provisions |
| SECTION | X308 | | Amortization on Loans and Other Credit Accommodations |
| SECTION | X309 | | Non-Performing Loans |
| | | X309.1 | Accounts considered non-performing; definitions |
| | | X309.2 - X309.3 | (Reserved) |
| | | X309.4 | Reporting requirement |
| | | X309.5 | Reportorial requirement |
| SECTION | X310 | | (Reserved) |

B. SECURED LOANS

| | | | |
|---------|------|--------|---|
| SECTION | X311 | | Secured Loans and Other Credit Accommodations |
| | | X311.1 | Loans secured by junior mortgage on real estate (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| | | X311.2 | (Reserved) |
| | | 1311.2 | (Reserved) |
| | | 2311.2 | (Reserved) |
| | | 3311.2 | Eligible real estate collaterals on rural/cooperative bank loans (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| | | X311.3 | Insurance on real estate improvements (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| | | X311.4 | Participation in foreclosure proceedings |
| | | 1311.4 | (Reserved) |

| | | | |
|----------|-------------|--|---|
| | | 2311.4 | Foreclosure by thrift banks |
| | | 3311.4 | Foreclosure by rural/cooperative banks |
| | | X311.5 | Redemption of foreclosed real estate mortgage |
| SECTION | X312 | Loans and Other Credit Accommodations Secured By Chattels and Intangible Properties (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) | |
| SECTION | X313 | Loans and Other Credit Accommodations Secured By Personal Properties (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) | |
| SECTION | X314 | Increased Loan Values and Terms of Loans for Home-Building (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) | |
| SECTION | X315 | Loans Secured by Certificates of Time Deposit (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) | |
| SECTIONS | X316 - X318 | (Reserved) | |

C. UNSECURED LOANS

| | | | |
|---------|------|--|--|
| SECTION | X319 | Loans Against Personal Security (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) | |
| | | X319.1 | General guidelines (<i>Deleted by Circular No. 622 dated 16 September 2008</i>) |
| | | X319.2 | Proof of financial capacity of borrower (<i>Deleted by Circular No. 622 dated 16 September 2008</i>) |
| | | X319.3 | Signatories (<i>Deleted by Circular No. 622 dated 16 September 2008</i>) |
| SECTION | X320 | Credit Card Operations; General Policy | |
| | | X320.1 | Definition of terms |
| | | X320.2 | Risk management system |
| | | X320.3 | Minimum requirements |
| | | X320.4 | Information to be disclosed |
| | | X320.5 | Interest accrual on past due loans |
| | | X320.6 | Method of computing interest |
| | | X320.7 | Finance charges |
| | | X320.8 | Deferral charges |
| | | X320.9 | Late payment/penalty fees |
| | | X320.10 | Confidentiality of information |

| | | | |
|---------|------|---------|---|
| | | X320.11 | Suspension, termination of effectivity and reactivation |
| | | X320.12 | Inspection of records covering credit card transactions |
| | | X320.13 | Offsets |
| | | X320.14 | Handling of complaints |
| | | X320.15 | Unfair collection practices |
| | | X320.16 | Sanctions and penal provisions |
| | | X320.17 | Submission of credit card business activity report |
| SECTION | X321 | | Salary Loans |
| | | X321.1 | Definition of terms |

D. RESTRUCTURED LOANS

| | | | |
|----------|-------------|--------|--|
| SECTION | X322 | | Restructured Loans; General Policy (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| | | X322.1 | Definition; when to consider performing/ non-performing (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| | | X322.2 | Procedural requirements (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| | | X322.3 | Restructured loans considered past due (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| | | X322.4 | Classification (<i>Deleted by Circular No. 855 dated 29 October 2014</i>) |
| SECTIONS | X323 - X325 | | (Reserved) |

E. LOANS AND OTHER CREDIT ACCOMMODATIONS TO DIRECTORS, OFFICERS, STOCKHOLDERS AND THEIR RELATED INTERESTS

| | | | |
|---------|------|-----------------|---|
| SECTION | X326 | | General Policy |
| | | X326.1 | Definitions |
| SECTION | X327 | | Transactions Covered |
| SECTION | X328 | | Transactions Not Covered |
| | | X328.1 | Applicability to credit card operations |
| | | X328.2 - X328.4 | (Reserved) |
| | | X328.5 | Loans, other credit accommodations and guarantees granted to subsidiaries and/or affiliates |
| SECTION | X329 | | Direct or Indirect Borrowings |

| | | |
|---------|------|---|
| SECTION | X330 | Individual Ceilings X330.1 Exclusions from individual ceiling |
| SECTION | X331 | Aggregate Ceiling; Ceiling on Unsecured Loans, Other Credit Accommodations and Guarantees |
| SECTION | X332 | Exclusions from Aggregate Ceiling |
| SECTION | X333 | Applicability to Branches and Subsidiaries of Foreign Banks |
| SECTION | X334 | Procedural Requirements |
| SECTION | X335 | Reportorial Requirements |
| SECTION | X336 | Sanctions |
| SECTION | X337 | Waiver of Secrecy of Deposit |
| SECTION | X338 | Financial Assistance to Officers and Employees X338.1 Mechanics X338.2 (Reserved) 1338.2 Funding by foreign banks 2338.2 (Reserved) 3338.2 (Reserved) X338.3 Other conditions/limitations |
| SECTION | X339 | Transitory Provisions X339.1 - X339.3 (Reserved) X339.4 Reportorial requirements |
| SECTION | X340 | Applicability of DOSRI Rules and Regulations to Government Borrowings in Govenment-Owned or -Controlled Banks |

F. MANDATORY CREDITS

| | | |
|---------|------|--|
| SECTION | X341 | Agriculture and Agrarian Reform Credit X341.1 Definition of terms X341.2 Qualified borrowers X341.3 Required allocation for agriculture and agrarian reform credit X341.4 Direct compliance X341.5 Allowable alternative compliance X341.6 Computation of loanable funds |
|---------|------|--|

| | | | |
|---------|------|-------------------|---|
| | | X341.7 | Computation of total equity |
| | | X341.8 | Accreditation of banks as rural financial institutions |
| | | X341.9 | Syndicated type of agrarian reform credit/agricultural credit |
| | | X341.10 | Interest and other charges |
| | | X341.11 | Submission of reports |
| | | X341.12 | Consolidated compliance |
| | | X341.13 - X341.14 | (Reserved) |
| | | X341.15 | Sanctions |
| SECTION | X342 | | Mandatory Allocation of Credit Resources to Micro, Small and Medium Enterprises |
| | | X342.1 | Definition of terms |
| | | X342.2 | Period covered; prescribed portions of loan portfolio to be allocated |
| | | X342.3 | Eligible credit exposures |
| | | X342.4 | Ineligible credit instruments |
| | | X342.5 | Rights/remedies available to lending institutions not qualified to acquire or hold lands of public domain |
| | | X342.6 | Submission of reports |
| | | X342.7 | Sanctions |
| | | X342.8 | Disposition of penalties collected |
| | | X342.9 - X342.14 | (Reserved) |
| | | X342.15 | Accreditation guidelines for Rural and Thrift Banks under the SME Unified Lending Opportunities for National Growth |

G. SPECIAL TYPE OF LOANS

| | | | |
|----------|-------------|--------|--|
| SECTION | X343 | | Interbank Loans |
| | | X343.1 | Systems and procedures for interbank call loan transactions |
| | | X343.2 | Accounting procedures |
| | | X343.3 | Settlement procedures for interbank loan transactions |
| SECTION | X344 | | Loans to Thrift/Rural/Cooperative Banks |
| | | X344.1 | Loans under Section 12 of R.A. No. 7353, Section 10 of R.A. No. 7906 and Article 102, R.A. No. 6038, as amended by R.A. No. 9520 |
| | | X344.2 | Loans under Section 14 of R.A. No. 7353 |
| SECTIONS | X345 - X346 | | (Reserved) |

| | | |
|----------|-------------|---|
| SECTION | X347 | Standby Letters of Credit |
| | X347.1 | Domestic standby letters of credit |
| | X347.2 | Ceiling |
| | X347.3 | Reports |
| SECTION | X348 | Committed Credit Line for Commercial Paper Issues |
| | X348.1 | Who may grant line facility |
| | X348.2 | Ceilings |
| | X348.3 | Terms; conditions; restrictions |
| | X348.4 | Reports to the Bangko Sentral |
| | X348.5 | Loan limit |
| SECTION | X349 | Agriculture and Fisheries Projects with Long Gestation Periods |
| | X349.1 | Definition of terms |
| | X349.2 | Grace period |
| | X349.3 | Responsibility of lending banks |
| | X349.4 | Past due loans |
| | X349.5 | Non-performing loans |
| SECTIONS | X350 - X360 | (Reserved) |
| SECTION | X361 | Microfinance Loans |
| | X361.1 | Definition |
| | X361.2 | Loan limit; amortization; interest |
| | X361.3 | Credit information exemption |
| | X361.4 | Exemptions from rules on unsecured loans |
| | X361.5 | Housing microfinance loan |
| | X361.6 | (Reserved) |
| | X361.7 | Micro-agri loans |
| | X361.8 | (Reserved) |
| | 1361.8 | (Reserved) |
| | 2361.8 | Marketing, sale and servicing of microinsurance products by thrift banks |
| | 3361.8 | Marketing, sale and servicing of microinsurance products by rural and cooperative banks |
| | X361.9 | Required reports |
| | X361.10 | Sanctions |
| SECTIONS | X362 - X364 | (Reserved) |
| SECTION | X365 | Loans to Barangay Micro Business Enterprises |
| | X365.1 | Credit delivery |
| | X365.2 | Interest on loans to barangay micro business enterprises |

| | | | |
|----------|-------------|--------|--|
| | | X365.3 | Amortization of loans to barangay micro business enterprises |
| | | X365.4 | Waiver of documentary requirements |
| | | X365.5 | Incentives to participating financial institutions |
| | | X365.6 | Credit guarantee |
| | | X365.7 | Record |
| | | X365.8 | Reports to Congress |
| | | X365.9 | Administrative sanctions |
| SECTIONS | X366 - X375 | | (Reserved) |

H. EQUITY INVESTMENTS

| | | |
|---------|-----------------|---|
| SECTION | X376 | Scope of Authority |
| | X376.1 | Conditions for investment in equities |
| | X376.2 - X376.4 | (Reserved) |
| | X376.5 | Guidelines for major investments |
| SECTION | X377 | Financial Allied Undertakings |
| SECTION | X378 | Limits on Investment in the Equities of Financial Allied Undertakings |
| SECTION | X379 | Investments in Venture Capital Corporations |
| | X379.1 | Requirements for investors |
| | X379.2 | Equity investments of venture capital corporations |
| | X379.3 | Business name of venture capital corporations |
| | X379.4 | Reportorial requirements; examination by Bangko Sentral |
| | X379.5 | Interlocking directorships and/or officerships |
| SECTION | X380 | Non-Financial Allied Undertakings |
| SECTION | X381 | (Reserved) |
| SECTION | 1381 | Investments in Non-Allied or Non-Related Undertakings |
| | 1381.1 | Non-allied undertakings eligible for investment by universal banks |
| | 1381.2 | Limits on investments in non-allied enterprises |
| | 1381.3 | Report on outstanding equity investments in and outstanding loans to non-allied enterprises |

| | | |
|---------|-----------------|--|
| SECTION | X382 | Investments in Subsidiaries and Affiliates Abroad |
| | X382.1 | Application for authority to establish or acquire subsidiaries and affiliates abroad |
| | X382.2 | Requirements for establishing subsidiaries or affiliates abroad |
| | X382.3 | Conditions for approval of application |
| | X382.4 - X382.7 | (Reserved) |
| | X382.8 | Investment of a bank subsidiary in a foreign subsidiary |
| SECTION | X383 | Other Limitations and Restrictions |
| SECTION | X384 | (Reserved) |
| SECTION | X385 | Sanctions |

I. (RESERVED)

| | | |
|----------|-------------|------------|
| SECTIONS | X386 - X387 | (Reserved) |
|----------|-------------|------------|

J. OTHER OPERATIONS

| | | |
|----------|-------------|---|
| SECTION | X388 | Purchase of Receivables and Other Obligations |
| | X388.1 | Yield on purchase of receivables |
| | X388.2 | Purchase of receivables on a without recourse basis |
| | X388.3 | Purchase of commercial paper |
| | X388.4 | Reverse repurchase agreements with Bangko Sentral |
| | X388.5 | Investment in debt and readily marketable equity securities |
| SECTION | X389 | (Reserved) |
| SECTION | 1389 | Guidelines on the Investment of Universal Banks and Commercial Banks in Credit-Linked Notes, Structured Products and Securities Overlying Securitization Structures |
| SECTIONS | 2389 - 3389 | (Reserved) |
| SECTION | X390 | (Reserved) |
| SECTION | 1390 | Prohibition Against Non-Residents form Investing in the Special Deposit Account (SDA) Facility |
| SECTION | 2390 | Prohibition Against Non-Residents from Investing in the SDA Facility |

SECTION 3390 (Reserved)

SECTIONS X391 - X392 (Reserved)

K. MISCELLANEOUS PROVISIONS

| | | |
|---------|-------------------|---|
| SECTION | X393 | Loans-to-Deposits Ratio |
| | X393.1 | Statement of policy |
| | X393.2 | Regional loans-to-deposits ratio |
| | X393.3 | Computation of the regional loans-to-deposits ratio |
| SECTION | X394 | Acquired Assets in Settlement of Loans |
| | X394.1 | Posting |
| | X394.2 | Booking |
| | X394.3 | Sales contract receivable |
| | X394.4 - X394.9 | (Reserved) |
| | X394.10 | Transfer/sale of non-performing assets to a special purpose vehicle or to an individual |
| | X394.11 - X394.14 | (Reserved) |
| | X394.15 | Joint venture of banks with real estate development companies |
| SECTION | X395 | Credit Policies of Government-Owned Corporations |
| SECTION | X396 | Parcellary Plans on Crop Loans |
| SECTION | X397 | (Reserved) |
| SECTION | 1397 | Limits on Real Estate Exposures and Other Real Estate Property of UBs/KBs |
| SECTION | 2397 | Limits on Real Estate Exposures and Other Real Estate Property of TBs |
| SECTION | 3397 | (Reserved) |
| SECTION | X398 | Monetary Board Opinion on Domestic Borrowings of Government |
| | X398.1 | Domestic borrowings by local government units pursuant to Section 123 of R.A. No. 7653 |
| | X398.2 | Debt service limit on local government borrowings |
| | X398.3 - X398.4 | (Reserved) |
| | X398.5 | Enforcement actions |

L. GENERAL PROVISION ON SANCTIONS

SECTION X399 General Provision on Sanctions

PART FOUR - TRUST, OTHER FIDUCIARY BUSINESS AND INVESTMENT MANAGEMENT ACTIVITIES

SECTION X401 Statement of Principles

SECTION X402 Scope of Regulations

SECTION X403 Definitions

A. TRUST AND OTHER FIDUCIARY BUSINESS

| | | |
|---------|------|---|
| SECTION | X404 | Authority to Perform Trust and Other Fiduciary Business |
| | | X404.1 Application for authority to perform trust and other fiduciary business |
| | | X404.2 Required capital |
| | | X404.3 Prerequisites for engaging in trust and other fiduciary business |
| | | X404.4 Pre-operating requirements |
| SECTION | 1404 | (Reserved) |
| SECTION | 2404 | Grant of Authority to Engage in Limited Trust Business to Thrift Banks |
| SECTION | 3404 | Grant of Authority to Engage in Limited Trust Business to Rural Banks |
| SECTION | X405 | Security for the Faithful Performance of Trust and Other Fiduciary Business |
| | | X405.1 Basic security deposit |
| | | X405.2 Eligible securities |
| | | X405.3 Valuation of securities and basis of computation of the basic security deposit requirement |
| | | X405.4 Compliance period; sanctions |
| | | X405.5 Reserves against peso-denominated common trust funds and trust and other fiduciary accounts - others |

| | | | |
|---------|------|--|--|
| | | X405.6 | Composition of reserves |
| | | X405.7 | Computation of reserve position |
| | | X405.8 | Reserve deficiencies; sanctions |
| | | X405.9 | Report of compliance |
| SECTION | X406 | Organization and Management | |
| | | X406.1 | Organization |
| | | X406.2 | Composition of trust committee |
| | | X406.3 | Qualifications of committee members, officers and staff |
| | | X406.4 | Responsibilities of administration |
| | | X406.5 - X406.8 | (Reserved) |
| | | X406.9 | Outsourcing services in trust departments |
| | | X406.10 | Confirmation of the appointment/designation of trust officers and independent professional |
| SECTION | X407 | Non-Trust, Non-Fiduciary and/or Non-Investment Management Activities | |
| SECTION | X408 | Unsafe and Unsound Practices | |
| | | X408.1 - X408.8 | (Reserved) |
| | | X408.9 | Sanctions |
| SECTION | X409 | Trust and Other Fiduciary Business | |
| | | X409.1 | Minimum documentary requirements |
| | | X409.2 | Lending and investment disposition |
| | | X409.3 | Transactions requiring prior authority |
| | | X409.4 | Ceilings on loans |
| | | X409.5 | Funds awaiting investment or distribution |
| | | X409.6 | Other applicable regulations on loans and investments |
| | | X409.7 | Operating and accounting methodology |
| | | X409.8 | Tax-exempt individual trust accounts |
| | | X409.9 | Living trust accounts |
| | | X409.10 - X409.15 | (Reserved) |
| | | X409.16 | Qualification and accreditation of private banks acting as trustee on any mortgage or bond issuance by any municipality, government-owned or controlled corporation, or any body politic |
| | | X409.17 | Trust fund of pre-need companies |
| SECTION | X410 | Unit Investment Trust Funds/Common Trust Funds | |
| | | X410.1 | Definitions |
| | | X410.2 | Establishment of a Unit Investment Trust Fund |

| | | | |
|---------|------|---------|--|
| | | X410.3 | Administration of a Unit Investment Trust Fund |
| | | X410.4 | Relationship of trustee with Unit Investment Trust Fund |
| | | X410.5 | Operating and accounting methodology |
| | | X410.6 | Plan rules |
| | | X410.7 | Minimum disclosure requirements |
| | | X410.8 | Exposure limit |
| | | X410.9 | Allowable investments and valuation |
| | | X410.10 | Other related guidelines on valuation of allowable investments |
| | | X410.11 | Unit investment trust fund administration support |
| | | X410.12 | Counterparties |
| | | X410.13 | Foreign currency-denominated unit investment trust funds |
| | | X410.14 | Exemptions from statutory and liquidity reserves, single borrower's limit, directors, officers, stockholders and their related interests |
| SECTION | X411 | | Investment Management Activities |
| | | X411.1 | Minimum documentary requirements |
| | | X411.2 | Minimum size of each investment management account |
| | | X411.3 | Commingling of funds |
| | | X411.4 | Lending and investment disposition |
| | | X411.5 | Transactions requiring prior authority |
| | | X411.6 | Title to securities and other properties |
| | | X411.7 | Ceilings on loans |
| | | X411.8 | Other applicable regulations on loans and investments |
| | | X411.9 | Operating and accounting methodology |
| | | X411.10 | Tax-exempt individual investment management accounts |
| SECTION | X412 | | Foreign Currency Deposit Unit/Expanded Foreign Currency Deposit Unit Trust Accounts; Other Fiduciary or Investment Management Accounts |
| | | X412.1 | Banks with trust authority or investment management authority |
| | | X412.2 | Additional deposit for the faithful performance of trust duties or investment management activities |

| | | | |
|--|--|--------|--|
| | | X412.3 | Applicability of rules and regulations |
| | | X412.4 | Liquidity requirement for foreign currency deposit unit/expanded foreign currency deposit unit common trust funds <i>(Deleted by Circular No. 666 dated 24 September 2009)</i> |

| | | |
|---------|------|------------------|
| SECTION | X413 | Required Surplus |
|---------|------|------------------|

B. INVESTMENT MANAGEMENT ACTIVITIES

| | | |
|---------|--------|--|
| SECTION | X414 | Authority to Perform Investment Management |
| | X414.1 | Required capital |
| | X414.2 | Prerequisites for engaging in investment management activities |
| | X414.3 | Pre- operating requirements |

| | | |
|---------|--------|--|
| SECTION | X415 | Security for the Faithful Performance of Investment Management Activities |
| | X415.1 | Basic security deposit |
| | X415.2 | Eligible securities |
| | X415.3 | Valuation of securities and basis of computation of the basic security deposit requirement |
| | X415.4 | Compliance period; sanctions |

| | | |
|---------|------|-----------------------------|
| SECTION | X416 | Organization and Management |
|---------|------|-----------------------------|

| | | |
|---------|------|--------------------------------------|
| SECTION | X417 | Non-Investment Management Activities |
|---------|------|--------------------------------------|

| | | |
|---------|------|-------------------|
| SECTION | X418 | Unsound Practices |
|---------|------|-------------------|

| | | |
|---------|------|---|
| SECTION | X419 | Conduct of Investment Management Activities |
|---------|------|---|

| | | |
|---------|------|------------------|
| SECTION | X420 | Required Surplus |
|---------|------|------------------|

C. GENERAL PROVISIONS

| | | |
|---------|------|-------------------|
| SECTION | X421 | Books and Records |
|---------|------|-------------------|

| | | |
|---------|------|-------------------|
| SECTION | X422 | Custody of Assets |
|---------|------|-------------------|

| | | |
|---------|------|----------------------|
| SECTION | X423 | Fees and Commissions |
|---------|------|----------------------|

| | | |
|---------|------|-------|
| SECTION | X424 | Taxes |
|---------|------|-------|

| | | |
|---------|------|------------------|
| SECTION | X425 | Reports Required |
|---------|------|------------------|

| | | | |
|----------|-------------|---|--|
| | | X425.1 | To trustor, beneficiary, principal |
| | | X425.2 | To the Bangko Sentral |
| | | X425.3 | Audited financial statements |
| | | X425.4 | Post-bond flotation report (<i>Superseded by Circular No. 769 dated 26 September 2012</i>) |
| SECTION | X426 | Audits | |
| | | X426.1 | Internal audit |
| | | X426.2 | External audit |
| | | X426.3 | Board action |
| SECTION | X427 | Authority Resulting from Merger or Consolidation | |
| SECTION | X428 | Receivership | |
| SECTION | X429 | Surrender of Trust or Investment Management License | |
| SECTIONS | X430 - X440 | (Reserved) | |
| SECTION | X441 | Securities Custodianship and Securities Registry Operations | |
| | | X441.1 | Statement of policy |
| | | X441.2 | Applicability of this regulation |
| | | X441.3 | Prior Bangko Sentral approval |
| | | X441.4 | Application for authority |
| | | X441.5 | Pre-qualification requirements for a securities custodian/registry |
| | | X441.6 | Functions and responsibilities of a securities custodian |
| | | X441.7 | Functions and responsibilities of a securities registry |
| | | X441.8 | Protection of securities of the customer |
| | | X441.9 | Independence of the registry and custodian |
| | | X441.10 | Registry of scripless securities of the Bureau of the Treasury |
| | | X441.11 | Confidentiality |
| | | X441.12 | Compliance with anti-money laundering laws/regulations |
| | | X441.13 | Basic security deposit |
| | | X441.14 | Reportorial requirements |
| | | X441.15 - X441.28 | (Reserved) |
| | | X441.29 | Sanctions |
| SECTIONS | X442 - X498 | (Reserved) | |

D. GENERAL PROVISION ON SANCTIONS

| | | |
|---------|------|-----------|
| SECTION | X499 | Sanctions |
|---------|------|-----------|

PART FIVE - FOREIGN EXCHANGE TRANSACTIONS

Please refer to separate Manual on Foreign Exchange Transactions

PART SIX - TREASURY AND MONEY MARKET OPERATIONS

A. OPEN MARKET OPERATIONS

| | | |
|----------|-----------------|---|
| SECTION | X601 | Open Market Operations |
| | X601.1 | Repurchase agreements with Bangko Sentral |
| | X601.2 | Reverse repurchase agreements with Bangko Sentral |
| | X601.3 | Settlement procedures on the purchase and sale of government securities under repurchase agreements with the Bangko Sentral |
| | X601.4 - X601.5 | (Reserved) |
| | X601.6 | Bangko Sentral trading windows and services during public sector holidays |
| SECTIONS | X602 - X610 | (Reserved) |

B. FINANCIAL INSTRUMENTS

| | | |
|----------|-------------|---|
| SECTIONS | X611 | Derivatives |
| | X611.1 | Generally authorized derivatives activities |
| | X611.2 | Activities requiring additional derivatives authority |
| | X611.3 | Intra-group transactions |
| | X611.4 | Accounting guidelines |
| | X611.5 | Reporting requirements |
| | X611.6 | Sanctions |
| SECTIONS | X612 - X624 | (Reserved) |
| SECTION | X625 | Forward and Swap Transactions |
| | X625.1 | Statement of policy |
| | X625.2 | Definition of terms |
| | X625.3 | Documentation |
| | X625.4 | Tenor/maturity and settlement |
| | X625.5 | (Reserved) |
| | 1625.5 | Forward contracts with non-residents |
| | 2625.5 | (Reserved) |
| | 3625.5 | (Reserved) |

| | | | |
|----------|-------------|-------------------|---|
| | | X625.6 | Cancellations, roll-overs or non-delivery of FX forward contracts |
| | | X625.7 | Non-deliverable forward contracts involving the Philippine peso |
| | | X625.8 | Compliance with anti-money laundering rules |
| | | X625.9 | Reporting requirements |
| | | X625.10 - X625.13 | (Reserved) |
| | | X625.14 | Sanctions |
| SECTIONS | X626 - X628 | | (Reserved) |
| SECTION | 1628 | | Credit-linked Notes and Similar Credit Derivative Products |
| | | 1628.1 | Definitions |
| | | 1628.2 | Qualified banks |
| | | 1628.3 | Capital treatment of investments in CLNs |
| | | 1628.4 | Risk management |
| | | 1628.5 | Transitional arrangements |
| | | 1628.6 | Bangko Sentral approval not required |
| SECTION | 2628 | | (Reserved) |
| SECTION | 3628 | | (Reserved) |
| SECTIONS | X629 - X635 | | (Reserved) |
| SECTION | 1635 | | Bank's Exposures to Structured Products |
| | | 1635.1 | Statement of policy |
| | | 1635.2 | Definition |
| | | 1635.3 | Qualified banks |
| | | 1635.4 | Capital treatment of banks' exposures to structured products |
| | | 1635.5 | Bangko Sentral approval not required |
| SECTION | 2635 | | (Reserved) |
| SECTION | 3635 | | (Reserved) |
| SECTION | X636 | | (Reserved) |
| SECTION | 1636 | | Expanded Foreign Currency Deposit Units Investments in Foreign Currency Denominated Structured Products |
| | | 1636.1 | Statement of policy |
| | | 1636.2 | Scope |

| | | | |
|----------|-------------|---|--|
| | | 1636.3 | Other conditions |
| | | 1636.4 | Capital treatment of structured products |
| | | 1636.5 | Bangko Sentral approval not required |
| | | 1636.6 | Sanctions |
| SECTION | 2636 | (Reserved) | |
| SECTION | 3636 | (Reserved) | |
| SECTIONS | X637 - X648 | (Reserved) | |
| SECTION | 1648 | Investments in Securities Overlying Securitization Structures | |
| | | 1648.1 | Statement of policy |
| | | 1648.2 | Definition |
| | | 1648.3 | Qualified banks |
| | | 1648.4 | Capital treatment of investments in securities overlying securitization structures |
| | | 1648.5 | Bangko Sentral approval not required |
| SECTION | 2648 | (Reserved) | |
| SECTION | 3648 | (Reserved) | |
| SECTIONS | X649 - X650 | (Reserved) | |
| SECTION | X651 | Asset-Backed Securities | |
| | | X651.1 | Definition of terms |
| | | X651.2 | Prior Bangko Sentral approval |
| | | X651.3 | Board approval requirement |
| | | X651.4 | Minimum documents required |
| | | X651.5 | Minimum features of asset-backed securities |
| | | X651.6 | Disclosure requirements |
| | | X651.7 | Conveyance of assets |
| | | X651.8 | Representations and warranties |
| | | X651.9 | Third party review |
| | | X651.10 | Originator and seller |
| | | X651.11 | Trustee and issuer |
| | | X651.12 | Servicer |
| | | X651.13 | Underwriter |
| | | X651.14 | Guarantor |
| | | X651.15 | Credit enhancement |

- X651.16 Clean-up call
- X651.17 Prohibited activities
- X651.18 Amendment of trust indenture
- X651.19 Trustee or servicer in securitization
- X651.20 Report to Bangko Sentral

SECTIONS X652 - X659 (Reserved)

SECTION X660 Global Peso Notes

SECTIONS X661 - X698 (Reserved)

SECTION X699 General Provision on Sanctions

PART SEVEN - **ELECTRONIC BANKING SERVICES AND OPERATIONS**

- SECTION X701 Electronic Banking Services
- X701.1 Application
 - X701.2 Pre-screening of applicants
 - X701.3 Approval in principle
 - X701.4 Documentary requirements
 - X701.5 Conditions for Monetary Board approval
 - X701.6 Requirements for banks with pending applications
 - X701.7 Exemption
 - X701.8 Transitory provision
 - X701.9 - X701.11 (Reserved)
 - X701.12 Sanctions
 - X701.13 Outsourcing of internet and mobile banking services

SECTIONS X702 - X704 (Reserved)

- SECTION X705 Consumer Protection for Electronic Banking
- X705.1 E-Banking oversight function *(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)*
 - X705.2 E-Banking risk management and internal control *(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)*
 - X705.3 Compliance with consumer awareness program *(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)*

- X705.4 Minimum disclosure requirements *(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)*
- X705.5 Complaint resolution *(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)*
- X705.6 Applicability *(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)*

SECTIONS X706 - X779 (Reserved)

- SECTION X780 Issuance and Operations of Electronic Money
- X780.1 Declaration of policy
 - X780.2 Definitions
 - X780.3 Prior Bangko Sentral approval
 - X780.4 Common provisions
 - X780.5 (Reserved)
 - X780.6 Sanctions
 - X780.7 Transitory provisions
 - X780.8 - X780.10 (Reserved)
 - X780.11 Outsourcing of services by Electronic Money Issuers (EMIs) to Electronic Money Network Services Providers (EMNSP)

SECTIONS X781 - X798 - (Reserved)

SECTION X799 General Provision on Sanctions

PART EIGHT - **ANTI-MONEY LAUNDERING REGULATIONS**

- SECTION X801 Declaration of Policy
- SECTION X802 Scope of Regulations
- SECTION X803 Definitions of Terms
- SECTION X804 Basic Principles and Policies to Combat Money Laundering

A. RISK MANAGEMENT

- SECTION X805 Risk Management
- X805.1 Board and senior management oversight
 - X805.1.a. Compliance office

- X805.2 Money laundering and terrorist financing prevention program
- X805.2.a. Submission of the revised and updated MLPP; approval by the board of directors or country head
- X805.3 Monitoring and reporting tools
- X805.3.a Electronic monitoring and reporting systems for money laundering
- X805.3.b Manual monitoring
- X805.4 Internal audit

B. CUSTOMER IDENTIFICATION PROCESS

| | | |
|---------|--------------|--|
| SECTION | X806 | Customer Identification |
| | X806.1 | Customer acceptance policy |
| | X806.1.a | Criteria for type of customers: low, normal and high risk; standards for applying reduced, average and enhanced due diligence |
| | X806.1.b | Enhanced due diligence |
| | X806.1.c | Minimum validation procedures |
| | X806.1.d | Reduced due diligence |
| | X806.1.e | Face-to-face contact |
| | X806.1.e.1 | Account opened through a trustee, agent, nominee, or intermediary |
| | X806.1.e.2 | Outsourcing arrangement |
| | X806.1.e.3 | Third party reliance |
| | X806.2 | Customer identification |
| | X806.2.a | New individual customers |
| | X806.2.b | New corporate and juridical entities |
| | X806.2.c | Valid identification documents |
| | X806.2.d | Outsourcing of the gathering of minimum information and/or documents |
| | X806.2.e | Trustee, nominee, agent or intermediary account |
| | X806.2.e.1 | Where the customer transacts through a trustee, nominee, agent or intermediary which is a third party as herein defined (Third Party Reliance) |
| | X806.2.e.1.a | Third Party is a covered institution specifically defined by this Part and as generally defined by AMLA, as amended and its RIRR |
| | X806.2.e.1.b | Third Party is an FI operating outside the Philippines that is other than covered institutions referred to in Subsec. X806.2.e.1.a but conducts business operations and activities similar to them |

| | |
|------------|---|
| X806.2.f | Private banking/wealth management operations |
| X806.2.g | Politically exposed person |
| X806.2.h | Correspondent banking |
| X806.2.i | Fund/Wire transfer |
| X806.2.j | Buyers of cashier's manager's or certified checks |
| X806.2.j.1 | Buyers of cashier's, manager's or certified checks other than an existing customer |
| X806.2.j.2 | Buyers of cashier's manager's or certified checks in blank or payable to cash, bearer or numbered account |
| X806.2.k | Second-endorsed checks |
| X806.2.l | Foreign exchange dealers/money changers/remittance agents |
| X806.2.m | High risk customer |
| X806.2.n | Shell company/Shell bank |
| X806.2.o | Numbered accounts |
| X806.2.p | Prohibited accounts |
| X806.3 | On-going monitoring of customers, accounts and transactions |
| X806.3.a | Enhanced due diligence |

C. COVERED AND SUSPICIOUS TRANSACTION REPORTING

| | | |
|---------|--------|--|
| SECTION | X807 | Covered and Suspicious Transaction Reporting |
| | X807.1 | Deferred reporting of certain covered transactions |
| | X807.2 | Electronic monitoring system for money laundering |
| | X807.3 | Manual monitoring |
| | X807.4 | Electronic submission of reports |
| | X807.5 | Exemption from Bank Secrecy Laws |
| | X807.6 | Confidentiality provision |
| | X807.7 | Safe harbor provision |

D. RECORD KEEPING AND RETENTION

| | | |
|---------|--------|--|
| SECTION | X808 | Record Keeping |
| | X808.1 | Closed accounts |
| | X808.2 | Retention of records in case a money laundering case has been filed in court |
| | X808.3 | Safekeeping of records and documents |
| | X808.4 | Form of records |

| | | |
|--|-------------|---|
| E. TRAINING PROGRAM | | |
| SECTION | X809 | AML Training Program |
| F. BANGKO SENTRAL AUTHORITY AND ENFORCEMENT ACTIONS | | |
| SECTION | X810 | Bangko Sentral Authority to Examine Deposits and Investments; Additional Exemption to the Bank Secrecy Act; Annual Testing of Numbered Accounts |
| SECTION | X811 | Enforcement Action |
| SECTION | X812 | (Reserved) |
| SECTION | X813 | Separability Clause |
| SECTIONS | X814 - X899 | (Reserved) |
| PART NINE - OTHER BANKING REGULATIONS | | |
| A. BANKING FEES/CHARGES | | |
| SECTION | X901 | Assessment Fees on Banks |
| | X901.1 | Annual fees on banks |
| SECTION | X902 | Collection of Fines and Other Charges from Banks |
| | X902.1 | Guidelines on the imposition of monetary penalties |
| | X902.2 | Payment of fines by banks |
| | X902.3 | Cost of checks and documentary stamps |
| | X902.4 | Check/demand draft payments to the Bangko Sentral of thrift, cooperative and rural banks |
| B. BANK AS COLLECTION/REMITTANCE AGENTS | | |
| SECTION | X903 | Collection of Customs Duties/Taxes/Levies and Other Revenues |
| | X903.1 | Coverage |
| | X903.2 | Collection and reporting of internal revenue taxes |
| | X903.3 | Collection and reporting of customs duties and import processing fees |
| | X903.4 | Collection and reporting of export/premium duties |
| | X903.5 | Remittances thru debit/credit advices |
| | X903.6 | Reconciliation of revenue collections |
| | X903.7 | Penalty for willful delay on the reporting of collections/remittances |

| | | | |
|----------|-------------|---|---|
| | | X903.8 | Fines for delayed reports/remittances of collections |
| | | X903.9 | Liquidity floor requirement on revenue collections |
| | | X903.10 | Collection of import duties at the time of opening of letters of credit |
| SECTION | X904 | Collection Agents of the Social Security System | |
| SECTION | X905 | Collection Agents of PhilHealth | |
| SECTION | X906 | Disclosure of Remittance Charges and Other Relevant Information | |
| SECTIONS | X907 - X930 | (Reserved) | |

C. CREDIT RATING AGENCIES

| | | | |
|----------|-------------|---|--|
| SECTION | X931 | Recognition and Derecognition of Domestic Credit Rating Agencies for Bank Supervisory Purposes | |
| | X931.1 | Statement of policy | |
| | X931.2 | Minimum eligibility criteria | |
| | X931.3 | Pre-qualification requirements | |
| | X931.4 | Inclusion in Bangko Sentral list | |
| | X931.5 | Derecognition of credit rating agencies | |
| | X931.6 | Recognition of PhilRatings as domestic credit rating agency for bank supervisory purposes | |
| SECTION | X932 | Internationally Accepted Credit Rating Agencies | |
| | X932.1 | Recognition of Fitch Singapore Pte., Ltd. as international credit rating agency for bank supervisory purposes | |
| SECTION | X933 | (Reserved) | |
| SECTION | X934 | Recognition and Derecognition of Microfinance Institution Rating Agencies | |
| | X934.1 | Statement of policy | |
| | X934.2 | Pre-qualification requirements | |
| | X934.3 | Minimum eligibility criteria | |
| | X934.4 | Derecognition of MIRA | |
| SECTIONS | X935 - X946 | (Reserved) | |
| SECTION | X947 | Prohibition on the Sale of Foreign-Based Mutual Funds by Banks | |

| | | |
|---------|------|---|
| SECTION | 1948 | Offering in the Philippines of Products by Parent Bank and Branches Abroad of the Parent Bank |
| SECTION | 2948 | (Reserved) |
| SECTION | 3948 | (Reserved) |
| SECTION | X949 | (Reserved) |

D. PHILIPPINE & FOREIGN CURRENCY NOTES & COINS

| | | |
|----------|-------------|--|
| SECTION | X950 | Philippine and Foreign Currency Notes and Coins |
| | X950.1 | Definition of terms |
| | X950.2 | Treatment and disposition of counterfeit Philippine and foreign currency notes and coins |
| | X950.3 | Reproduction and/or use of facsimiles of legal tender Philippine currency notes |
| | X950.4 | Reproduction and/or use of facsimiles of legal tender Philippine currency coins |
| | X950.5 | Clean note policy |
| | X950.6 | Replacement and redemption of legal tender Philippine currency notes and coins considered mutilated or unfit for circulation |
| | X950.7 | Treatment and disposition of Philippine currency notes and coins called in for replacement called in for replacement |
| | X950.8 | Penalties |
| SECTIONS | X951 - X953 | (Reserved) |
| SECTION | X954 | Service Fee for New/Fit Note Deposits with the Bangko Sentral |
| SECTIONS | X955 - X959 | (Reserved) |
| SECTION | X960 | Personal Equity and Retirement Account (PERA) Market Participants and PERA Investment Products |
| | X960.1 | Applicability |
| | X960.2 | Eligibility criteria |
| | X960.3 | Qualification/Accreditation requirements |
| | X960.4 | Application for qualification/accreditation |
| | X960.5 | Security for the faithful performance of administrators |

- X960.6 Grounds for suspension or revocation of qualification/ accreditation of administrator, investment manager or custodian
- X960.7 Penalty
- X960.8 Reportorial Requirements

SECTIONS X961 - X998 (Reserved)

SECTION X999 General Provision on Sanctions

PART TEN - **BSP REGULATIONS ON FINANCIAL CONSUMER PROTECTION**

A. Consumer Protection Oversight Function

- SECTION X1001 Consumer Protection Oversight Function
- X1001.1 Role and responsibility of the board and senior management
 - X1001.2 Consumer protection risk management system (CPRMS)

B. Consumer Protection Standards of Conduct for Banks

- SECTION X1002 Consumer Protection Standards
- X1002.1 Disclosure and transparency
 - X1002.2 Protection of client information
 - X1002.3 Fair treatment
 - X1002.4 Effective recourse
 - X1002.5 Financial education and awareness

C. Enforcement Actions

SECTION X1003 Enforcement Actions

SECTIONS X1004-1099 (Reserved)

POWER OF THE BANGKO SENTRAL TO EXAMINE BANKS

(2008 - X658) Examination by the Bangko Sentral.

The term “*examination*” shall refer to an investigation of an institution under the supervisory authority of the Bangko Sentral ng Pilipinas to determine whether the institution is operating on a safe and sound basis, inquire into its solvency and liquidity, and assess the effectiveness of its compliance function to ascertain that it is conducting business in accordance with laws and regulations. Consistent with a risk-based approach to supervision, the scope of examination may include, but need not be limited to, the following:

- a. Appraisal of the overall quality of corporate governance;
- b. Assessment of risk management system, which shall include the evaluation of the effectiveness of management oversight and self-assessment functions (e.g. internal audit, risk management and compliance), adequacy of policies, procedures, and limits, effectiveness of risk measurement, monitoring and management information system, and robustness of internal control;
- c. Review of the institution’s operations and overall risk profile;
- d. Evaluation of financial performance, capital adequacy, asset quality and liquidity; and

- e. Any other activity relevant to the above.

Regular or periodic examination shall be done once a year, with an interval of twelve (12) months from the last date thereof. Special examination may be conducted earlier, or at a shorter interval, when authorized by the Monetary Board by an affirmative vote of five (5) members.

In the full exercise of the supervisory powers of the Bangko Sentral, examination by the Bangko Sentral of institutions shall be complemented by overseeing thereof. In this regard, the term “*overseeing*” shall refer to a limited investigation of an institution, or any investigation/s that is limited in scope, conducted to inquire into a particular area/aspect of an institution’s operations, for the purpose of overseeing that laws and regulations are complied with, inquiring into the solvency and liquidity of the institution, enforcing prompt corrective action, or such other matters requiring immediate investigation: *Provided, That -* (i) specific authorizations be issued by the Deputy Governor, Supervision and Examination Sector, and (ii) periodic summary reports on overseeings made be submitted to the Monetary Board.

(Circular No. 442 dated 20 July 2004, as amended by Circular No. 862 dated 17 December 2014)

PART ONE

ORGANIZATION, MANAGEMENT AND ADMINISTRATION

A. CLASSIFICATIONS AND POWERS OF BANKS

Section X101 Classifications, Powers and Scope of Authorities of Banks. The following are the classifications, powers and scope of authorities of banks, as well as the prerequisites for the grant of banking authorities.

a. *Classifications of banks.* Banks are classified into the following subject to the power of the Monetary Board to create other classes or kinds of banks:

- (1) Universal banks (UBs);
- (2) Commercial banks (KBs);
- (3) Thrift banks (TBs), as defined in Republic Act (R.A.) No. 7906, which shall be composed of: (a) savings and mortgage banks, (b) stock savings and loan associations, and (c) private development banks;
- (4) Rural banks (RBs), as defined in R. A. No. 7353;
- (5) Cooperative banks (Coop Banks); and
- (6) Islamic banks (IBs), as defined in R.A. No. 6848.

b. *Powers and scope of authorities* The following are the powers and scope of authorities of banks.

(1) *UBs.* A UB shall have the authority to exercise, in addition to the powers and services authorized for a KB as enumerated in Item ▯b(2)▯ and those provided by other laws, the following:

- (a) the powers of an investment house (IH) as provided under existing laws;
- (b) the power to invest in non-allied enterprises;
- (c) the power to own up to one hundred percent (100%) of the equity in a TB, an RB, a financial allied enterprise, or a

non-financial allied enterprise; and

(d) in case of publicly-listed UBs, the power to own up to one hundred percent (100%) of the voting stock of only one (1) other UB or KB.

A UB may perform the functions of an IH either directly or indirectly through a subsidiary IH; in either case, the underwriting of equity securities and securities dealing shall be subject to pertinent laws and regulations of the Securities and Exchange Commission (SEC): *Provided*, That if the IH functions are performed directly by the UB, such functions shall be undertaken by a separate and distinct department or other similar unit in the UB: *Provided, further*, That a UB cannot perform such functions both directly and indirectly through a subsidiary.

(2) *KBs.* In addition to the general powers incident to corporations and those provided in other laws, a KB shall have the authority to exercise all such powers as may be necessary to carry on the business of commercial banking, such as accepting drafts and issuing letters of credit; discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; accepting or creating demand deposits; receiving other types of deposits and deposit substitutes; buying and selling foreign exchange and gold or silver bullion; acquiring marketable bonds and other debt securities; and extending credit, subject to such rules as the Monetary Board may promulgate. These rules may include the determination of bonds and other debt securities eligible for investment, the maturities and aggregate amount of such investment.

It may also exercise or perform any or

▯ **X101**
14.12.31

all of the following:

(a) invest in the equities of allied enterprises as provided in Sections 31 and 32 of R.A. No. 8791;

(b) purchase, hold and convey real estate as specified under Sections 51 and 52 of R.A. No. 8791;

(c) receive in custody funds, documents and valuable objects;

(d) act as financial agent and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities;

(e) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business;

(f) upon prior approval of the Monetary Board, act as managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts;

(g) rent out safety deposit boxes; and

(h) engage in quasi-banking functions.

(3) *TBs*. In addition to the powers provided in other laws, a TB may perform any or all of the following services:

(a) grant loans, whether secured or unsecured;

(b) invest in readily marketable bonds and other debt securities, commercial papers and accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions;

(c) issue domestic letters of credit;

(d) extend credit facilities to private and government employees;

(e) extend credit against the security of jewelry, precious stones and articles of similar nature, subject to such rules and regulations as the Monetary Board may prescribe;

(f) accept savings and time deposits;

(g) rediscount paper with the Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), and other government-owned or -controlled corporations;

(h) accept foreign currency deposits as provided under R.A. No. 6426, as amended;

(i) act as correspondent for other financial institutions (FIs);

(j) purchase, hold and convey real estate as specified under Sections 51 and 52 of R.A. No. 8791;

(k) offer other banking services as provided in Section 53 of R.A. No. 8791; and

(l) buy and sell foreign exchange.

With prior approval of the Monetary Board, and subject to such guidelines as may be established by it, TBs may also perform the following services:

(m) open current or checking accounts;

(n) engage in trust, quasi-banking functions and money market operations;

(o) act as collection agent for government entities, including but not limited to, the Bureau of Internal Revenue (BIR), Social Security System (SSS) and the Bureau of Customs (BOC);

(p) act as official depository of national agencies and of municipal, city or provincial funds in the municipality, city or province where the TB is located;

(q) issue mortgage and chattel mortgage certificates, buy and sell them for its own account or for the account of others, or accept and receive them in payment or as amortization of its loan;

(r) invest in the equity of allied undertakings;

(s) issue foreign letters of credit; and

(t) pay/accept/negotiate import/export draft/bills of exchange.

(4) *RBs*. In addition to the powers provided in other laws, an RB may perform any or all of the following services:

(a) extend loans and advances primarily for the purpose of meeting the normal credit needs of farmers, fishermen or farm families as well as cooperatives, merchants, private and public employees;

(b) accept savings and time deposits;

(c) act as correspondent of other FIs;

(d) rediscount paper with the LBP, DBP

or any other bank, including its branches and agencies. Said banks shall specify the nature of paper deemed acceptable for rediscount, as well as the rediscount rate to be charged by any of these banks;

- (e) act as collection agent;
- (f) offer other banking services as provided in Section 53 of R.A. No. 8791; and
- (g) buy and sell foreign exchange.

With prior approval of the Monetary Board, an RB may perform any or all of the following services:

- (h) accept current or checking accounts: *Provided*, That such RB has net assets of at least P5.0 million;
- (i) accept negotiable order of withdrawal (NOW) accounts;
- (j) act as trustee over estates or properties of farmers and merchants;
- (k) act as official depository of municipal, city or provincial funds in the municipality, city or province where it is located;
- (l) sell domestic drafts; and
- (m) invest in allied undertakings.

(5) *Coop Banks*. 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.

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 rural banks under Items □4.a□ to □4.g□ above. A Coop Bank may likewise perform any or all of the banking services offered by rural banks under Items □4.h□ to □4.m□ as well as any or all of the banking services offered by other types of banks, subject to prior approval of the Bangko Sentral.

(6) *IBs*. In addition to the general powers incident to corporations and those provided in other laws, as well as in Circular No. 105 (*Appendix 44*), insofar as

they are not inconsistent or incompatible with the provisions of R.A. No. 6848, an IB may perform any or all of the following services:

- (a) open savings accounts for safekeeping or custody with no participation in profit and losses except unless otherwise authorized by the account holders to be invested;
- (b) accept investment account placements and invest the same for a term with the IB's funds in Islamically permissible transactions on participation basis;
- (c) accept foreign currency deposits from banks, companies, organizations and individuals, including foreign governments;
- (d) buy and sell foreign exchange;
- (e) act as correspondent of banks and institutions to handle remittances or any fund transfers;
- (f) accept drafts and issue letters of credit or letters of guarantee, negotiate notes and bills of exchange and other evidence of indebtedness under the universally accepted Islamic financial instruments;
- (g) act as collection agent insofar as the payment orders, bills of exchange or other commercial documents are exclusive of *riba* or interest prohibitions;
- (h) provide financing with or without collateral by way of leasing, sale and leaseback, or cost plus profit sales arrangement;
- (i) handle storage operations for goods or commodity financing secured by warehouse receipts presented to the bank;
- (j) 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;
- (k) undertake various investments in all transactions allowed by the *Islamic Shari'ah* in such a way that shall not permit the *haram* (forbidden), nor forbid the *halal* (permissible);

X101 - 2101.1
14.12.31

- (l) act as an official government depository, or its branches, subdivisions and instrumentalities and of government-owned or-controlled corporations, particularly those doing business in the Autonomous Region;
- (m) issue investment participation certificates, *muquaradah* (non-interest-bearing bonds), debentures, collaterals and/ or the renewal and refinancing of the same, with the approval of the Monetary Board to be used by the IB in its financing operations for projects that will promote the economic development primarily of the Autonomous Region;
- (n) carry out financing and joint investment operations by way of *mudarabah* purchasing for others on a cost-plus financing arrangement, and 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; and
- (o) invest in equities of the following allied undertakings:
 - (1) Warehousing companies;
 - (2) Leasing companies;
 - (3) Storage companies;
 - (4) Companies engaged in the management of mutual funds but not in the mutual funds themselves; and
 - (5) Such other similar activities as the Monetary Board has declared or may declare as appropriate from time to time, subject to existing limitations imposed by law.

(As amended by Circular Nos. 865 dated 22 December 2014, 682 dated 15 February 2010 and 650 dated 09 March 2009)

1101.1 (Reserved)

2101.1 Authority of thrift banks to issue foreign letters of credit and pay/accept/negotiate import/export drafts/bills of exchange. With prior Monetary Board approval, TBs may be authorized to issue

- foreign letters of credit (LCs) and pay/accept/negotiate import/export drafts/bills of exchange, subject to compliance with the following conditions (at the time of application unless otherwise indicated):
 - a. Minimum capital requirement of P1.0 billion;
 - b. Ten percent (10%) risk-based capital adequacy ratio (CAR);
 - c. CAMELS composite rating not lower than 3 , with Management component score not lower than 3 in the latest examination of the bank;
 - d. Risk management system appropriate to its operations, characterized by clear delineation of responsibility for risk management, adequate risk measurement system, appropriately structured risk limits, effective internal control system and complete, timely and efficient risk reporting system;
 - e. Articles of incorporation which shall include among its powers or purposes, the issuance of foreign LCs and payment/acceptance/negotiation of import/export drafts/bills of exchange (which may be submitted any time prior to engaging in said activities);
 - f. Correspondent banking relationship or arrangement with reputable foreign banks (which should be in place prior to engaging in said activities);
 - g. Appointment of the officer with actual experience of at least two (2) years as in-charge or at least as assistant in-charge of import and export financing operations in a UB/KB who will be in-charge of the said operations (prior to engaging in said activities);
 - h. Appointment of bank personnel with actual experience and/or specific training in import and export financing operations who will handle the said operations (prior to engaging in said activities);

- i. No net weekly regular and liquidity reserve deficiencies during the twelve (12) week period immediately preceding the date of application;
- j. No deficiency in asset and liquid asset cover for FCDU liabilities for three (3) months immediately preceding the date of application;
- k. No deficiency in liquidity floor requirement for government funds held during the twelve (12)- week period immediately preceding the date of application;
- l. No float items outstanding for more than sixty (60) calendar days in the Due From/To Head Office/Branches/Offices and Due from BSP accounts exceeding one percent (1%) of the total resources as of end of month preceding the date of application;
- m. No unbooked valuation reserves;
- n. Compliant with ceilings on loans, other credit accommodations and guarantees to directors, officers, stockholders, and their related interests (DOSRI) for the quarter immediately preceding the date of application;
- o. Compliant with the single borrower's loan limit (SBL);
- p. Compliant with the limit on real estate and improvements, including bank equipment;
- q. No uncorrected findings of unsafe and unsound banking practices;
- r. Generally compliant with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or Bangko Sentral Management; and
- s. No past due obligations with the BSP or with any FI.

(Circular No. 650 dated 09 March 2009 as amended by Circular No. 686 dated 20 April 2010)

2101.2 **Application for authority to issue foreign letters of credit and pay/accept/negotiate import/export drafts/bills of exchange.** An application for authority

to issue foreign LCs and pay/accept/negotiate import/export drafts/bills of exchange shall be signed by the president of the bank or officer of equivalent rank and shall be accompanied by a certified true copy of the resolution of the bank's board of directors authorizing the application.

(Circular No. 650 dated 09 March 2009)

B. ESTABLISHMENT AND ORGANIZATION

Sec. X102 Basic Guidelines in Establishing Banks. In establishing a new banking organization and a Coop Bank, the basic guidelines shown in *Appendices 37 and 38*, respectively, shall be observed.

(As amended by Circular Nos. 774 dated 16 November 2012 and 682 dated 15 February 2010)

2102.1 (2008 - X101.2) **Prerequisites for the grant of a universal banking authority**

a. *Compliance with guidelines.* A domestic bank seeking authority to operate as a UB shall submit an application to the appropriate department of the SES. The applicant shall comply with the guidelines for the issuance of a UB authority and shall submit all the documentary requirements enumerated in *Appendix 1*.

b. *Public offering of bank shares.* A domestic bank applying for a UB authority shall, as a condition to the approval of its application, make a public offering of at least ten percent (10%) of the required minimum capital and this condition must be complied with before it can be granted the license for authority to operate as a UB.

The term *public offering* shall mean the offer to sell equity shares to the public.

Public shall refer to all prospective stockholders, excluding the bank's directors, shareholders owning twenty percent (20%) or more of the bank's subscribed capital stock, together with those of their relatives within the fourth degree of consanguinity

▯▯ **X102.1 - X102.3**
08.12.31

or affinity, and corporations controlled or affiliated with them.

A bank whose shares of stock are already listed in the Philippine Stock Exchange (PSE) at the time of filing of its application for UB authority shall be deemed to have complied with the public offering requirement. Likewise, an applicant bank may opt to have its shares listed in the PSE directly instead of passing through the process of public offering. In either case, at least ten percent (10%) of the applicant bank's capital stock should be held by public stockholders before it can be granted the license for authority to operate as a UB.

c. *Listing of bank shares in the stock exchange.* Domestic banks granted a UB license, existing or new, must list their shares in the PSE within three (3) years: *Provided,* That in the case of new UBs, the three (3) year period shall be reckoned from the date the license to operate as a UB was granted.

The guidelines on public offering and listing of bank shares are enumerated in *Appendix 1*.

▯ **X102.2 (2008 - X102.1) Suspension of the grant of new banking licenses or the establishment of new banks.** There shall be an indefinite moratorium¹ on the establishment of new banks, except in cities and municipalities where there are no existing banking offices.

▯ **X102.3 (2008 - X102.2) Partial lifting of general moratorium on the licensing of new thrift banks and rural banks.** The general moratorium on the licensing of new TBs and RBs is partially lifted to allow the entry of microfinance-oriented banks.

For this purpose, a microfinance-oriented bank is a bank that provides financial services and caters primarily to the credit needs of the basic or disadvantaged

sectors such as farmers, peasants, artisanal fisherfolk, workers in the formal sector and migrant workers, workers in the informal sectors, indigenous peoples and cultural communities, women, differently-abled persons, senior citizens, victims of calamities and disasters, youth and students, children, urban poor and low income households for their microenterprises and small businesses so as to enable them to raise their income levels and improve their living standards. Microfinance loans are granted on the basis of the borrower's cash flow and are typically unsecured.

The guidelines on the establishment of a microfinance-oriented bank are as follows:

a. Microfinance-oriented banks may be established on a very selective basis, preferably in places not fully served by existing RBs or in areas not fully serviced by microfinance-oriented banks, subject to the following additional criteria (in addition to standard licensing requirements):

(1) That the microfinance-oriented bank to be established shall either be a TB or an RB;

(2) That the capital of the microfinance-oriented banks to be established should be owned by private persons, multilateral entities or a combination thereof;

(3) That in the case of an RB to be established as a microfinance bank, the minimum paid-in capital shall be P5.0 million or the applicable existing capitalization requirement for a new RB, whichever is higher. The capitalization requirement under existing regulations shall apply to TBs;

(4) That the organizers must have the capacity to engage in microfinancing, which may be indicated by the following:

(a) At least twenty percent (20%) of the paid-in capital of the proposed bank must be owned by persons or entities with track record in microfinancing.

¹ The moratorium applied to all applications for establishment of new banks as of 16 August 1999. The moratorium for establishing new KBs lapsed on 12 June 2003, pursuant to Section 8 of R.A. No. 8791.

- (b) Majority of the members of the board of directors have experience in microfinancing with at least one (1) member having actual banking experience.
- (c) The proposed bank must have as a minimum, an adequate loan tracking system that allows daily monitoring of loan releases, collection and arrearages, and any restructuring and refinancing.
- (5) In addition to the requirements for the establishment of banks in *Appendix 37*, the application for authority to establish a microfinance-oriented bank must be accompanied by the following documents:
 - (a) A vision and mission statement with clear expression of the commitment to reach low-income clients.
 - (b) A written manual of operations, which shall include the administrative and credit program systems and procedures.The Manual must be consistent with the core principles, characteristics and features of microfinance indicated in Sec. X361.
- (6) At least fifty percent (50%) of the bank's gross loan portfolio shall at all times consist of microfinance loans as defined in Sec. X361.
- b. The requirement that the president, chief operating officer or general manager of a TB or RB must have at least two (2) years experience in banking and/or finance may be substituted with microfinance experience in cases of officers of a microfinance organization applying for

- authority to establish, or convert into a TB or RB: *Provided*, That the concerned officer is a college graduate.
- c. Subject to the standard branching requirements, microfinance-oriented banks are also exempted from the general moratorium on the establishment of bank branches, under Sec. X151. After one (1) year of profitable operations, a microfinance-oriented bank may apply for establishment of a branch but the Monetary Board may require additional capital to be infused for every branch in addition to the minimum capital of the TB/RB.
 - d. Existing microfinance organizations applying for authority to establish, or convert into a TB or RB may also be allowed to convert their existing branches/offices into branches of the bank proposed to be established by simultaneously applying for authority for the purpose. However, the standard requirements for the establishment of branches, particularly the capitalization requirement, have to be complied with. Moreover, there must be a proof that the area is not fully served by any existing RB.
- (As amended by Circular No. 624 dated 13 October 2008)*
- ¶ **X102.4 (2008 - X101.6) Conditions for the grant of authority to convert into a lower category**
- a. That the bank must have complied with the end-2000 minimum capital

(Next page is Part I - Page 7)

requirement and other laws/regulations applicable to the lower bank category into which it is converting. For this purpose, the term “capital” shall be as defined under Sec. X111;

b. That the bank immediately upon receipt of notice of approval of conversion shall not engage in nor renew transactions under authorities not associated with those allowed for the lower bank category into which it is converting and within six (6) months from date of receipt of notice of approval of its application for conversion,the bank shall phase-out all inherent powers and activities under special authorities not normally associated to the lower bank category into which it is converting: *Provided*, That a TB (previously authorized by the Monetary Board to accept demand deposits) may be allowed to retain such authority when converting into an RB but may clear checks only through a correspondent bank and shall not be allowed to participate directly in the Philippine Clearing House Corporation (PCHC) and the BSP check clearing operations: *Provided, further*, That for failure to comply with these requirements, the following monetary and non-monetary penalties shall be imposed reckoned from the set deadline until the bank has fully complied with the said requirements

(1) *Monetary penalties*

| | |
|----------------------|-------------|
| From UB to KB | P30,000/day |
| From KB to TB | 15,000/day |
| From TB to RB | |
| Within Metro Manila | P 5,000/day |
| Outside Metro Manila | 500/day |

(2) *Non-monetary penalties*

- (a) Suspension of branching privileges;
- (b) Suspension of declaration of cash dividends;
- (c) Restriction on lending to affiliates;
- (d) Denial of access to BSP rediscounting facilities;

(e) Suspension of authority to accept or handle government deposits;

(f) Suspension of authority to engage in derivatives activities (for a UB converting into a KB); and

(g) Suspension of authority to invest in allied undertakings.

c. That a bank which has not corrected as of date of application the major findings/ violations noted in its latest examination shall submit upon application a Memorandum of Understanding that it shall correct the same within a period of six (6) months from date of receipt of notice of approval of its application, otherwise, the same monetary and non-monetary penalties mentioned in Item “b” above shall be imposed;

d. That the bank shall submit the pertinent amended Articles of Incorporation and By-Laws duly registered with the SEC within six (6) months from date of receipt of notice of approval of its application;

e. That the bank shall fully disclose its new status in its signage, financial statements and stationeries; and

f. That the bank shall start operation in the lower category into which it is converting after approval by the SEC of the bank’s amended Articles of Incorporation and By-Laws, its compliance with all the conditions of approval of the conversion and the issuance by the BSP of a certificate of authority to operate.

The same conditions and sanctions mentioned in Items “a” to “f” above shall apply to all banks which have downgraded or with approved downgrading prior to 13 March 2000: *Provided*, That the penalties mentioned in Items “b” and “c” above shall be reckoned from their respective prescribed deadlines or within six (6) months from 13 March 2000, if no such deadline is prescribed.

§§ X102.5 - X104.1
11.12.31

§ X102.5 (2008 - X102.3) *Conversion of microfinance-oriented thrift banks/ rural banks*

a. Microfinance-oriented TBs and RBs are disallowed from converting to regular TBs and RBs.

b. Microfinance-oriented branches of regular TBs and RBs may convert into regular branches, five (5) years after the start of the branch’s operations, subject to the submission of the following:

(1) Certification signed by the president or officer of equivalent rank that:

(a) At least seventy percent (70%) of deposits generated by the branch to be established shall be actually lent out to microfinance borrowers; and

(b) The microfinance loans of said branch shall at all times be fifty percent (50%) of its gross loan portfolio are no longer feasible due to changes in market condition in the locality where it is located. The certification shall be supported by a market study citing, among others, changes in demographic, social, and economic factors; and

(2) Certified true copy of the resolution of the bank’s board of directors authorizing the conversion of the microfinance-oriented branch into a regular branch.

(CL-2008-075 dated 28 November 2008)

Sec. X103 Certificate of Authority to Register¹. The SEC shall not register the articles of incorporation of any bank, or any amendment thereto, unless accompanied by a certificate of authority issued by the Monetary Board, under its seal. The certificate shall not be issued unless the Monetary Board is satisfied from the evidence submitted that:

a. All requirements of existing laws and regulations to engage in the business for which the applicant is proposed to be incorporated have been complied with;

b. The public interest and economic conditions, both general and local, justify the authorization; and

c. The amount of capital, the financing, organization, direction and administration, as well as the integrity and responsibility of the organizers and administrators reasonably assure the safety of deposits and the public interest.

Likewise, the SEC shall not register the by-laws of any bank, or any amendment thereto, unless accompanied by a certificate of authority from the BSP.

(As amended by CL-2008-078 dated 15 December 2008)

Sec. X104 (2008 - X167) Business Name²

a. *UBs/KBs.* Only a bank that is granted universal/commercial banking authority may represent itself to the public as such in connection with its business name.

b. *TBs.* TBs may be allowed to adopt and use any name: *Provided*, That the words *A Thrift Bank, A Savings Bank, A Private Development Bank* or *A Stock Savings and Loan Association*, as the case may be, are affixed after its business name.

c. *RBs/Coop Banks.* RBs/Coop Banks may adopt a corporate name or use a business name/style with the word *Rural* or *Coop*, as the case may be. Said banks may also adopt a name without such words: *Provided*, That the identifying phrase, *A Cooperative Bank* or *A Rural Bank*, as the case may be, is affixed after its business name: *Provided, further*, That where the name of the bank is shown on letterheads, billboards and other advertising materials, the size of the letters of such phrase shall be at least one-half (½) the size of the business name.

(As amended by CL-2011-062 dated 19 August 2011, CL-2008-053 dated 21 August 2008 and 2008-007 dated 21 January 2008)

§ X104.1 (2008-X607) **Bank Advertisements.** The following rules and regulations shall govern bank advertisements.

a. No bank shall publish, issue or distribute in any form, any advertisement

¹ See SEC Circular No. 3 dated 16 February 2006.

² See SEC Circular Nos. 5 dated 17 July 2008 and 14 dated 24 October 2000, and DTI Administrative Order No. 1008 effective 10 October 2010

that shall degrade, deprecate or otherwise prejudice other banking and financial institutions.

b. No bank shall publish, issue or distribute in any form of advertisement (in newspapers, magazines, television, radio, billboards, brochures, prospectuses, or any other medium) or allow itself to be used/mentioned in any form of advertisement unless such advertisement is in pursuance of its business or investment.

c. No bank shall place or cause to be placed any advertisement tending to mislead a depositor into believing that he will get more in benefits than what the bank is legally authorized to give. No bank advertisement shall contain any false claim or exaggerated representation as to its liquidity, solvency, resources, deposits and banking services.

d. No bank advertisement shall give the impression that the bank is engaged in a business other than banking.

e. Banks shall inform their depositors and other clients by advertisement or publication of the termination of benefits previously advertised or publicized.

f. Banks shall discontinue any advertisement whenever the same is deemed unethical/unwarranted or violative of the provisions of these regulations. The client banks and/or their advertising agencies shall incorporate in their contract/agreement for time and space with media the condition that such contract/agreement for time and space can be cancelled/terminated immediately whenever the client bank is directed by the Bangko Sentral to desist or discontinue the particular advertisement in question.

g. Responsibility for compliance with the above rules and regulations rests with

the bank officers or directors who caused the approval or placement of such advertisement.

Sec. X105 (2008 - X121) Liberalized Entry and Scope of Operations of Foreign Banks

The following rules shall govern the liberalized entry and scope of operation of foreign banks.

(As amended by Circular No. 858 dated 21 November 2014)

¶ **X105.1 (2008 - X121.1) Modes of entry of foreign banks.** With prior approval of the Monetary Board, foreign banks may operate in the Philippines through any one (1) of the following modes:

a. By acquiring, purchasing or owning up to 100% of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued);

b. By investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or

c. By establishing a branch and sub-branches with full banking authority.

Interested foreign banks shall file with the Office of the Governor, Bangko Sentral, their application for authority to operate in the Philippines through any of the modes of entry mentioned above. The application requirements are listed in *Appendix 2*.

(As amended by Circular Nos. 858 dated 21 November 2014 and 774 dated 16 November 2012)

¶ **X105.2 (2008 - X121.2) Qualification requirements.** A foreign bank seeking to operate in the Philippines through any of the modes of entry provided under Items ¶a¶ to ¶c¶ of Subsec. X105.1 must, in addition to satisfying the criteria prescribed under Subsec. X105.3, be -

¶¶ X105.2 - X105.4
14.12.31

(1) Widely-owned and publicly-listed in the country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin.

(2) Established, reputable and financially sound.

The determination of whether a foreign bank applicant is widely-owned and publicly listed, established, reputable, and financially sound shall be based on the information derived from submitted documents as required under *Appendix 2*. Further, if the foreign bank is owned/controlled by a holding company, this requirement may apply to the holding company.

(As amended by Circular No. 858 dated 21 November 2014)

¶ **X105.3 (2008 - X121.3) Guidelines for selection.** The following factors shall be considered in selecting the foreign banks which will be allowed to enter the Philippine banking system through R.A. No. 7721, as amended by R.A. No. 10641:

a. *Geographic representation and complementation.* Representation from the different parts of the world and/or the international financial centers shall be ensured.

b. *Strategic trade and investment relationships between the Philippines and the home country of the foreign bank.* Consideration shall be given to the countries of origin of applicant foreign banks –

(1) With substantial financial assistance to, and loans and investments, past and present, in the Philippines; and

(2) With which the Philippines has significant volume of trade especially to those with which the country has substantial net exports.

c. *Relationship between the applicant bank and the Philippines.* Consideration shall be given to the capability of the foreign

bank to promote trade with, and to bring foreign investments into, the Philippines. Long standing financial and commercial relationship with, and assistance extended to, the Philippines, shall likewise be taken into account.

d. *Demonstrated capacity, global reputation for financial innovations and stability in a competitive environment of the applicant bank.*

e. *Reciprocity rights enjoyed by Philippine banks in the applicant's country.* Subject to the host country's rules and regulations of general application, Philippine banks should have the opportunity to establish operations in the foreign bank applicant's home country.

f. *Willingness to fully share banking technology.*

(As amended by Circular Nos. 858 dated 21 November 2014 and 809 dated 23 August 2013)

¶ **X105.4 (2008 - X121.4) Capital requirements of foreign banks**

a. *For locally incorporated subsidiaries.* A foreign bank subsidiary shall comply with the minimum capital and prudential capital ratios applicable to domestic banks of the same category as prescribed under prevailing regulations.

b. *For foreign bank branches*

(1) A foreign bank branch shall comply with the minimum capital and prudential capital ratios applicable to domestic banks of the same category as prescribed under prevailing regulations.

(2) For purposes of compliance with minimum capital regulations, the term "capital of a foreign bank branch" shall refer to the sum of: (i) permanently assigned capital, (ii) undivided profits, and (iii) accumulated net earnings, which is composed of unremitted profits not yet cleared by the Bangko Sentral for outward

remittance and losses in operations, less capital adjustments as may be required by the Bangko Sentral in accordance with prevailing rules and regulations of general application.

(3) Permanently assigned capital shall be inwardly remitted and converted into Philippine currency at the exchange rate prevailing at the time of remittance.

(4) Any *Net due from* head office, branches, subsidiaries and other offices outside the Philippines, excluding accumulated net earnings, shall be a deductible adjustment to capital.

(5) For purposes of compliance with the Single Borrower's Limit (SBL), the capital of a foreign bank branch, subject to prescribed adjustments, shall be synonymous to its net worth.

Transitory provision.

a. *Minimum capital of foreign banks.*

Minimum capital of foreign banks established in the Philippines prior to R.A. No. 10641 shall comply with the applicable minimum capital level requirement as prescribed under Subsec. X111.1. Existing foreign banks that do not meet the minimum capital requirements shall submit an acceptable capital build-up program as required under Subsec. X111.1.

b. *SBL*

1. Loans and credit commitments of foreign bank branches as of 07 August 2014 may be maintained, but once repaid or expired, shall no longer be increased in excess of the ceiling allowed under the succeeding paragraph.

2. Existing foreign bank branches shall be given until 31 December 2019 to use twice the level of capital as defined in this Subsection as net worth, as reference point for purposes of determining the appropriate SBL.

(As amended by Circular Nos. 858 dated 21 November 2014, 822 dated 13 December 2013 and 696 dated 29 October 2010)

**X105.4 - X105.8
14.12.31**

X105.5 Prescribed ratio of Net Due to account.

(Deleted by Circular No. 858 dated 21 November 2014)

X105.6 (2008 - X121.6) Risk-based capital for foreign bank branch

a. Foreign bank branches shall comply with the same risk-based capital adequacy ratios applicable to domestic banks of the same category.

b. In computing the risk-based capital adequacy ratios, Common Equity Tier 1 (CET1) capital shall include permanently assigned capital, undivided profits, accumulated net earnings and other capital components.

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

d. The guidelines for computing the risk-based capital adequacy ratios are provided in *Appendix 63b*.

(As amended by Circular Nos. 858 dated 21 November 2014 and 822 dated 13 December 2013)

X105.7 (2008 - X121.7) Head Office guarantee.

The head office of foreign bank branches shall guarantee prompt payment of all liabilities of its Philippine branches, as well as the observance of the constitutional rights of the employees of such branches.

X105.8 (2008 - X121.8) Scope of authority for locally incorporated subsidiaries of foreign banks as well as branches with full banking authority

Subsidiaries and branches of foreign banks established under Subsec. X105.1 shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category.

¶¶ **X105.8 - X108**
14.12.31

Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations and the guidelines enumerated in *Appendix 3*.
(As amended by Circular No. 858 dated 21 November 2014)

¶ **X105.9 (2008 - X121.9) Control of the resources of the banking system.** The Monetary Board shall adopt such measures as may be necessary to ensure that at all times the control of sixty percent (60%) of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos. Said measures may include –
a. Suspension of entry of additional foreign bank subsidiaries and branches; and
b. Suspension of license upgrade or conversion to subsidiary of existing foreign bank branches.

Other measures may also be considered, provided that such measures so adopted shall be consistent with R.A. No. 7721, as amended by R.A. No. 10641, and shall consider vested rights and the non-impairment of contracts.
(As amended by Circular No. 858 dated 21 November 2014)

¶ **X105.10 (2008 - X121.10) Change from one mode of entry to another.** Foreign banks which are operating in the Philippines may apply for conversion of their mode of entry.

The bank shall comply with all applicable requirements and submit an acceptable transition plan which shall address how the foreign bank shall implement the change in mode of entry.
(As amended by Circular No. 858 dated 21 November 2014)

¶ **X105.11 (2008 - X121.11) Listing of shares with the Philippine Stock Exchange**
(Deleted by Circular No. 858 dated 21 November 2014)

¶ **X105.12 (2008-X121.12) Equal treatment.** Any right, privilege or incentive granted to foreign banks or their subsidiaries or affiliates under R.A. No. 7721, as amended by R.A. No. 10641 shall be equally enjoyed by, and extended under the same conditions, to domestic banks.
(As amended by Circular No. 858 dated 21 November 2014)

Secs. X106 - X107 (Reserved)

C. MERGER AND CONSOLIDATION

Sec. X108 (2008 - X111) Merger or Consolidation to Meet Minimum Capital
The merger or consolidation of banks and other financial intermediary(ies) to meet minimum capital requirements shall be allowed subject to the following regulations.

For purposes of merger and consolidation, the following definitions shall apply:

a. *Merger* - is the absorption of one (1) or more corporations by another existing corporation, which retains its identity and takes over the rights, privileges, franchises, and properties, and assumes all the liabilities and obligations of the absorbed corporation(s) in the same manner as if it had itself incurred such liabilities or obligations. The absorbing corporation continues its existence while the life or lives of the other corporation(s) is/are terminated.

b. *Consolidation* - is the union of two (2) or more corporations into a single new corporation, called the consolidated corporation, all the constituent corporations thereby ceasing to exist as separate entities. The consolidated corporation shall thereupon and thereafter possess all the rights, privileges, immunities, franchises and properties, and assume all the liabilities

and obligations of each of the constituent corporations in the same manner as if it had itself incurred such liabilities or obligations.

X108.1 (2008 - X111.1) Requirement of Bangko Sentral approval.
Mergers and consolidations including the terms and conditions thereof shall comply with the provisions of applicable law and are subject to approval by the Bangko Sentral.

The guidelines and procedures in the application for merger/consolidation as shown in Appendix 87 shall be observed by banks.
(As amended by M-2009-028 dated 12 August 2009)

X108.2 (2008 - X111.2) Rules on exchange of shares.
As a general rule, the ratio of exchange of shares between or among the participants in a bank merger or consolidation shall be based on mutual agreement of the parties concerned. However, any appraisal increment reserve (revaluation reserve) arising from the revaluation of the fixed assets, as may be agreed upon by the parties, shall be limited to premises, improvement, and equipment which are necessary for its immediate accommodation in the transaction of the bank s business. Such revaluation should be based on fair valuation of the property which shall be subject to review and approval by the Bangko Sentral.

X108.3 (2008 - X112) Merger or consolidation incentives.
In pursuance of the policy to promote mergers and consolidations among banks and other financial intermediaries, as well as purchases or acquisitions of majority or all of the outstanding shares of stock of a bank/ QB, as a means to develop larger and stronger FIs, constituent/participating entities may avail themselves of incentives or reliefs, subject to prior approval of the Monetary Board.
(As amended by Circular Nos. 771 dated 11 October 2012 and 494 dated 20 September 2005)

1108.3 (Reserved)

2108.3 (Reserved)

3108.3 Regulatory relief under the strengthening program for RBs (SPRB)¹.
In pursuance of the policy to promote mergers and consolidations as a means to develop bigger and stronger RBs and to further strengthen the rural banking system, constituent RBs may, subject to prior Bangko Sentral approval, avail themselves of any or all of the merger or consolidation incentives under the SPRB.
The guidelines on the grant of regulatory relief under the SPRB including the documentary requirements in applying for the regulatory relief are provided in Appendix 94.
(Circular No. 693 dated 09 August 2010)

(No pages 14 to 16)
(Next page is Part I page 17)

¹ The SPRB is a joint undertaking of the Bangko Sentral 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 Bangko Sentral 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 SPRB.

□ **X108.4 SPRB Plus¹ and Strengthening Program for Cooperative Banks (SPCB) Plus**

As a supplement to the SPRB, the SPRB Plus, which became effective on 02 August 2012 and shall be available up to 31 December 2014, contains the following enhanced features:

- a. inclusion of TBs, which serve the same niche market as the RBs, as among the eligible banks in addition to RBs;
- b. inclusion of TBs, UBs and KBs, non-bank corporations and banking groups as among the eligible STPIs;
- c. additional branching and other incentives to be provided on top of the regulatory relief already available under the SPRB Module 1; and
- d. acquisition via purchase of assets and assumption of liabilities, and acquisition of control in an eligible bank as additional modes of entry of an eligible STPI.

The SPRB Plus Framework and guidelines are shown in *Appendix 94a*.

The SPCB Plus, which replaced the SPCB (Strengthening Program for Rural Banks [SPRB] Module II) became effective on 16 September 2013 and shall be available up to 17 September 2014. It has generally the same framework as the SPRB Module II, with the following enhancements/amendments:

- a. inclusion of KBs, among the eligible Strategic Third Party Investors (STPIs) in addition to Coop Banks, RBs and TBs;
- b. Financial assistance (FA) to be extended by the PDIC and LBP can be in the form of direct loan (DL) only (without the preferred shares) intended to provide income support to the surviving bank;
- c. Dividend rate on the preferred shares shall be equal to the rate per annum of the prevailing ten (10)-year FXTN available at the time of the release of FA instead of the eight

percent (8%) per annum fixed in the SPCB;

- d. Principal of the DL under the combination of preferred shares (PS) and DL will be equivalent to such amount that will provide a net interest spread (NIS) over the tenor of the DL to such amount equal to the PS;

- e. Interest rate per annum on DL under the combination of PS and DL will be equivalent to such rate that will provide the bank with an annual NIS that will accumulate over the tenor of the DL to such amount equal to the PS instead of the three percent (3%) less premium rate of government securities fixed in the SPCB;

- f. Principal of the DL intended to provide income support to the surviving bank will be equivalent to such amount that will provide a NIS equal to the capital deficiency to bring Risk-Based Capital Adequacy Ratio (RBCAR) to zero percent (0%);

- g. Interest rate per annum on DL intended to provide income support to the surviving bank will be equivalent to such rate that will provide the bank with an annual NIS that will accumulate over the tenor of the DL to such amount equal to the capital deficiency to bring RBCAR to zero percent (0%); and

- h. Conduct of due diligence review by PDIC or an external auditor.

Branching and other incentives under the SPCB Plus are provided for under *Appendix 94b - Annex A*.

Based on the arrangement agreed upon by the Bangko Sentral, PDIC and LBP, the eligible STPIs and eligible Coop Banks shall submit to the SPCB lane a joint letter, separately addressed to PDIC, Bangko Sentral and LBP, indicating their intention to merge or consolidate, or enter into a purchase of assets and assumption of

¹The Bangko Sentral and the PDIC signed the Supplemental Agreement to implement the SPRB Plus aimed at strengthening the thrift and rural banking industry to effectively serve the countryside and improve the delivery of financial services to rural communities.

X108.4 - X111.1
14.12.31

liabilities or acquisition of control under the SPCB Plus, and all the other required documents shown in *Appendix 94b - Annex B*.
(M-2012-040 dated 08 August 2012, as amended by M-2014-003 dated 27 January 2014 and M-2013-061 dated 23 December 2013)

Secs. X109 - X110 (Reserved)

D. CAPITALIZATION

Sec. X111 (2008 - X106) Minimum Required Capital. The following provisions shall govern the capital requirements for banks.

The term *capital* shall be synonymous to *unimpaired capital and surplus*, *combined capital accounts* and *net worth* and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- a. Unbooked valuation reserves and other capital adjustments as may be required by the Bangko Sentral;
- b. Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders, and their related interests (DOSRI) granted by the bank proper;
- c. Unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates;
- d. Deferred income tax;
- e. Appraisal increment reserve (revaluation reserve) as a result of appreciation or an increase in the book value of bank assets;
- f. 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

g. In the case of RBs/Coop Banks, the government counterpart equity, except those arising from conversion of arrearages under the Bangko Sentral rehabilitation program.

With respect to Item *b* hereof, the provision in Subsec. X326.1 shall apply except that in the definition of *stockholders* in said Subsection, the qualification that his stockholdings, individually and/or together with his related interest in the lending bank, should at least amount to two percent (2%) or more of the total subscribed capital stock of the bank, shall not apply for the purpose of this Item.

(As amended by Circular No. 560 dated 31 January 2007)

X111.1 **Minimum capitalization.** The minimum capitalization of banks shall be as follows:

| Bank Category | Required Minimum Capitalization |
|--|---------------------------------|
| UBs | |
| Head Office Only | P3.00 billion |
| Up to 10 branches ^{1/} | 6.00 billion |
| 11 to 100 branches ^{1/} | 15.00 billion |
| More than 100 branches ^{1/} | 20.00 billion |
| KBs | |
| Head Office Only | P2.00 billion |
| Up to 10 branches ^{1/} | 4.00 billion |
| 11 to 100 branches ^{1/} | 10.00 billion |
| More than 100 branches ^{1/} | 15.00 billion |
| TBs | |
| Head Office in National Capital Region (NCR) | |
| Head Office Only | P500 million |
| Up to 10 branches ^{1/} | 750 million |
| 11 to 50 branches ^{1/} | 1.00 billion |
| More than 50 branches ^{1/} | 2.00 billion |
| Head Office in all Other Areas Outside NCR | |
| Head Office Only | P200 million |
| Up to 10 branches ^{1/} | 300 million |
| 11 to 50 branches ^{1/} | 400 million |
| More than 50 branches ^{1/} | P800 million |
| RBs and Coop Banks | |
| Head Office in NCR | |
| Head Office Only | P50 million |
| Up to 10 branches ^{1/} | 75 million |
| 11 to 50 branches ^{1/} | 100 million |
| More than 50 branches ^{1/} | 200 million |

^{1/} Branches- inclusive of Head Office

| Bank Category | Required Minimum Capitalization |
|---|---------------------------------|
| Head Office in All Other Areas Outside NCR (All Cities up to 3 rd class municipalities) | |
| Head Office Only | P20 million |
| Up to 10 branches ^{1/} | 30 million |
| 11 to 50 branches ^{1/} | 40 million |
| More than 50 branches ^{1/} | 80 million |
| Head Office in All Other Areas Outside NCR (4 th class to 6 th class municipalities) | |
| Head Office Only | P10 million |
| Up to 10 branches ^{1/} | 15 million |
| 11 to 50 branches ^{1/} | 20 million |
| More than 50 branches ^{1/} | 40 million |

The above shall also be the required minimum capitalization (a) upon establishment of a new bank, (b) upon conversion of an existing bank from a lower to a higher category bank and vice versa, (c) upon relocation of the head office of a TB/RB in an area of higher classification, and (d) when majority of an RB s total assets and/or majority of its total liabilities are accounted for by branches located in areas of higher classification as provided in Subsec. X151.4 on the branching guidelines.

For the grant of the following special banking authorities:

- Quasi-banking functions for TBs;
- Trust and other fiduciary business for U/KBs and TBs;
- Limited trust for TBs and RBs/Coop Banks;
- Foreign currency deposit unit/ expanded foreign currency deposit unit (FCDU/EFCDU);
- Issuance of foreign letters of credit (LCs) for TBs;
- Acceptance of demand deposit and NOW accounts for TBs and RBs/Coop Banks; and
- Acting as third party custodian/ registry;

the higher of (a) the required minimum capital under this Subsection at the time of the application for the grant of special

banking authority or (b) the amount specified in the applicable Sections/ Subsections for the grant of special banking authorities shall be the required minimum capital which shall be complied with on a continuing basis.

Transitory provisions. Banks which are existing, or which are already authorized by the Monetary Board but not yet operating, or persons from whom completed applications have been received but pending action by the Bangko Sentral, shall be allowed five (5) years from 19 November 2014 within which to meet the above minimum capital requirements. Banks granted with special banking authorities/ licenses which require compliance with minimum capital requirements shall be given five (5) years from 19 November 2014 within which to comply.

Banks which comply with the new capital levels shall submit to the Bangko Sentral a certification to this effect within thirty (30) calendar days from 19 November 2014. Banks not meeting the required minimum capital must submit to the Bangko Sentral an acceptable capital build-up program for this purpose within one (1) year from 19 November 2014. If the prescribed minimum capital necessitates an increase in the authorized capital stock, affected banks shall cause the corresponding amendments to their articles of incorporation/cooperation.

The appropriate department of the SES will evaluate the continuing compliance of banks to the aforementioned capital build-up program. The Bangko Sentral may require appropriate actions and/or impose sanctions for non-compliance with the capital build-up program as provided under existing banking laws and/or Bangko Sentral rules and regulations.

(As amended by Circular Nos. 854 dated 29 October 2014, 715 dated 04 March 2011, 696 dated 29 October 2010 and 682 dated 15 February 2010)

^{1/} Branches- inclusive of Head Office

X111.2 - X114
14.12.31

X111.2 (2008 - X106.2) Capital build-up program.

(Deleted by Circular No. 696 dated 29 October 2010)

X111.3 (2008 - X106.3) Memorandum of Understanding; Prompt Corrective Action Program; Sanctions.

(Deleted by Circular No. 696 dated 29 October 2010)

X111.4 Guidelines on proposed investment from third party investors (TPIs) for purposes of complying with the minimum capital requirements.

The following are the guidelines for capital deficient banks with proposed investments from third party investor/s (TPIs) for purposes of addressing the capital deficiency:

a. A bank that has already entered into a final agreement with a TPI to invest in the bank, which amount of investment shall cover the full amount of the capital deficiency, shall immediately submit the subscription contract/written agreement with the TPI to the Bangko Sentral. It is understood that with the submission of such contract, the TPI has already agreed to infuse the needed funds to cover the capital deficiency.

b. In case the transaction requires prior Bangko Sentral approval under Subsec. X126.2b, the bank shall submit the following documentary requirements within fifteen (15) banking days from the submission of the aforementioned subscription contract/written agreement or within the timeline prescribed by Subsec. X126.2b¹, whichever is earlier:

(1) Bank s request (signed by the president or officer of equivalent rank) for Bangko Sentral aproval of the subject transactions (accompanied by a Board Resolution of the TPI to that effect, if the TPI is a corporation);

(2) A certified copy of the Escrow Agreement between the bank, TPI and escrow agent, and a certificate of escrow deposit issued by the escrow agent equivalent to at least the amount of the proposed investment;

(3) Documentary requirements under Subsec. X126.2b; and

(4) Other documentary requirements as may be required by the Bangko Sentral.

c. The bank shall also comply with the requirements under Sec. X128 on the treatment of deposit for stock subscription as part of the equity, if applicable.

d. In case a bank has a pending application with the PDIC under the SPRB Plus/SPCB Plus, the bank and the TPI shall submit a joint certification signed by the president or officer of equivalent rank of the bank and the TPI concerned that there is a pending application with the PDIC, together with the acknowledgement receipt by PDIC of said application.

The investment of the TPI would not be considered for purposes of addressing the capital deficiency if the aforementioned documentary requirements are not complied with. In this regard, it is understood that mere submission to Bangko Sentral of a TPI s Letter of Intent (LOI) to invest in the bank shall not be considered sufficient action to address the bank s capital deficiency.

If the above requirements are not submitted within the given period, the appropriate department of the Bangko Sentral may proceed in recommending appropriate supervisory action/s on the bank, if applicable.

(M-2014-002 dated 27 January 2014)

Secs. X112 - X114 (Reserved)

¹ sixty (60) calendar days from date of transaction or thirty (30) calendar days from receipt of corporate secretary of the transaction, whichever comes first.

E. RISK-BASED CAPITAL

Sec. X115 Basel III Risk-Based Capital. The guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel III recommendations is provided in *Appendix 63b*.

The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than ten percent (10%) for both solo basis (head office plus branches) and consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies). Other minimum capital ratios include Common Equity Tier (CET) 1 ratio and Tier 1 capital ratios of six percent (6.0%) and seven and a half percent (7.5%), respectively. A capital conservation buffer of two and a half percent (2.5%), comprised of CET1 capital, shall likewise be imposed.

Existing capital instruments as of 31 December 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital starting 01 January 2014. Capital instruments issued from 01 February 2011 to 12 October 2012 shall be recognized as qualifying capital until 31 December 2015.

(The BSP's implementation plans for the New International Capital Standards or Basel 2 contained in the Basel Committee on Banking Supervision (BCBS) document "International Convergence of Capital Measurement and Capital Standards: A Revised Framework", are shown in Appendix 63)

(Circular No. 538 dated 04 August 2006, as amended by M-2014-019 dated 10 April 2014, Circular Nos. 822 dated 13 December 2013, and 781 dated 15 January 2013, M-2013-056 dated 10 December 2013, 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 19 March 2008, Circular Nos. 605 dated 05 March 2008 and 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)

□ **X115.1 Scope.** The Basel III guidelines apply to all UBs and KBs, as well as their subsidiary banks and QBs.

(As amended by Circular No. 781 dated 15 January 2013)

□ **X115.2 (Reserved)**

□ **1115.2 (2008 - 1116.5) Market risk capital requirement.** UBs/KBs shall also measure and apply capital charges for market risk, in addition to the credit risk capital requirement in this Section, in accordance with the Guidelines to Incorporate Market Risk in the Risk-Based Capital Adequacy Framework in *Appendix 46*.

The capital treatment of market risk exposures arising from the holdings of Dollar-Linked Peso Notes (DLPNs) is indicated in *Appendix 46a*.

The instructions for accomplishing the report on computation of the Adjusted Risk-Based Capital Adequacy Ratio covering combined credit risk and market risk are shown in *Appendices 46b* (for UBs and KBs with expanded derivatives authority), *46c* (for UBs and KBs with expanded derivatives authority but without options transactions) and *46d* (for UBs and KBs without expanded derivatives authority).

(As amended by M-2011-062 dated 13 December 2011 and Circular No. 740 dated 16 November 2011)

□ **2115.2 (Reserved)**

□ **3115.2 (Reserved)**

□ **X115.3 (2008 - X116.8) Capital treatment of exposures/investments in certain products.** The guidelines on the capital treatment of bank's exposures/investments in the following products are in Part VI:

- Credit-linked notes in Sec. 1628 and its Subsections.
- Structured products in Subsec. 1635.4.
- EFCDU investments in Subsec. 1636.4.
- Investment in securities overlying securitization structures in Subsec. 1648.4.

□□ **X115.4 - X115.5**
14.12.31

□ **X115.4 Required reports.** Banks shall submit a report of their risk-based capital adequacy ratio on a solo basis (head office plus branches) and on a consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies) quarterly to the appropriate department of the SES in the prescribed forms within the deadlines, i.e., fifteen (15) banking days and thirty (30) banking days after the end of reference quarter, respectively. Only banks with subsidiary financial allied undertakings (excluding insurance companies) which under existing regulations are required to prepare consolidated statements of condition on a line-by-line basis shall be required to submit report on a consolidated basis. The abovementioned reports shall be classified as *Category A-1* reports.

All UBs and KBs as well as their subsidiary banks shall be subject to all other reporting requirements (i.e., Basel III Capital Adequacy Summary Report) under the Basel III risk-based capital as may be prescribed by the Bangko Sentral.

Late and/or erroneous reporting of all reports in compliance with the Basel III requirements shall be subject to penalties provided under Subsec. X192.2. Banks failing to submit the required reports within the prescribed deadline shall be subject to monetary penalties applicable for delayed reporting under existing regulations.
(Circular No. 842 dated 25 July 2014)

□ **X115.5 Domestic systemically important banks (DSIBs)**

It is the thrust of the Bangko Sentral to ensure that its capital adequacy framework is consistent with the Basel principles. Hence, the Bangko Sentral is adopting policy measures for DSIBs, which are essentially aligned with the documents issued by BCBS on global systemically important banks (GSIBs) and DSIBs. The broad aim of the policies is to reduce the probability of failure of DSIBs by increasing

their going-concern loss absorbency and to reduce the extent or impact of failure of DSIBs on the domestic/real economy.

The guidelines shall apply on a consolidated basis to all UBs and KBs, including branches of foreign banks established under R.A. No. 7721 (An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for Other Purposes).

The framework for dealing with domestic systemically important banks consists of 3 parts, as follows:

a. *Assessment Methodology*

The impact of a DSIB s failure to the domestic economy shall be assessed based on bank-specific factors, to wit: (a) size; (b) interconnectedness; (c) substitutability/ financial institution infrastructure; and (d) complexity. Ten (10) indicators related to these categories shall be used to identify DSIBs. These indicators reflect the factors or criteria which makes a bank significant for the stability of the financial system and the economy.

b. *Higher Loss Absorbency (HLA) and Interaction with Other Elements of Basel III Framework*

Banks that will be identified as DSIBs shall be required to have HLA. The HLA requirement is aimed at ensuring that DSIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern, considering that the failure of a DSIB is expected to have a greater impact on the domestic financial system and economy.

To determine banks' compliance with the additional CET1 requirement for DSIBs, the minimum ratio should be complied with by the parent bank and its subsidiary banks and quasi-banks on both solo and consolidated bases.

c. *Intensive Supervisory Approach*

Banks identified as DSIBs shall include in their Internal Capital Adequacy Assessment Process (ICAAP) document concrete and reasonable recovery plans

which shall be implemented in case the bank breaches the HLA capital requirement. The recovery plans shall include guidelines and action plans to be taken to restore the DSIB's financial condition to viable level in cases of significant deterioration in certain scenarios. This shall include specific initiatives appropriate to the Bank's risk profile such as capital raising activities, streamlining of businesses, restructuring and disposal of assets, to improve capital position.

The guidelines on the framework for dealing with DSIBs is shown in Appendix 107.

(Circular No. 856 dated 29 October 2014)

¶ **X115.6 ¶ X115.8 (Reserved)**

¶ **X115.9 Sanctions**

a. *For non-reporting of CAR breaches.* 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 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:

- 1) First offense – warning;
- 2) Second offense – reprimand;
- 3) Third offense – 1 month suspension without pay; and
- 4) Further offense – disqualification.

b. *For non-compliance with required disclosures.* 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:

- 1) First offense – warning on CEO and the Board;
- 2) Second offense – reprimand on CEO and the Board;
- 3) Third offense – 1 month suspension of CEO without pay; and
- 4) 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)

Sec. X116 Basel I Risk-Based Capital.

(Deleted by Circular No. 827 dated 28 February 2014)

¶ **X116.1 Scope.**

(Deleted by Circular No. 827 dated 28 February 2014)

¶ **X116.2 (2008 - X116.1) Qualifying capital.**

(Deleted by Circular No. 827 dated 28 February 2014)

¶ **X116.3 (2008 - X116.2) Risk-weighted assets.**

(Deleted by Circular No. 827 dated 28 February 2014)

¶ **X116.4 (2008 - X116.3) Definitions**

(Deleted by Circular No. 827 dated 28 February 2014)

¶ **X116.5 (2008 - X116.4) Required reports.**

(Deleted by Circular No. 827 dated 28 February 2014)

¶ **X116.6 Sanctions.**

(Deleted by Circular No. 827 dated 28 February 2014)

☐☐ **X116.7 - X118**
14.12.31

☐ **X116.7 Temporary relief.**
(Deleted by Circular No. 827 dated 28 February 2014)

Sec. X117 Internal Capital Adequacy Assessment Process and Supervisory Review Process¹. The guidelines on banks internal capital adequacy assessment process (ICAAP) and BSP s supervisory review process (SRP) are shown in *Appendices 90, 90a and 90b*, respectively.

The ICAAP guidelines shall apply to all UBs and KBs on a group-wide basis.

The guidelines took effect on 01 January 2011.
(Circular No. 639 dated 15 January 2009, as amended by Circular Nos. 731 dated 28 July 2011, 677 dated 29 December 2009)

Sec. X118 Revised Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks. The guidelines implementing the revised risk-based capital adequacy framework for Stand-alone TBs, RBs, and Coop Banks² are in *Appendix 63c*.

Capital instruments issued by banks starting 01 January 2014 shall be subject to the criteria for inclusion as qualifying capital provided in *Appendix 63b Annexes A to C and Annexes E to F*.

a. The risk-based capital adequacy ratio (CAR) of stand-alone TBs, RBs and Coop Banks, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than ten percent (10%) for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiary financial allied undertakings).

Stand-alone TBs, RBs and Coop Banks shall comply with the provisions of this Section starting 01 January 2012.

b. *Required reports.* 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 Venture Capital Corporations

(VCC) 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.

c. *Sanctions*

1. For non-reporting of CAR breaches

(a) 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 (BOD) 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:

- (1) First offense – warning
- (2) Second offense – reprimand
- (3) Third offense – 1 month suspension without pay
- (4) Further offense – disqualification

2. For non-compliance with required disclosures

(a) 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

¹All covered UBs and KBs were required to submit the interim ICAAP document until 30 April 2010 and the final ICAAP document until 31 January 2011.

²These refer to TBs, RBs and Coop Banks that are not subsidiaries of UBs and KBs.

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:

- (1) First offense – warning on President/ or any officer holding equivalent position and the BOD
- (2) Second offense – reprimand on President/or any officer holding equivalent position and the BOD
- (3) Third offense – 1 month suspension of President/or any officer holding equivalent position without pay
- (4) Further offense – possible disqualification of the President/or any officer holding equivalent position and/or the BOD

3. For non-compliance with the minimum CAR

(a) 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, *Appendix 63c* 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.

(b) 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.

(c) A bank may also be subject to Prompt Corrective Action (PCA) framework when either the total CAR, Tier 1 ratio or leverage ratio 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 accounts fall below the minimum capital requirement prescribed under Subsec. X111.1, pursuant to the provisions of Sec. X193.

(Circular No. 688 dated 26 May 2010, as amended by Circular Nos. 827 dated 28 February 2014, 781 dated 15 January 2013, 770 dated 28 September 2012, 762 dated 25 July 2012, 750 dated 01 March 2012, 717 and 716 both dated 25 March 2011, 713 dated 14 February 2011 and 709 dated 10 January 2011)

F. CAPITAL INSTRUMENTS

Sec. X119 Unsecured Subordinated Debt

The following are the guidelines for the issuance of unsecured subordinated debt (UnSD) eligible as Hybrid Tier 1 (HT1) and Tier 2 capital:

(As amended by Memorandum to All Banks dated 23 March 2006)

¶ X119.1 *Minimum features of unsecured subordinated debt*

a. *Form.* A UnSD that will be publicly distributed may either be scripless in form or evidenced by certificates such as: promissory note, debenture or other appropriate certificate of indebtedness. A UnSD in scripless form shall comply with the provisions of R.A. No. 8792, otherwise known as the Electronic Commerce Act , particularly on the existence of an assurance on the integrity, reliability and authenticity of the UnSD in electronic form. An independent third party UnSD Registry shall

¶¶ **X119.1 - X119.4**
14.12.31

maintain unissued UnSD certificates and the UnSD Registry Book, which must be electronic if the UnSD is scripless in form. A UnSD that will be issued privately or on a negotiated basis shall be evidenced by certificates.

All UnSD shall be registered in the name of individuals or entities and pre-numbered serially.

b. *Denomination.* The UnSD must be issued in minimum denominations of P500,000 or its equivalent if denominated in a foreign currency.

c. *Mandatory provisions.* If the UnSD is not scripless in form, the following provisions must appear in bolder prints on the face of every note, debenture or other certificate evidencing the same:

(1) This obligation is not a deposit and is not insured by the PDIC;

(2) This obligation is neither secured nor covered by the guarantee of (name of bank) or its subsidiaries and affiliates, or other arrangement that legally or economically enhances the priority of the claim of any holder of the UnSD as against depositors and other creditors (for LT2); depositors, other creditors and holders of LT2 capital instruments (for UT2); and depositors, other creditors and holders of LT2 and UT2 capital instruments (for HT1);

(3) This obligation does not have a priority claim, in respect of principal and coupon payments in the event of winding up of the (name of bank), which is higher than or equal with that of depositors and other creditors (for LT2); depositors, other creditors and holders of LT2 capital instruments (for UT2); and depositors, other creditors, holders of LT2 and UT2 capital instruments (for HT1); and

(4) The obligation is ineligible as collateral for a loan granted by (name of Bank), its subsidiaries and affiliates.

If the UnSD is scripless in form, the foregoing provisions/information shall be

furnished every buyer/investor in a separate written instrument receipt of which must be duly acknowledged by him.

d. *Term.* The UnSD qualifying under HT1 capital shall be perpetual. The minimum maturity of a UnSD qualifying under UT2 and LT2 capital shall be ten (10) years and five (5) years, respectively.

(As amended by Memorandum to All Banks dated 23 March 2006)

¶ **X119.2 *Prior Bangko Sentral approval.*** No UnSD shall be issued without the prior approval of the Bangko Sentral.

¶ **X119.3 *Pre-qualification requirements of issuing bank.*** A bank applying for authority to issue a UnSD shall comply with the following requirements:

a. It has complied with the minimum amount of capital required under Subsec. X111.1 or its paid-in capital is at least equal to the amount required therein.

b. 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.

c. It is a locally incorporated bank.

¶ **X119.4 *Public issuance of unsecured subordinated debt.*** Public issuance of UnSD is an issuance offered to the general public, which may or may not be qualified investors/ buyers as hereinafter defined. The Issuing Bank must be rated by an independent credit rating agency recognized by the Bangko Sentral and a Public Trustee shall be appointed for investor protection.

a. *Application for authority*

(1) The application shall be signed by the president or officer of equivalent rank of the applicant bank;

(2) The application for authority on each UnSD issue/issue program shall be filed with the appropriate department of the SES: *Provided*, That the period of an issue program of two (2) or more tranches shall not exceed one (1) year from date of approval; and

(3) The application shall be accompanied by:

(a) A certified true copy of the resolution of the Issuing Bank's board of directors authorizing the issuance of the UnSD indicating, among others, the issue size, terms and conditions, offering period, purpose or intended use of proceeds thereof, the names of the Underwriter/Arranger, UnSD Registry, Selling Agent(s) and Market Maker(s), and Public Trustee;

(b) A certification by the corporate secretary that the issuance of the UnSD has been approved by the stockholders owning or representing at least two-thirds (2/3) of the outstanding capital stock of the Issuing Bank if the UnSD has convertibility feature;

(c) A written confirmation from the president or officer of equivalent rank of the Issuing Bank stating that all the conditions/eligibility criteria for UnSD to qualify for capital instruments under applicable and existing capital adequacy framework are complied with and that such conditions/eligibility criteria shall be contained in the UnSD Certificates if the UnSD is not in scripless form, in the Information Disclosure and Purchase Advice .

(d) A written undertaking from the president or officer of equivalent rank of the Issuing Bank not to support, directly or indirectly, by extending loans, issuing payment guarantees or otherwise, the buyer/holder of the UnSD of the Issuing Bank;

(e) A written confirmation from the president or officer of equivalent rank of the Issuing Bank stating that the designated Underwriter/Arranger, UnSD Registry, Selling Agent(s) and Market Maker(s) were provided with a complete list of subsidiaries

and affiliates of the Issuing Bank including their subsidiaries and affiliates;

(f) A written undertaking from the president or officer of equivalent rank of the Issuing Bank to update the above-mentioned list within three (3) banking days from the date of change in composition thereof;

(g) Specimen of the UnSD; and

(h) A written external legal opinion that all the conditions/eligibility criteria for UnSD to qualify for capital instruments under applicable and existing capital adequacy framework and loss absorption (for HT1 and UT2) features, have been met; and

(i) A certification signed by the president (or officer of equivalent rank) and chief compliance officer of the issuing bank stating the compliance of all parties to the UnSD transaction with the respective prequalification requirements prescribed under Item □□ of Subsec. X119.4

b. Additional requirements for the issuance of UnSD

After a bank's application to issue a UnSD has been approved, the applicant shall submit the following additional requirements to the appropriate department of the SES:

(1) At least fifteen (15) banking days before the date of offering:

(a) A written confirmation from the president or officer of equivalent rank of the Issuing Bank stating that the bank has been rated by an independent credit rating agency duly recognized by the Bangko Sentral;

(b) Information disclosure of the UnSD issuance prepared by the Underwriter Arranger;

(c) Promotional materials;

(d) Specimen of the proposed Purchase Advice and Registry Confirmation; and

(e) Copy of the agreements between the Issuing Bank and the Underwriter/Arranger/UnSD Registry/Selling Agent(s)/Market Maker(s), and Public Trustee.

The Bangko Sentral reserves the right to suspend the date of offering, within the

□ X119.4
14.12.31

fifteen (15) banking day period from submission of the above-mentioned requirements.

(2) Within ten (10) banking days after issuance of the initial and subsequent tranches:

(a) A written notice of the actual date of issuance/offering of each initial and subsequent tranches.

c. *Requirements for other parties involved*

The issuing bank shall be held accountable for ensuring the continuous compliance by its chosen participant-FIs with the qualification requirements prescribed by the Bangko Sentral.

As such, the issuing bank shall make a careful and diligent evaluation of the parties whom it shall engage to act as underwriter/arranger, UnSD registry, selling agent, market maker and public trustee of its UnSDs.

The following qualification requirements shall be strictly complied with prior to and on a continuing basis by the issuing bank and FIs engaged to act as underwriter/arranger, UnSD registry, selling agent, market maker and public trustee while the UnSDs of the issuing bank remains outstanding:

(1) Underwriter/Arranger

(a) It is either a UB or an IH: *Provided*, That if an offering is on a best effort basis, the Arranger may also be a KB: *Provided, further*, That if an offering is denominated in foreign currency, the Underwriter/Arranger may also be any reputable international investment bank.

(b) It must be an independent third party that has no subsidiary/affiliate or any other relationship with the Issuing Bank that would undermine the objective conduct of due diligence.

(c) If Underwriter, it must have adequate risk management and must be well capitalized, which for a local Underwriter, shall be evidenced by compliance with the

risk-based CAR prescribed under applicable and existing capital adequacy framework for the past sixty (60) days immediately preceding the date of application where applicable.

(2) UnSD Registry

(a) It may be a UB, a KB, or such other specialized entity that may be qualified by the Monetary Board.

(b) It must be a third party that has no subsidiary/affiliate or any other relationship with the Issuing Bank that would undermine its independence.

(c) It must not be an Underwriter or a Market Maker of the UnSD.

(d) It must have adequate facilities and the organization to do the following:

(i) Maintain certificates of unissued UnSD and the Registry Book which must be electronic if the UnSD is in scripless form;

(ii) Deliver transactions within the agreed trading period; and

(iii) Issue Registry Confirmations and UnSD Certificates if they are not in scripless form to buyers/holders of UnSD.

(e) It must have a CAMELS composite rating of at least 3 in the last regular examination, where applicable.

(3) Selling Agent

(a) It must be an FI with dealership or brokering license.

(b) It must be a third party that has no subsidiary/affiliate or any other relationship with the Issuing Bank that would undermine its independence.

(4) Market Maker

(a) It must be an FI with a dealership or brokering license.

(b) It must be a third party that has no subsidiary/affiliate or any other relationship with the Issuing Bank that would undermine its independence.

(c) It must have adequate risk management and must be well capitalized as evidenced by compliance with the risk based CAR prescribed under applicable and

existing capital adequacy framework for the past sixty (60) days immediately preceding the date of application where applicable.

There is no need for a Market Maker if the UnSD is to be held on to maturity: *Provided*, That this condition is properly disclosed in the Purchase Advice, Registry Confirmation and Prospectus/Information Disclosure.

(5) Public Trustee

(a) It must be an FI authorized by the Bangko Sentral to engage in trust and other fiduciary business.

(b) It must be a third party that has no subsidiary/affiliate or any other relationship with the Issuing Bank that would undermine its independence.

(c) It must have adequate risk management system and must be well capitalized as evidenced by compliance with the risk-based CAR prescribed under applicable and existing capital adequacy framework for the past sixty (60) days immediately preceding the date of application where applicable. The 60-day compliance period with the risk-based CAR shall be waived in evaluating a bank's eligibility to act as Public Trustee for another bank's UnSD's Tier 2 offering, if the former bank has instituted remedial measure to its CAR deficiency by issuing Tier 2 capital.

(d) It may also be the UnSD Registry.

(e) A Public Trustee is mandatory if UnSD shall be offered to the general public and optional if offering will be limited to qualified investors/buyers.

d. Functions/Responsibilities of other parties involved

The respective parties shall have, among others, the following functions/responsibilities:

(1) Underwriter/Arranger

(a) Conducts due diligence on the Issuing Bank and determines the valuation/pricing of the primary issue;

(b) Prepares the prospectus/information disclosure, including updates for multi-tranche UnSD issues;

(c) Formulates the distribution/allocation plan for the initial offering and ensures proper and orderly distribution of the primary offering of the UnSD;

(d) Disseminates information to prospective investors of UnSD on the terms and conditions of the issue (including information of non pre-termination at the initiative of the holder and the liquidity mechanism in secondary trading) and the rights and obligations of the holder, issuer, Underwriter/Arranger, UnSD Registry, Selling Agent, Market Maker and Public Trustee; and

(e) When selling to its clients, it must perform the functions/responsibilities of the Selling Agent under Item ¶d(3) hereof.

(2) UnSD Registry

(a) Keeps unissued UnSD certificates and maintains UnSD Registry book, which must be electronic if UnSD is scripless in form;

(b) Records initial issuance of the UnSD and subsequent transfer of ownership;

(c) Issues UnSD Certificates for primary offerings if UnSD is not scripless in form;

(d) Issues Registry Confirmation to buyers/holders;

(e) Functions as paying agent for periodic interest and principal payments;

(f) Monitors compliance with the prohibitions on holdings of UnSD, as prescribed under Subsec. X119.8 hereof; and

(g) Submits within ten (10) banking days from end of reference month, an exception report on Subsec. X119.8 to the appropriate department of the SES. This report shall be classified as a "Category B" report.

(3) Selling Agent

(a) Verifies identity of each investor to ascertain that Subsec. X119.8 is not violated

X119.4
14.12.31

and applies appropriate standards to combat money laundering as required under existing Bangko Sentral regulations;

(b) Determines the suitability of the investor and ensures that he fully understands the features of the UnSD and the risk involved therein; and

(c) Issues the Purchase Advice for the primary offering of the UnSD to the buyer and sends a copy thereof to the UnSD Registry.

The sale or distribution of UnSD may also be performed by the issuer through its head office and branches subject to the following conditions:

(i) The in-house distribution shall not exceed fifty percent (50%) of the total issue;

(ii) The sale/distribution must be done under the supervision of an officer of the Issuing Bank who is capable of determining the suitability of the investor and ensuring that he fully understands the risk in UnSD;

(iii) All personnel assigned to distribute sell UnSD must be capable of determining the suitability of the investor and ensuring that he fully understands the risk in UnSD; and

(iv) It must also perform the functions/responsibilities of the Selling Agent.

(4) Market Maker

(a) Sets an independent pricing for the secondary trading of UnSD;

(b) Posts daily the bid and offer prices for the UnSD on the screen of at least one (1) of the information providers until the operation of a fixed income exchange for UnSD;

(c) Verifies identity of each investor to ascertain that Subsec. X119.8 is not violated and applies appropriate standards to combat money laundering as required under existing Bangko Sentral regulations;

(d) Determines the suitability of the buyer and ensures that he fully understands the risk involved in a UnSD;

(e) Issues the Purchase Advice for the secondary trading of the UnSD to the buyer

and sends a copy thereof to the UnSD Registry; and

(f) Ensures secondary market transfers and registration in coordination with the UnSD Registry.

(5) Public Trustee

(a) Monitors compliance of the Issuing Bank with the terms and conditions of the UnSD;

(b) Monitors compliance of the other parties with their functions and responsibilities prescribed under this Memorandum;

(c) Reports regularly to UnSD holders non-compliance of the Issuing Bank with the terms and conditions of the UnSD and such other developments that adversely affect their interest and advise them of the course of action they should take to protect their interest; and

(d) Act on behalf of the UnSD holders in case of bankruptcy of the Issuing Bank.

e. *Change of underwriter/arranger, UnSD registry, selling agent(s), market maker(s).* After an application for authority to issue a UnSD has been approved by the Bangko Sentral, the Issuing Bank cannot change its Underwriter/Arranger, UnSD Registry, Selling Agent(s), Market Maker(s) and Public Trustee without prior Bangko Sentral approval.

f. *Agreements between issuing bank and other parties involved.* The agreements between the Issuing Bank and the UnSD Registry/Selling Agent(s)/Market Maker(s)/ Public Trustee shall comply with the provisions of Subsec. X162.1 on bank service contracts. The Issuing Bank shall be liable to investors for any damages caused by actions of the UnSD Registry, Selling Agent(s) and Market Maker(s), which are contrary to the agreements entered into.

g. *Purchase advice and registry confirmation.* The Purchase Advice and Registry Confirmation shall contain all the terms and conditions on the issuance of

UnSD and shall conspicuously state the following caveat:

(1) This UnSD is not a deposit and is not insured by the PDIC.

(2) This UnSD is neither secured nor covered by a guarantee of the Issuer/Underwriter/Arranger or related party of the Issuer/Underwriter/Arranger or other arrangement that legally or economically enhances the priority of the claim of any holder of the UnSD as against depositors and other creditors (for LT2); depositors, other creditors and holders of LT2 capital instruments (for UT2); and depositors, other creditors and holders of LT2 and UT2 capital instruments (for HT1);

(3) This UnSD does not have a priority claim, in respect of principal and coupon payments in the event of winding-up of the Issuing Bank, which is higher than or equal with that of depositors and other creditors (for LT2); depositors, other creditors and holders of LT2 capital instruments (for UT2); and depositors, other creditors, holders of LT2 and UT2 capital instruments (for HT1);

(4) This UnSD is ineligible as collateral for a loan granted by the Issuing Bank, its subsidiaries or affiliates;

(5) This UnSD cannot be terminated by the holder nor by the Issuing Bank (for HT1). This UnSD cannot be terminated by the holder nor by the Issuing Bank before (maturity date) (for UT2 and LT2).

However, negotiations/ transfers from one (1) holder to another do not constitute pre-termination.

For tax purposes, negotiations/transfers from one (1) holder to another shall be subject to the pertinent provisions of the National Internal Revenue Code of 1997, as amended, and BIR regulations.

However, negotiations/transfers from one (1) holder to another do not constitute pre-termination.

(Item g(5)) above shall apply if the Issuing Bank commits no pre-termination of the UnSD. Otherwise, it shall read as follows):

This UnSD cannot be terminated by the holder (for HT1). This UnSD cannot be terminated by the holder before (maturity date) (for UT2 and LT2).

However, it may be pre-terminated at the instance of the Issuing Bank upon:

(a) Prior approval of the Bangko Sentral subject to the following conditions:

(i) The repayment is in connection with call option after a minimum of five (5) years from issue date, or even within the first five (5) years from issue date when:

(aa) The UnSD was issued for the purpose of a merger with or acquisition by the Issuing Bank and the merger or acquisition is aborted;

(bb) There is a change in tax status of the UnSD due to changes in the tax laws and/or regulations; or

(cc) The UnSD does not qualify as HT1, UT2 or LT2 capital, as the case may be, as determined by the Bangko Sentral; and

(ii) The debt is simultaneously replaced with the issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the Issuing Bank's capital adequacy ratio remains more than adequate after redemption; and

(b) Prior notice to holders on record.

Negotiations/transfers from one (1) holder to another do not constitute pre-termination.

However, for tax purposes, negotiations/transfers from one (1) holder to another shall be subject to the pertinent provisions of the National Internal Revenue Code of 1997, as amended, and BIR regulations.

In case there is a feature allowing one-time step-up in the coupon rate in conjunction with a call option, the step-up shall be after a minimum of ten (10) years for HT1 and UT2 and five (5) years for LT2 after the issue date, and shall not result in an increase over the initial rate that is more than:

(i) 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or

¶ X119.4
14.12.31

(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 shall be fixed at 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;

(6) The holders/owners of this UnSD cannot set off any amount they owe to the Issuing Bank against this UnSD.

(7) All negotiations/transfers of this UnSD prior to maturity must be coursed through a Market Maker until the operation of a fixed income exchange.

(8) The payment of principal may be accelerated on this UnSD only in the event of insolvency of the Issuing Bank.

(9) The coupon rate, or the formulation for calculating coupon payments shall be fixed at the time of the issuance of the UnSD and may not be linked to the credit standing of the Issuing Bank;

(10) The payment of principal and coupon due on this UnSD shall not be made to the extent that such payment will cause the Issuing Bank to become insolvent (for HT1 and UT2);

(11) The holders of the UnSD shall be treated as if they were holders of a specified class of share capital in any proceedings commenced for the winding-up of the Issuing Bank (for HT1 and UT2);

(Item ¶g(11) above shall apply if such is the manner by which the UnSD is to be treated in loss situation. Otherwise, it shall read as follows):

This UnSD shall be automatically converted into common shares or perpetual and non-cumulative preferred shares (for HT1) or into common shares or perpetual and non-cumulative preferred shares or perpetual and cumulative preferred shares (for UT2) upon occurrence of certain trigger events as follows:

- (a) Breach of minimum capital ratio;
- (b) Commencement of proceedings for winding-up of the Issuing Bank; or

(c) Upon appointment of receiver for the Issuing Bank.

The rate of conversion shall be fixed at the time of the subscription of this UnSD.

(12) The amount and timing of coupons on this UnSD shall be discretionary on the Issuing Bank where the Issuing Bank has not paid or declared a dividend on its common shares in the preceding financial year, or determines that no dividend is to be paid on such shares in the current financial year; and the Issuing Bank shall have full control and access to waived payments (for HT1). The coupon payment on this UnSD shall be deferred where the Issuing Bank has not paid or declared a dividend on its common shares in the preceding financial year, or determines that no dividend is to be paid on such shares in the current financial year (for UT2);

(13) The coupon on this UnSD shall be non-cumulative. In case there is a feature allowing withheld cash coupon to be payable in scrip or shares of stock, the shares of stock to be issued shall not be of lower quality capital than the UnSD (for HT1); and

(14) The coupon to be paid on this UnSD shall be paid only to the extent that the Issuing Bank has profit distributable determined in accordance with existing Bangko Sentral regulations (for HT1).

N.B.: The last five (5) items (i.e., 10, 11, 12, 13 and 14) are applicable only to UnSD qualifying under HT1 and UT2 capital, as the case may be. The foregoing information shall also be shown in the Prospectus/Information Disclosure.

h. Pre-termination by the Issuer

(1) The Issuing Bank may pre-terminate the UnSD subject to the following conditions:

(a) The Information Disclosure, Purchase Advice and Registry Confirmation shall include the information that the Issuing Bank has the option to pre-terminate the UnSD;

(b) Compliance with Items a(2)(a)vi¶, ¶b(1)(h)v¶ or ¶b(2)(c)iv¶ as may be applicable;

(c) Prior notification of thirty (30) banking days or more to holders of record; and

(d) Notwithstanding any agreement to the contrary, the Issuer shall shoulder the tax due, if any, on the interest income already earned by the holders.

(2) Within ten (10) banking days after the completion of the pre-termination transaction, the Issuing Bank must submit a written notice to the appropriate department of the SES of the following:

- (a) Actual pre-termination date; and
- (b) New capital composition.

i. *Primary offering/secondary trading*

(1) The primary offering of a UnSD shall be executed through an Underwriter under a firm commitment or through an Arranger on a best effort basis. Initial sale/distribution of UnSD shall be made by a Selling Agent, the Underwriter/Arranger or, to a limited extent, the Issuing Bank itself. Subsequent negotiations in secondary trading must be executed through authorized Market Maker(s) until the operation of a fixed income exchange.

The primary offering as well as the secondary trading of a UnSD must be supported by Purchase Advice to be issued by the Selling Agent or the Market Maker, as the case may be, with the original given to the buyer and a second copy to the UnSD Registry. Upon presentation by the buyer of the original copy of Purchase Advice, the UnSD Registry shall:

(a) record the primary issuance in the Registry Book and issue a Registry Confirmation and the corresponding UnSD certificate to the buyer if it is not scripless in form; and

(b) register the transfer of ownership in the UnSD Registry Book and issue a Registry

Confirmation to the buyer, in the case of secondary trading.

(As amended by Circular Nos. 834 dated 26 May 2014, 827 dated 28 February 2014, 778 dated 14 December 2012, 716 dated 25 March 2011, 709 dated 10 January 2011, Memorandum to All Banks dated 23 March 2006)

¶ **X119.5 Private or negotiated issuance of unsecured subordinated debt**

a. *Private or negotiated issuance of UnSD* is the issuance of UnSD to qualified investors/buyers, whether individuals or institutions as defined under Subsec. X119.7. There is no limit on the number of qualified investors/buyers and on the sale or negotiation of the UnSD: *Provided*, That such sale or negotiation shall only be made to another qualified investor/buyer.

b. *Application for authority of the Issuing Bank*

(1) The application shall be signed by the president or officer of equivalent ran of the Issuing Bank.

(2) The application for authority on each negotiated UnSD issue shall be filed with the appropriate department of the SES.

(3) The application shall be accompanied by:

(a) A certified true copy of the resolution of the Issuing Bank s board of directors authorizing the private/negotiated issuance of UnSD indicating, among others, the amount, duration/maturity, interest rate, purpose or intended use of proceeds of the UnSD;

(b) A Certification by the corporate secretary that the issuance of the UnSD has been approved by the stockholders owning or representing at least two-thirds (2/3) of the outstanding capital stock of the Issuing Bank if the UnSD has convertibility feature;

(c) A written confirmation from the president or officer of equivalent rank of the Issuing Bank stating that all the conditions/eligibility criteria for UnSD to qualify for capital instruments under applicable and

□ X119.5
14.12.31

existing capital adequacy framework are complied with and that such conditions/eligibility criteria shall be contained in the UnSD Certificates, Prospectus/Information Disclosure and Debt Agreement/Contract.

(d) An undertaking from the president or officer of equivalent rank of the Issuing Bank that the UnSD shall be issued only to qualified investors/buyers;

(e) A certification from the president or officer of equivalent rank of the Issuing Bank that the investor/buyer shall not be among those prohibited to hold UnSD under Subsec. X119.8 and that the Issuing Bank has applied appropriate standards to combat money laundering as required under existing Bangko Sentral regulations;

(f) A written undertaking from the president or officer of equivalent rank of the Issuing Bank not to support, directly nor indirectly, by extending loans, issuing payment guarantees or otherwise, the buyer/holder of the UnSD of the Issuing Bank; and

(g) Specimen of the proposed Debt Agreement/Contract containing the terms and conditions of the UnSD issuance

(h) A written external legal opinion that all the conditions for UnSD under applicable and existing capital adequacy framework including the subordination (for HT1, UT2 and LT2) and loss absorption (for HT1 and UT2) features, have been met.

c. *Additional requirements for the private issuance of UnSD.* Within ten (10) banking days after issuance of the UnSD, the Issuing Bank shall submit the following additional requirements to the appropriate department of the SES:

(1) A written notice of the actual date of full receipt of proceeds, accompanied by a certification from the president or officer of equivalent rank of the Issuing Bank stating that the pre-qualification requirements under Subsec. X119.3 have been complied with up to the time of full receipt of proceeds;

(2) A copy of each of the duly signed Debt Agreements/Contracts between the Issuing Bank and the investor/buyer as specified in the application for authority to issue negotiated UnSD; and

(3) A copy of the income tax return of the investor/buyer in case of a natural person.

d. *Debt agreement/contract*

The Debt Agreement/Contract shall contain all the terms and conditions on the issuance of UnSD and shall conspicuously state the following caveat:

(1) This UnSD is not a deposit and is not insured by the PDIC.

(2) This UnSD is neither secured nor covered by a guarantee of the Issuer or related party of the Issuer or other arrangement that legally or economically enhances the priority of the claim of any holder of the UnSD as against depositors and other creditors (for LT2); depositors, other creditors and holders of LT2 capital instruments (for UT2); and depositors, other creditors and holders of LT2 and UT2 capital instruments (for HT1).

(3) This UnSD does not have a priority claim, in respect of principal and coupon payments in the event of winding-up of the Issuing Bank, which is higher than or equal with that of depositors and other creditors (for LT2); depositors, other creditors and holders of LT2 capital instruments (for UT2); and depositors, other creditors, holders of LT2 and UT2 capital instruments (for HT1);

(4) This UnSD is ineligible as collateral for a loan made by the Issuing Bank, its subsidiaries or affiliates.

(5) This UnSD cannot be terminated by the holder nor by the Issuing Bank (for HT1). This UnSD cannot be terminated by the holder nor by the Issuing Bank before (maturity date) (for UT2 and LT2).

Item d(5)□ above shall apply if the Issuing Bank commits no pre-termination

of the UnSD. Otherwise, it shall read as follows:

This UnSD cannot be terminated by the holder (for HT1). This UnSD cannot be terminated by the holder before (maturity date) (for UT2 and LT2).

However, it may be pre-terminated at the instance of the Issuing Bank upon:

(a) Prior approval of the Bangko Sentral subject to the following conditions:

(i) The repayment is in connection with call option after a minimum of five (5) years from issue date, or even within the first five (5) years from issue date when:

(aa) The UnSD was issued for the purpose of a merger with or acquisition by the Issuing Bank and the merger or acquisition is aborted;

(bb) There is a change in tax status of the UnSD due to changes in the tax laws and/or regulations; or

(cc) The UnSD does not qualify as HT1, UT2 or LT2 capital, as the case may be, as determined by the Bangko Sentral; and

(ii) The debt is simultaneously replaced with the issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the Issuing Bank's capital adequacy ratio remains more than adequate after redemption; and

(b) Prior notice to investors/buyers.

In case there is a feature allowing one-time step-up in the coupon rate in conjunction with a call option, the step-up shall be after a minimum of ten (10) years (for HT1 and UT2) and five (5) years (for LT2) after the issue date, and shall not result in an increase over the initial rate that is 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 shall be fixed at 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;

(6) This UnSD may only be sold, transferred or negotiated to another qualified investor/buyer;

(7) The holders/owners of this UnSD cannot set off any amount they owe to the Issuing Bank against this UnSD.

(8) The payment of principal may be accelerated on this UnSD only in the event of insolvency of the Issuing Bank.

(9) The coupon rate, or the formulation for calculating coupon payments shall be fixed at the time of the issuance of the UnSD and may not be linked to the credit standing of the Issuing Bank;

(10) The payment of principal and coupon due on this UnSD shall not be made to the extent that such payment will cause the Issuing Bank to become insolvent (for HT1 and UT2);

(11) The holders of the UnSD shall be treated as if they were holders of a specified class of share capital in any proceedings commenced for the winding up of the Issuing Bank (for HT1 and UT2);

(Item d(11) above shall apply if such is the manner by which the UnSD is to be treated in loss situation. Otherwise it shall read as follows):

This UnSD shall be automatically converted into common shares or perpetual and non-cumulative preferred shares (for HT1), or into common shares or perpetual and non-cumulative preferred shares or perpetual and cumulative preferred shares (for UT2) upon occurrence of certain trigger events as follows:

(a) Breach of minimum capital ratio;

(b) Commencement of proceedings for winding up of the Issuing Bank; or

(c) Upon appointment of receiver for the Issuing Bank.

The rate of conversion shall be fixed at the time of the subscription of this UnSD.

▯▯ **X119.5 - X119.6**
14.12.31

(12) The amount and timing of coupons on this UnSD shall be discretionary on the Issuing Bank where the Issuing Bank has not paid or declared a dividend on its common shares in the preceding financial year, or determines that no dividend is to be paid on such shares in the current financial year; and the Issuing Bank shall have full control and access to waived payments (for HT1). The coupon payment on this UnSD shall be deferred where the Issuing Bank has not paid or declared a dividend on its common shares in the preceding financial year, or determines that no dividend is to be paid on such shares in the current financial year (for UT2);

(13) The coupon on this UnSD shall be non-cumulative. In case there is a feature allowing withheld cash coupon to be payable in scrip or shares of stock, the shares of stock to be issued shall not be of lower quality capital than the UnSD (for HT1); and

(14) The coupon to be paid on this UnSD shall be paid only to the extent tha the Issuing Bank has profit distributable determined in accordance with existing Bangko Sentral regulations (for HT1).

N.B.: The last five (5) items (i.e., 10, 11, 12, 13 and 14) are applicable only to UnSD qualifying under HT1 and UT2 capital, as the case may be.

e. Pre-termination by the Issuer

(1) The Issuing Bank may preterminate the negotiated UnSD subject to the following conditions:

(a) The Debt Agreement/Contract shall include the information that the Issuing Bank has the option to pre-terminate the UnSD;

(b) Compliance with call options as provided in applicable and existing capital adequacy framework;

(c) Prior notification of thirty (30) banking days or more to lender/investor; and

(d) Notwithstanding any agreement to the contrary, the Issuer shall shoulder the tax due, if any, on the interest income already earned by the holders.

(2) Within ten (10) banking days after the completion of the pre-termination transaction, the Issuing Bank must submit a written notice to the appropriate department of the SES of the following:

- (a) Actual pre-termination date; and
- (b) New capital composition.

f. Functions/Responsibilities of the Issuing Bank

(1) Prepares the Prospectus/Information Disclosure on the UnSD issues;

(2) Disseminates to prospective investors/buyers information on the terms and conditions of the UnSD (including information on no pre-termination at the initiative of the holder, and where applicable, the liquidity mechanism in secondary trading) and the rights and obligations of the holder and the issuer;

(3) Keeps unissued UnSD certificates and maintains UnSD Register;

(4) Records initial issuance of UnSD and subsequent transfer of ownership;

(5) Issues UnSD Certificates and Registry Confirmation to original investors/buyers;

(6) Issues Registry Confirmation to subsequent buyers/holders where applicable;

(7) Ensures compliance with Subsec. X119.8 and applies appropriate standards to combat money laundering as required under existing Bangko Sentral regulations; and

(8) Determines suitability of the investors/buyers (original or subsequent) and assures that he fully understands the risk involved in a UnSD.

(As amended by Circular No. 827 dated 28 February 2014 and Memorandum to All Banks dated 23 March 2006)

▯ **X119.6 Issuance abroad of unsecured subordinated debt.** The overseas issuance of UnSD shall also be subject to the provisions of Sec. X119 except for the following:

a. Overseas issuance of UnSD may be allowed to be governed by the laws and applicable rules and regulations of the country where the UnSD is to be issued with respect to form, qualified investors/

buyers and subsequent sale or negotiation;

b. The requirements under Subsecs. X119.1 c(1), X119.4 g(1), and X119.5 d(1) and d(6) may be allowed to be dispensed with in cases of overseas issuance of UnSD; and

c. The subsequent sale/negotiation in the Philippines of the UnSDs originally issued overseas shall not be allowed unless all the requirements for domestic issuance are complied with.

It is however understood that the applicant/issuer shall also secure the approval of the International Department (ID) of the Bangko Sentral for the overseas issuance of foreign currency denominated UnSD.

(As amended by Memorandum to All Banks dated 23 March 2006)

□ **X119.7 Qualified investors/buyers**
Qualified buyers of, or suitable investors in, a UnSD can be any of the following:

- a. Banks;
- b. Investment house (IH);
- c. Insurance company;
- d. Pension or retirement fund of other entities which have no subsidiary/affiliate or any other relationship with the Issuing Bank;
- e. Investment company;
- f. Funds managed by another bank or other entities duly authorized to engage in trust or other fiduciary business;
- g. Domestic corporate or institutional investors with total assets of at least P100.0 million;
- h. Foreign multilateral organizations such as, the ADB and IFC;
- i. High net-worth individual investor/buyer who is sophisticated enough to understand and appreciate the significance of and the risk involved in UnSD as may be indicated by his/her educational background and/or employment/business experience; and
- j. Stockholder, director or officer with the rank of at least a vice-president of the Issuing Bank.

□ **X119.8 Prohibitions on holdings of unsecured subordinated debt.** The following persons and entities are prohibited from purchasing/holding UnSD of the Issuing Bank:

a. Subsidiaries and affiliates of the Issuing Bank including their subsidiaries and affiliates; and

b. Common trust funds (CTFs) managed by the Trust Department of the Issuing Bank, its subsidiaries and affiliates or other related entities: *Provided*, That other funds being managed by the Trust Department of the Issuing Bank, its subsidiaries and affiliates or other related entities are allowed to purchase or invest in UnSD of the Issuing Bank subject to the following conditions:

(1) That the fund owners give prior authority/instruction to the Trust Department to purchase or invest in the UnSD of the Issuing Bank; and

(2) That the authority/instruction of the fund owner and his understanding of the risk involved in purchasing or investing in UnSD are fully documented.

For purposes of this Section, an *affiliate* refers to a related entity linked by means of ownership of at least twenty percent (20%) to not more than fifty percent (50%) of its outstanding voting stock.

□ **X119.9 Accounting treatment**
Obligations arising from the issuance of UnSD (including the portion exceeding the allowable ceiling for purposes of determining the qualifying capital as provided in applicable and existing capital adequacy framework shall be booked under the following General Ledger account titles:

- a. Other Equity Instruments - Others for HT1 capital which shall be presented in the equity accounts section of the Balance Sheet which shall be accounted for in accordance with the provisions of PAS 32; and
- b. Unsecured Subordinated Debt for UT2 and LT2 capital, which shall be presented in the liability accounts section of the balance sheet.

X119.9 - X119.13
14.12.31

However, only the proceeds actually received from the UnSD issues, (i.e., net of discounts, if any, and transaction costs) shall be considered as HT1, UT2 or LT2 capital.

The proceeds actually received from the UnSD issues, (i.e., net of discounts, if any, and transaction costs) eligible as UT2 or LT2 capital shall be considered in the computation of loanable funds for purposes of determining compliance with the mandatory allocation of funds for agri-agra credit required under P.D. No. 717, as amended.

A UnSD eligible as HT1, UT2 or LT2 capital shall be accounted for in accordance with PAS 32 and PAS 39.

A UnSD denominated in foreign currency eligible as HT1, UT2 or LT2 may be recorded in the regular banking unit (RBU) or foreign currency deposit unit (FCDU/EFCDU) of the issuing bank: *Provided*, That if booked in the FCDU/EFCDU, the following conditions shall be strictly observed:

a. The issuing bank shall indicate in its application that the UnSD shall be booked in its FCDU/EFCDU;

b. The UnSD shall remain in the FCDU/EFCDU books until full settlement; and

c. The UnSD shall be issued only to non-residents and offshore banking units (OBUs) in accordance with Section 72.2.e of CB Circular No. 1389, as amended.

A UnSD eligible as HT1, UT2 or LT2 capital shall be accounted for in accordance with PAS 32 and PAS 39.

(As amended by Circular No. 827 dated 28 February 2014 and Memorandum to All Banks dated 23 March 2006)

X119.10 - X119.12 (Reserved)

X119.13 Sanctions. Without prejudice to the other sanctions prescribed under Sections 36 and 37 of R.A. No. 7653 and the provisions of Section 16 of R.A. No. 8791, sanctions shall be imposed on BSP-supervised FIs for failure to comply

with the provisions of this Section and for non-disclosure or misrepresentation of information, as follows:

a. *On the issuing bank*

(1) Suspension of its authority to issue remaining tranches, if any;

(2) Disqualification from future issuance of UnSD;

(3) Disqualification of all outstanding issues as eligible Tier 2 capital; and

(4) Monetary penalty of P30,000 for each violation.

b. *On the underwriter/arranger*

(1) Disqualification from being underwriter/arranger for three (3) years; and

(2) Monetary penalty of P30,000 for each violation.

c. *On the UnSD registry*

(1) Disqualification from being appointed as UnSD Registry for three (3) years; and

(2) Monetary penalty of P30,000 for each violation.

d. *On the selling agent/market maker*

(1) Disqualification from being appointed as selling agent or market maker for three (3) years; and

(2) Monetary penalty of P30,000 for each violation.

e. *On the public trustee*

(1) Disqualification from being appointed as public trustee for three (3) years; and

(2) Monetary penalty of P30,000 for each violation.

f. *On the certifying officer* - A fine of P5,000 per day from the time of required disclosure up to the time disclosure was made, or from the time misrepresentation was made up to the time the information was corrected, and a possible disqualification if warranted by the gravity of the offense committed.

g. *On the responsible officer* - A fine of P30,000 for participating in or tolerating the

non-disclosure or misrepresentation of information, and a possible disqualification if warranted by the gravity of the offense committed.

FIs not supervised by the Bangko Sentral acting as selling agent and/or market maker of UnSDs and/or its concerned directors/officers that are found to violate rules and regulations in the performance of their functions/responsibilities shall be subject to the provisions of Section 36 of R.A. No. 7653 and shall, likewise, be referred to the SEC for appropriate action.

(As amended by Circular Nos. 778 dated 14 December 2012 and 585 dated 15 October 2007)

Sec. X120 Interim Tier 1 Capital for Banks Under Rehabilitation. The following are the guidelines on the issuance of capital notes that will qualify as interim Tier 1 capital for banks under rehabilitation:

a. Banks under rehabilitation shall be allowed, upon prior Bangko Sentral approval, to issue capital notes that shall qualify as interim Tier 1 capital: *Provided*, That the PDIC shall be the holder of the said capital notes: *Provided, further*, That any transfer from PDIC of said capital notes shall require prior Bangko Sentral approval.

b. The interim Tier 1 capital notes shall have the following minimum features:

(1) It must be perpetual, unsecured and subordinated;

(2) It must be issued and fully paid-up. Only the net proceeds received from the issuance shall be included as Tier 1 capital. The proceeds of the issuance must be immediately available without limitation to the bank;

(3) 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 the PDIC as against

depositors, other creditors of the bank and holders of LT2 and UT2 capital instruments;

(4) The PDIC, as holder of the interim capital notes must not have a priority claim, in respect of its principal and coupon payments of the interim Tier 1 capital notes 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 (e.g., limited life redeemable preferred stock) and UT2 (e.g., perpetual and cumulative preferred stock) capital instruments. The PDIC must waive its right to set-off any amount it owes the bank against any subordinated amount owed to it due to the interim Tier 1 capital notes;

(5) It must not be repayable 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 upon entry of new investors: *Provided, further*, That such repayment prior to maturity shall be approved by the Bangko Sentral only if it 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 interim Tier 1 capital notes, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option, which may be exercised by the bank;

(6) The PDIC, as holder of the interim Tier 1 capital notes, shall have the right to

□ X120
08.12.31

convert, upon prior notice to the Bangko Sentral, the interim Tier 1 capital notes into perpetual and non-cumulative preferred shares convertible into common shares which may be sold to new investors: *Provided*, That the rate of conversion shall be fixed at the time of subscription of the interim Tier 1 capital notes;

(7) The coupons must be non-cumulative;

(8) The bank must have full discretion over the amount and timing of coupon payments and it must have full control and access to waived payments;

(9) Any coupon to be paid must be paid only to the extent that the bank has profits

distributable determined in accordance with existing Bangko Sentral regulations. The coupon rate, or the formulation for calculating coupon payments must be fixed at the time of issuance of the interim Tier 1 capital notes and must not be linked to the credit standing of the bank;

(10) It must not have step-up provisions in the coupon rate in conjunction with the call option;

(11) All other transactions involving the capital notes shall require prior Bangko Sentral approval.

c. The bank must submit a written opinion from its external auditor that the features of the interim Tier 1 capital notes

(Next Page is Part I - Page 49)
(No pages 41 to 48)

shall be accounted for as equity instruments in accordance with PAS 32.
(Circular No. 595 dated 11 January 2008)

Secs. X121- X125 (Reserved)

G. STOCK, STOCKHOLDERS AND DIVIDENDS

Sec. X126 Shares of Stock of Banks. The following shall govern transactions affecting shares of stock of banks and the limits on stockholdings in a single bank or in several banks.

For purposes of this Section, the term *“corporations”* shall include partnerships, cooperatives, associations and other juridical persons/entities.
(As amended by Circular No. 718 dated 26 April 2011)

§ X126.1 Limits of stockholdings in a single bank. The stockholdings of an individual, corporation, family group, or same group of persons in any bank shall be subject to the limits prescribed in Sections 11, 12, and 13 of R.A. No. 8791, R.A. No. 7906, R.A. No. 7353, as amended by R.A. No. 10574, R.A. No. 7721 as amended by R.A. No. 10641, and other relevant laws as summarized in the table below:

| Particulars | Ceiling |
|--|------------|
| (a) Voting shares of stock of a foreign individual or a foreign non-bank corporation in: i. UB/KB and TB ii. RB | 40% 60% |
| (b) Aggregate ownership of the voting shares of stock of foreign individuals and/or foreign non-bank corporations in: i. UB/KB ii. TB/RB | 40% 60% |
| (c) Voting shares of stock of a qualified foreign bank in UB, KB, TB and RB | 100% |
| (d) Combined ownership of the voting shares of stock of qualified foreign banks in UB, KB, TB and RB | 100% |

§§ X120 - X126.1
14.12.31

| Particulars | Ceiling |
|---|------------|
| (e) Voting shares of stock of a Filipino individual or a Philippine non-bank corporation in: i. UB/KB and TB ii. RB | 40% 60% |
| Voting shares of stock of a qualified Philippine corporation in UB, KB, TB and RB prior to the effectivity of R.A. No. 10641 (7 August 2014) | 60% |
| (f) Combined ownership of an individual and corporation/s which is/are wholly-owned or a majority of the voting shares of stock of which is owned by such individual in: i. UB/KB/TB ii. RB | 40% 60% |

a. Any foreign individual or non-bank corporation may each own or control up to forty percent (40%) only of the voting stock of a UB, KB or TB: *Provided*, That the aggregate foreign-owned voting stock owned by foreign individuals and non-bank corporations shall not exceed forty percent (40%) of the voting stock of the UB/KB, and sixty percent (60%) in the case of TBs.

For RBs, non-Filipino citizens, excluding foreign banks, may each or in the aggregate, own, acquire or purchase, up to sixty percent (60%) of the voting stock in an RB.

The percentage of foreign-owned voting stock in a bank shall be determined by the citizenship of the individual or corporate stockholders in that bank.

b. Qualified foreign banks may own or control up to 100% of the voting stock of a domestic bank.

c. Any Filipino individual or a domestic non-bank corporation may each own up to forty percent (40%) only of the voting stock of a UB, KB or TB, and up to sixty percent (60%) only of the voting stock of a rural bank.

¶¶ X126.1 - X126.2
14.12.31

d. An individual and a corporation or corporations which are wholly-owned, or a majority of the voting stock of which is owned, by him, may own only up to a combined forty percent (40%) of the voting stock of a UB, KB or TB, and up to a combined sixty percent (60%) of the voting stock of a RB.

e. *Stockholdings of family groups or related interests.* Individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, shall be considered family groups or related interests and may each own up to forty percent (40%) of the voting stock of a UB, KB or TB and up to sixty percent (60%) of the voting stock of an RB: *Provided*, That said relationship must be fully disclosed in all transactions by such individuals or family groups or related interests.

f. Two (2) or more corporations owned or controlled by the same family group or same group of persons shall be considered related interests but may each own up to forty percent (40%) of the voting stock of a UB, KB or TB and up to sixty percent (60%) of the voting stock of an RB: *Provided*, That said relationship must be fully disclosed in all transactions by such individuals or family groups or related interests.

g. *Ceiling on stockholdings in a Coop Bank.* The equity investment of any cooperative in any Coop Bank shall not exceed forty percent (40%) of the subscribed capital stock of such Coop Bank.

h. *Determination of foreign-owned voting stock and citizenship of corporate stockholders in a bank as well as the relationship of stockholders of a bank.*

(1) The percentage of foreign-owned voting stocks in a bank shall be determined by the citizenship of all the stockholders in that bank.

(2) The citizenship of the corporation, which is a stockholder of a bank shall follow the citizenship of the controlling

stockholders of the corporation, irrespective of the place of incorporation. For purposes hereof, the term *controlling stockholders* shall refer to stockholders holding more than fifty percent (50%) of the voting stock of the corporate stockholders of the bank.

In the case of RBs, a corporate stockholder thereof shall be deemed Filipino-owned if it is organized under the laws of the Philippines and at least sixty percent (60%) of its capital is owned by Filipino citizens.

(3) The relationship of individuals who are stockholders of a bank shall be determined in accordance with the provisions of Articles 963 to 966 of the Civil Code of the Philippines.

(As amended by Circular Nos. 858 dated 21 November 2014, 809 dated 23 August 2013, 718 dated 26 April 2011 and Circular No. 682 dated 15 February 2010)

¶ **X126.2 Transactions involving voting shares of stocks.** The following regulations shall govern all transactions involving voting shares of stocks in banks.

For purposes of this Subsection, *transaction* shall refer to subscription/issuance, purchase/sale, transfer, conversion of preferred shares or debt instruments into voting shares of stock, and such act, contract, agreement or arrangement whereby a person, whether natural or juridical, acquires voting shares of stock from one person, whether natural or juridical, or is vested the right to vote or the control of the voting shares of stock of a bank.

a. *Unlawful and void transactions involving voting shares of stock of banks.* The following transactions, to the extent of the excess over any of the prescribed ceilings under R.A. No. 8791, R.A. No. 7906, R.A. No. 7353, as amended by R.A. No. 10574, R.A. No. 7721 as amended by R.A. No. 10641 and other relevant laws are hereby declared unlawful and void:

(1) Any transaction involving voting shares of stock of a bank, if such transaction, in itself, or in relation with other/previous

transaction/s shall result in the ownership and control by an individual or corporation of voting shares of stock in excess of any of the prescribed limits of stockholdings in a bank.

(2) Any act, contract, agreement or arrangement, such as voting trust agreement or proxy, which vests in any person, whether natural or juridical, the right to vote or the control of the voting shares of stock of a bank, if such arrangement in itself, or in relation with other/previous transaction/s, shall result in the acquisition of the right to vote or the control of voting shares of stock of the bank, in excess of the prescribed ceilings.

b. Transactions requiring prior Monetary Board approval

(1) Prior approval of the Monetary Board shall be required on transaction involving voting shares of stock of a bank, if such transaction, in itself or in relation with other/previous transactions will:

(a) result in ownership or control of more than twenty percent (20%) of voting shares of stock of a bank by any person whether natural or juridical or which will enable such person to elect, or be elected as, a director of such bank; or

(b) effect a change in the majority ownership or control of the voting shares of stock of the bank from one (1) group of persons to another group: *Provided*, That in no case shall such transaction be approved unless the bank concerned shall immediately comply with the prescribed minimum capital requirement for new banks, notwithstanding any approved capital build-up program.

(2) The request for prior Monetary Board approval shall be submitted jointly by the transferor-stockholder (or the bank in the case of additional subscription or conversion of preferred shares or debt instruments) and the transferee-stockholder thru the bank to the appropriate department of the SES. The request shall be

accompanied by, in the case of transferee-stockholder, the same papers/documents required of incorporators/stockholders of newly established banks as provided in *Appendix 37*. The corporate secretary shall hold in abeyance the registration of the transaction until the required prior Bangko Sentral approval is submitted as provided in Subsec. X126.2.c.

(3) In the case of additional subscription, the bank shall not recognize the fund infused by the subscriber in its book as asset and liability or equity unless prior Monetary Board approval is obtained. Pending approval by the Monetary Board, the fund infused by the subscriber shall be placed in an escrow in another bank.

(4) *Sanctions*. Any willful delay in the submission by the transferor and transferee of the request for prior Monetary Board approval, together with the required supporting papers/documents, within sixty (60) calendar days from date of transaction or thirty (30) calendar days from receipt by corporate secretary of request for registration of the transaction, whichever is earlier, shall subject the transferor, the transferee, or both to the sanctions prescribed under Section 35 of R.A. No. 7653, without prejudice to the appropriate legal actions for the rescission and invalidation of the transaction.

Moreover, any director and/or officer of a bank found to be acting in the interest of an unregistered stockholder shall be subject to the applicable administrative sanctions under Section 37 of R.A. No. 7653, without prejudice to the filing of appropriate criminal charges as provided under Section 36 of R.A. No. 7653.

Furthermore, any violation of the provisions of Subsec. X126.2.b(3) hereof shall subject the bank and/or its directors and/or officers to the applicable administrative sanctions under Section 37 of R.A. No. 7653, without prejudice to the filing of appropriate criminal charges as

□ **X126.2**
14.12.31

provided under Section 36 of R.A. No. 7653.

c. *Duties of a corporate secretary.* In all transactions, which may lawfully come to the knowledge of the corporate secretary involving voting shares of stock of a bank such as but not limited to subscription/issuance, purchase/sale, transfer, conversion of preferred shares or debt instruments into voting shares of stock, or registration of voting trust agreements, or any form of agreement vesting the right to vote or the control of the voting shares of stock of the bank, the corporate secretary shall, before registering the transaction or agreement in the stock and transfer book of the bank:

(1) ascertain the identity and citizenship of the subscriber, purchaser, transferee or recipient of voting shares of stock, voting trustee, proxy or person vested with the right to vote, and for this purpose, he should require the subscriber, transferee or recipient of voting shares of stock, voting trustee, proxy or the person vested with the right to vote to submit proof of citizenship, which may consist, in case of a corporation, of a certified true copy of the articles of incorporation, accompanied by the affidavit of the corporate secretary of the corporation, certifying to the correctness and accuracy of the list of stockholders, their citizenship and the percentage of shares owned by them;

(2) require the subscriber, purchaser, transferee or recipient of voting shares of stock, voting trustee, proxy or person vested with the right to vote, at the time of the receipt of the request for registration of transaction, to disclose all information with respect to persons related to the subscriber, transferee or recipient of voting shares of stock, voting trustee, proxy or person vested with the right to vote, within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, as well as corporations, where the subscriber, transferee or recipient of voting shares of stock, voting trustee, proxy or person vested

with the right to vote has controlling interest, and the extent thereof;

(3) require the subscriber, purchaser, transferee or recipient of voting shares of stock to execute an affidavit (sample format shown in *Appendix 4*) stating, among other things, that the subscriber, transferee or recipient of voting shares of stock is a *bonafide* owner of the said shares of stock, that he/she is not an agent, assignee, proxy, nominee or a dummy of any person, whether natural or juridical, and that he/she acknowledges full awareness of:

(a) the prohibitions against ownership of voting shares of stock in excess of the ceilings prescribed by laws/Bangko Sentral regulations as provided in Subsec. X126.2.a; and/or

(b) the requirement for prior Monetary Board approval for transactions resulting to significant ownership of voting shares of stock of a bank by any person, whether natural or juridical, or by one (1) group of persons, as provided in Subsec. X126.2.b.

If the request for registration of transaction will patently cause the voting shares of stocks of an individual or a corporation to exceed the ceilings prescribed by laws/Bangko Sentral regulations, the corporate secretary shall deny the registration of the transaction and forthwith inform the parties to the transaction in writing.

If the request for registration of transaction would result to the significant ownership of the voting shares of stock of a bank by any person, whether natural or juridical, or by one (1) group of persons, requiring prior Monetary Board approval as provided in Subsec. X126.2.b, and no such prior Monetary Board approval is submitted, the corporate secretary shall hold in abeyance the registration of the transaction and forthwith inform the parties to the transaction in writing.

In the event the corporate secretary has reason to doubt the legality of the transaction

sought to be registered, he/she may commence an action before the appropriate body;

(4) promptly inform stockholders (a) who have reached any of the ceilings prescribed by laws/Bangko Sentral regulations of their ineligibility to own or control more than the applicable ceiling or (b) who would own voting shares of stock requiring prior Monetary Board approval; and

(5) disclose the ultimate beneficial owners of bank shares held in the name of Philippine Central Depository (PCD) Nominee Corporation in the annual (or quarterly whenever changes occur) report on Consolidated List of Stockholders and Their Stockholdings (BSP 7-16-11), which report shall be made under oath by the corporate secretary. Any willful delay in the submission of said report, a Category A-2 report, shall subject the bank to the corresponding fines for delayed reports in accordance with the provisions of Subsec. X192.2 to be reckoned on the day following the due date of submission until the correct report is submitted to the Bangko Sentral.

Sanctions. The corporate secretary found to have willfully falsely certified/submitted misleading statements and/or violated any of the provisions of Subsec. X126.2.c shall be subject to the applicable administrative sanctions under Section 37 of R.A. No. 7653. The imposition of the said administrative actions is without prejudice to the filing of appropriate criminal charges as provided under Section 35 of R.A. No. 7653 for the willful making of false or misleading statement.

d. *Requirement for newly established banks.* Entities which may hereinafter apply for a license to engage in banking business shall, before being allowed to operate, submit -

(1) An alphabetical list of stockholders with the number and percentage of voting shares of stock owned by them;

(2) A separate list containing the names of stockholders who own voting shares of stock in the bank and who are related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law (in the case of individuals) as well as corporations which are wholly-owned or a majority of the stock of which is owned by any of such stockholders, including their subsidiaries; and

(3) An affidavit under oath (sample format shown in *Appendix 4*) from each of the stockholders attesting, among other things, that he/she/it is the bonafide owner of the voting shares of stock of the bank in his/her/its own right, and not as an agent, assignee, proxy, nominee or a dummy of any other person, natural or juridical.

(As amended by Circular Nos. 858 dated 21 November 2014, 809 dated 23 August 2013 and 718 dated 26 April 2011)

¶ **X126.3 Other foreign equity investment in domestic banks.** Except as otherwise covered under Sec. X105 and Subsec. X126.1, the following guidelines shall be observed on equity investments of foreigners in domestic banks:

a. The prior authority of the Monetary Board shall be obtained by foreign banks, including their subsidiaries and their holding companies having majority holdings in such foreign banks, whenever acquiring more than forty percent (40%) of the voting stock of a domestic bank, including foreign-owned shares outstanding and foreign-held as of 27 April 1973 and which continued to be held by the foreign stockholder up to the date of the acquisition by the foreign banks.

b. *(Deleted by Cir. No. 256 dated 15 August 2000)*

c. The prior authority of the Monetary Board is not required if the foreign investor is (1) an individual, (2) a non-financial entity, or (3) a non-bank financial entity which is not owned or controlled by a bank, its subsidiary or holding company, and the

¶¶ X126.3 - X126.5
14.12.31

investor is acquiring foreign-owned shares in existing domestic banks: *Provided*, That said shares were outstanding and foreign held as of 27 April 1973 and which continued to be foreign-held up to the date of acquisition by the foreign investor.

d. The maximum stockholdings foreigners may own in domestic banks shall continue to be governed by existing provisions of law.

e. Only foreign-owned shares directly funded by inward remittance of foreign exchange sold to the local banking system are qualified for registration with the Bangko Sentral through its appropriate department for capital repatriation and remittance of profits/dividends privileges, in accordance with existing Bangko Sentral rules and regulations.

¶ **X126.4 Convertibility of preferred stock to common stock.** Out of the convertible preferred shares of stock which KBs/TBs may henceforth be authorized to issue, at least fifty percent (50%) of each such issue, shall be convertible into common stock at the option of the holders thereof after five (5) years from date of issue: *Provided, however*, That :

a. The bank concerned may allow the conversion of such preferred stock into common stock even before the lapse of five (5) years from date of issue;

b. At the time of the sale of the preferred stock, both classes thereof (one with convertibility feature and the other without convertibility feature) shall be offered to the purchasers, with the purchasers having the option to acquire either or both classes of preferred stock; and

c. Preferred shares of stock with a cumulative feature issued by banks shall automatically be convertible into common shares of stock at the option of the holders thereof whenever the right as may be acquired by the holders by virtue of such

cumulative feature are not satisfied by the bank within a period of three (3) years from date of issue.

d. Conversion of preferred shares of stock into voting/common shares of stock, regardless of convertibility features and notwithstanding any provision of existing Bangko Sentral regulations to the contrary, shall be:

(1) effected only to the extent of the prescribed ceilings under existing laws; and

(2) subject to prior Monetary Board approval whenever said conversion will result to significant ownership of the voting/common shares of stock of a bank by any person, whether natural or juridical, or by one group of persons, as provided in Subsec. X126.2.b.

The foregoing provision must be specifically stated in the certificates of preferred shares of stock.

(As amended by Circular No. 718 dated 26 April 2011)

¶ **X126.5 Issuance of redeemable shares: conditions; certification and report; sanctions**

a. *Conditions.* Banks may issue redeemable shares subject to the following conditions:

(1) The applicant bank prior to the approval of the amendment of articles of incorporation to issue redeemable preferred shares, has complied with the requirements under Items ¶B1¶ to ¶B6¶, *Appendix 5*.

The articles of incorporation of an applicant bank shall incorporate the conditions in Items ¶a (3)(a)¶, ¶a(3)(b)¶, ¶a(3)(c)¶ and ¶a(3)(d)¶ of this Subsection.

(2) The applicant bank prior to the issuance of redeemable shares shall comply with, in addition to the conditions in Item ¶(1)¶ above, the requirements under Items ¶B7¶, ¶B8¶, and ¶B12¶ to ¶B16¶, *Appendix 5*.

(3) The applicant bank after the issuance of redeemable shares shall comply with the following:

(a) Redemption of shares shall be allowed 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 the 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;

(b) A sinking fund for the redemption of preferred shares is to be created upon their issuance. This is to be effected by the transfer of free surplus to a restricted surplus account. The fund shall not be available for dividends. The guidelines for the establishment and administration/management of sinking fund for the redemption of redeemable private preferred shares are shown in *Appendix 47*.

(c) The issuing bank shall not treat in any way redeemable preferred shares as time deposit, deposit substitute or other form of borrowings;

(d) No dividend shall be declared or paid on redeemable shares in the absence of sufficient undivided profits, free surplus and approval of the Bangko Sentral;

(e) The issuing bank shall execute within ten (10) days after the first issuance a Deed of Undertaking (see *Appendix 42*), to be signed by its directors and principal officers, binding them to comply with the requisites and conditions set forth in Items¶(a) to (d) above;

and (f) The conditions in Items¶(3)(a), (3)(b), ¶(3)(c) and ¶(3)(d) above shall be incorporated

in the certificates of stock.

(g) Shares issued with the replacement requirement upon redemption shall be eligible as Upper Tier 2 capital for purposes of computing qualifying capital as provided in applicable and existing capital adequacy framework. Shares issued without such condition shall be eligible as Lower Tier 2 capital.

b. *Certification and report*. The bank shall submit within fifteen (15) days after every issuance of at least twenty percent (20%) of the redeemable shares whether issued in series or at one (1) time, a certification signed by its President/Chairman under oath, stating that the requirements under Items ¶a(1) and ¶a(2) above, including all other conditions that the Bangko Sentral may impose, have been complied with. The applicant bank shall, not later than ten (10) days from the end of reference year, submit a yearly report of issuances of preferred shares to the appropriate department of the SES indicating therein the name/s of the subscriber/s, the date the shares were issued and the number/amount of shares issued.

c. *Sanctions*. Any violation of the foregoing provisions shall be subject to the following sanctions:

(1) *On the bank*:

(a) For failure to comply with Items a(3)(a) to ¶a(3)(d) above:

- i. Suspension of branching privilege;
- ii. Prohibition against granting of new unsecured loans to DOSRI;
- iii. Prohibition against declaration of dividends;
- iv. Denial of access to Bangko Sentral rediscounting facilities;

v. Revocation of authority to accept government deposits and to handle government funds as a result of agency

¶¶ X126.5 - X126.10
14.12.31

agreements with the BIR, SSS, etc.

(b) For failure to infuse capital in an amount at least equivalent to amount of redeemed shares as required in Item a(3)(a):

- i. Sanctions in Item ¶(a) above;
- ii. No new loans and investments, except in government securities;
- iii. P1,000 fine per day until the required infusion is made.

(c) If the certification submitted by the bank required in these guidelines is found to be false, suspension of authority to issue preferred shares for one (1) year.

(d) For failure to submit report of issuance of redeemable preferred shares, a fine of P1,200 for UBs/KBs; P600 for TBs; and P180 for RBs/Coop Banks per day of default until the report is submitted.

(2) *On the directors and officers:*

(a) For violation of any of the terms of the Deed of Undertaking, the following shall be imposed against the officers and directors of the bank who signed the deed:

- i. First offense - A fine of P500 per day for each violation from the time the violation was committed or up to the time the violation is corrected;
- ii. Second and subsequent offenses - A fine of P5,000 per day from the time the violation was committed up to the time the violation is corrected.

(b) If the certification submitted by the bank as required in these guidelines is found to be false, a fine of P5,000 per day from

the time the certification was made up to the time the certification was found to be false, shall be imposed against the certifying officer.

(As amended by Circular Nos. 827 dated 28 February 2014 and 585 dated 15 October 2007)

¶ **X126.6 Stock options/warrants.** A bank may grant options/warrants to subscribe at par to its capital stock: *Provided*, That:

- a. Provisions authorizing such options warrants shall be embodied in its articles of incorporation and in its by-laws; and
- b. Such options/warrants may be granted for a maximum period of three (3) years from the date such options/warrants become effective.

¶¶ **X126.7 - X126.9 (Reserved)**

¶ **X126.10 Dealings with stockholders and their related interests.** Dealings of a bank with any of its stockholders and their related interests shall be upon terms not less favorable to the bank than those offered to others. Towards this end, every natural person acquiring shares cumulatively amounting to at least two percent (2%) of the total subscribed capital of a domestic bank must disclose all relevant information on all persons related to him within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common law as well as corporations, partnership or

(Next Page is Part I - Page 55)

associations where he has controlling interests. A corporation acquiring shares amounting to at least two percent (2%) of the total subscribed capital of a domestic bank must disclose its controlling stockholders or group of stockholders as well as the corporations, partnerships or association where such controlling stockholders or group of stockholders have controlling interest.

The foregoing information shall also be disclosed in cases of the following transactions: availment of credit facility from the bank; purchase or sale of asset from/to the bank; leasing property from or to the bank; providing janitorial, messengerial, security and other services to the bank; and such other transactions as may be required to be disclosed by the Monetary Board. Where the stockholdings of such individual/organization together with his/its related interests amount to at least two percent (2%) of the total subscribed capital stock of the bank, the foregoing transactions shall be subject to the procedural requirements and the reportorial requirements prescribed under Secs. X334 and X335, respectively.

Sec. X127 (Reserved)

Sec. 1127 Shares of Stock of Universal/Commercial Banks. The following guidelines shall also govern shares of stock in UBs and KBs.

¶ **1127.1 Limits on stockholdings in several banks.** Stockholders affiliated to each other through a common interest herein termed a *business group* or any corporation or association majority or all of the equity of which is owned by a business group may not control more than one (1) KB nor more than one (1) UB or both.

Any natural person or a family group, who, together, with any corporation

majority or all of the equity of which is owned by such person or family group, owns more than forty percent (40%) of the voting stock of any UB or KB may not acquire more than forty percent (40%) of the voting stock in any other UB or KB, even if the shares of stock are being acquired from a natural person in a single transaction and the stockholding is in excess of forty percent (40%) of the bank's voting stock.

For purposes of determining applicability of the limitations provided in this Section, stockholders shall be deemed as affiliated to each other through *common business interest* or a *business group* in cases where the holdings of such stockholders altogether constitute a majority or control in one (1) or more enterprises.

¶¶ **1127.2 - 1127.5 (Reserved)**

Sec. 2127 Shares of Stock of Thrift Banks
The following regulations shall also govern shares of stock in TBs.

¶ **2127.1 Moratorium on ownership ceilings¹**
(Deleted)

¶ **2127.2 Preferred shares.** Private development banks may also issue ordinary preferred shares of stock to private persons, other than the preferred stock representing government counterpart capital contribution: *Provided*, That said preferred stock sold to private persons shall be governed by the pertinent BSP regulations for preferred stock issued to private investors.

Preferred shares of stock of private development banks held by DBP/LBP and sold thereafter to private persons may, at the option of the purchasers, be retained with the same rights as when such shares of stock were held by DBP/LBP, or converted at not less than par to common

¹ Stockholdings in a TB were exempted from the ownership ceilings prescribed under Subsec. X126.1 until 16 March 2005.

□□ 2127.2 - 3127.3
13.12.31

shares or to ordinary preferred shares of the class issued to private shareholders.

□□ 2127.3 - 2127.5 (*Reserved*)

Sec. 3127 Shares of Stock of Rural Banks and Cooperative Banks. The following rules shall govern stockholdings in RBs and Coop Banks:

□ **3127.1 *Moratorium on ownership ceiling.*** Individual stockholdings in RBs in excess of the forty percent (40%) ceiling as of 02 April 2002 and as provided in Section 11 of R.A. No. 8791 may be retained: *Provided*, That such excess stockholdings were approved by the Monetary Board: *Provided, further*, That such stockholdings shall not be further increased, but may be reduced and once reduced, shall not thereafter be increased beyond the forty percent (40%) ceiling prescribed under said Section 11.

Any request for exemption from the prescribed ownership ceilings of individual/non-bank/corporate stockholdings shall be submitted to the Monetary Board for approval through the appropriate department of the SES and the exemption shall be reflected in the required report on stock transactions. In cases where unsubscribed shares of stock are sold to any person other than the existing stockholders, the bank's corporate secretary shall execute a certificate under oath that all the pertinent requirements of the Corporation Code on a valid stock transfer/subscriptions have been complied with.

□ **3127.2 *Government-held shares*** The articles of incorporation of RBs or the articles of cooperation of Coop Banks shall provide for: (a) common stock with the power to vote; (b) preferred stock to represent the counterpart capital of the LBP, DBP or any government-owned or controlled bank or FI, which shall be non-voting and preferred as to assets upon

liquidation; and (c) preferred stock with such rights, voting powers, preferences and restrictions, as may be approved by the Monetary Board. Preferred and common stocks shall have a minimum par value of one peso (P1.00) per share: *Provided*, That starting 2 July 2009, RBs which have a par value per share higher than P1.00 and choose to lower the par value of their shares of stock will be required to undertake the necessary steps and secure attendant approvals from the BOD and stockholders of the banks involved as well as from relevant regulatory agencies to ensure that the reduction in par value shall not result to a dilution in the percentage holdings of stockholders and that its effect shall not prejudice the rights of creditor. An RB may not issue no-par value stock.

In the case of an acquisition plan of an RB already approved-in-principle by the Monetary Board where the shares of stock of the target RB are at a par value per share higher than P1.00, the acquiring bank may request from the Bangko Sentral the incentive to value the shares of stock of the to-be-acquired RB at the minimum par value of P1.00: *Provided*, That the acquiring bank will be responsible for securing the necessary approvals from its BOD and stockholders as well as from the Bangko Sentral and the SEC pursuant to Section 14 of R.A. No. 8791 and Section 38 of the Corporation Code of the Philippines.

The LBP, the DBP, or any government-owned or-controlled bank or financial institution, on representation of the said private shareholders but subject to the investment guidelines, policies and procedures of the bank or financial institution and upon approval by the Monetary Board of the Bangko Sentral, shall subscribe to the capital stock of any RB, which shall be paid in full at the time of subscription, in an amount equal to the fully paid subscribed and unimpaired capital of the private stockholders or such amount as the Monetary Board may prescribe as may

be necessary to promote and expand rural economic development.

(As amended by Circular Nos. 809 dated 23 August 2013 and 663 dated 10 September 2009)

3127.3 **Limits on stockholdings in several rural banks.** Individuals, banks and non-bank corporations may, subject to applicable ownership ceilings, own voting shares in such number of RBs as may be authorized by the Monetary Board.

(As amended by Circular No. 809 dated 23 August 2013)

3127.4 **Convertibility of preferred stock to common stock.** RBs may convert their unissued preferred shares into common stock.

In the case of sale by the DBP, LBP or any government-owned or controlled bank or financial institution of preferred stock to private persons, such stock may be converted into common stock: *Provided*, That such shares may be sold at any time at adjusted book value: *Provided further*, That pending amendment of the bank's articles of incorporation, if necessary for the purpose of reflecting the conversion, the transfer shall be recorded by the bank in its stock and transfer book and such shareholders shall thereafter enjoy all the rights and privileges appurtenant to the converted stock. The certificates for the government preferred stocks so transferred shall be surrendered and cancelled and the corresponding common stock certificates shall be issued.

The corporate secretary of the bank shall submit to the appropriate department of the SES and the SEC a report of every transfer of preferred stock from the LBP, DBP or any government-owned or controlled bank or financial institution to private shareholders within five (5) banking days from the date of such transfer.

When all the preferred shares of stocks held by the LBP, DBP or any government-owned or controlled bank or financial institution have been sold to private shareholders, the bank's articles of incorporation shall be amended to reflect

the conversion, if any, of the preferred shares of stock into common stock.

For this purpose, a certificate that all preferred shares have been sold and transferred to private shareholders shall be issued, duly signed by the president, the corporate secretary, and a majority of the board of directors. The bank shall submit copies of such certificate and the amended articles of incorporation to the Bangko Sentral for the issuance of a certificate of authority for the purpose of registering the amended articles with the SEC.

(As amended by Circular No. 809 dated 23 August 2013)

3127.5 **Guidelines for selection.** In determining the fitness and propriety of the non-Filipino citizen, excluding foreign banks that will be allowed to invest in the voting stock of an RB, criteria, such as, but not limited to the following, shall be considered:

- strategic objectives in investing in an RB;
- demonstrated capacity;
- good reputation and integrity; and
- business model that is credible, innovative and consistent with the policy objectives of R.A. No. 10574.

A foreign bank seeking to own, acquire or purchase up to 100% of the voting stock in an RB shall meet the qualification requirements and selection criteria under Subsecs. X105.2 and X105.3, respectively.

(Circular No. 809 dated 23 August 2013, as amended by Circular No. 858 dated 21 November 2014)

Sec. X128 Deposits for Stock Subscription

Deposits for stock subscription refer to payments made by existing stockholders or new subscribers of the bank on subscription to the increase in the authorized capital, which may be recognized either as a liability or equity.

Deposits for stock subscription shall be recognized as part of equity for prudential reporting purposes when all of the following conditions are met:

- The deposit for stock subscription meets the definition of an equity instrument

¶¶ X128 - X136.1
12.12.31

under Philippine Accounting Standards (PAS) 32 *Financial Instruments: Presentation* such that the deposit for stock subscription shall not be interest-bearing nor withdrawable by the subscriber;

b. The bank's existing authorized capital is already fully subscribed;

c. The bank's stockholders and board of directors have approved the proposed increase in authorized capital;

d. The bank has filed an application for the amendment of its articles of incorporation for the increase in authorized capital with the appropriate department of the SES, duly supported by complete documents as listed in Annex B of Circular Letter No. 2009-042 dated 14 May 2009.

Applications for the amendment of articles of incorporation for the increase in authorized capital, which have been returned due to insufficiency of supporting documents, shall not qualify for recognition as an equity instrument; and

e. The bank must have obtained approval of the Monetary Board on transactions involving significant ownership of voting shares of stock by any person, natural or juridical, or by one group of persons as provided in Item ¶b¶ of Subsec. X126.2, if applicable.

Deposits for stock subscription, which do not meet the abovementioned conditions shall be classified as a liability.

Deposits for stock subscription, which meet the conditions to be recognized as equity shall form part of a bank's qualifying capital for purposes of computing the risk-based capital adequacy ratio under Sec. X115 for UBs/KBs as well as their subsidiary banks and QBs, and Sec. X118 for standalone TBs, RBs and Coop Banks.

(Circular 762 dated 25 July 2012)

Secs. X129 - X135 (Reserved)

Sec. X136 Dividends. Pursuant to Section 57 of R.A. No. 8791, no bank shall declare dividends greater than its accumulated net

profits then on hand, deducting therefrom its losses and bad debts. Neither shall the bank declare dividends if, at the time of declaration, it has not complied with the provisions of Subsec. X136.2.

¶ **X136.1 Definitions.** For purposes of this Section, the following definitions shall apply:

a. *Bad debts* - shall include any debt on which interest is past due for a period of six (6) months, unless it is well secured and in process of collection.

A loan payable in installments with an automatic acceleration clause shall be considered a bad debt within the contemplation of this Subsection where installments or amortizations have become past due for a period of six (6) months, unless the loan is well secured and in process of collection. For a loan payable in installment without an acceleration clause, only the installments or amortizations that have become past due for a period of six (6) months and which are not well secured and in the process of collection shall be considered bad debts within the contemplation of this Section.

b. *Well secured* - A debt shall be considered *well secured* (or fully secured), if it is covered by collateral in the form of a duly constituted mortgage, pledge, or lien on real or personal properties, including securities, having a loan value sufficient to discharge the debt in full, including accrued interest and other pertinent fees and expenses.

c. *In process of collection* - A debt due to a bank shall be considered in process of collection when it is the subject of continuing extrajudicial or judicial proceedings aimed towards its full settlement or liquidation or otherwise to place it in current status.

The extrajudicial proceedings, such as the writing of collection or demand letters, must have been initiated by the bank and/

or its lawyers before the interest or installments or amortizations on the debt have become past due and unpaid for a period of six (6) months.

The debt shall continue to be considered in process of collection for a period of six (6) months counted from date of the first collection or demand letter and if, within this period, the debtor fails to make a payment of at least twenty percent (20%) of the outstanding balance of the principal on his account, plus all interest which may have accrued thereon, the same shall automatically be classified as *bad debts* unless judicial proceedings are instituted.

The debt shall continue to be considered in process of collection during the pendency of the judicial proceedings. When judgment against the debtor has been obtained, the bank must be active in enforcing the judgment for the debt to continue to be considered in process of collection.

X136.2 *Requirements on the declaration of dividends.* At the time of declaration, banks shall have complied with the following:

- Clearing account with the Bangko Sentral is not overdrawn;

- Liquidity floor requirement for government funds;
- Minimum capitalization requirement and risk-based capital ratio;
- Prescribed EFCDU/FCDU cover consisting of:
 - Thirty percent (30%) liquidity cover; and
 - 100% asset cover.
- Statutory and liquidity reserves requirement;
- No past due loans or accommodations with the Bangko Sentral or with any institution;
- No net losses from operations in any one (1) of the two (2) fiscal years immediately preceding the date of dividend declaration;
- Has not committed any of the following major violations:
 - Loans and other credit accommodations and guarantees granted in excess of the single borrower s limit;
 - Loans and other credit accommodations granted/extended in excess of the ceilings on accommodations to DOSRI;
 - Unsafe and unsound banking practice as defined under existing Bangko Sentral regulations;

(Next Page is Part I - Page 59)

(4) Equity investments in excess of the prescribed ceilings;

(5) Investments in real estate, bank premises and equipment in excess of prescribed ceilings;

(6) Major violations/exceptions cited in the previous examination not duly acted upon or not yet corrected;

(7) Transactions or activities without prior approval or necessary license from the BSP such as, but not limited to, derivatives, trust and e-banking;

(8) Refusal to permit examination into the affairs of the institution or any willful making of a false or misleading statement to the Monetary Board or to the appropriate department of the SES; and

(9) Failure to comply with the capital build-up program approved by the Monetary Board.

On the other hand, banks which have committed any of the major violations under Item “h” above may only be allowed to declare dividends by the Monetary Board upon recommendation of the appropriate department of the SES that the bank has corrected the major violation/s that it has committed.

(As amended by Circular No. 571 dated 21 June 2007)

§ X136.3 Net amount available for dividends. The net amount available for dividends shall be the amount of unrestricted or free earned surplus and undivided profits less:

a. Bad debts against which valuation reserves are not required by the BSP to be set up;

b. Unbooked valuation reserves, and other unbooked capital adjustments required by the BSP, whether or not allowed to be set up on a staggered basis;

c. Deferred income tax;

d. Accumulated profits not yet received but already recorded by a bank representing its share in profits of its subsidiaries under the equity method of accounting;

e. Accrued interest as required to be excluded pursuant to Item “d” of Subsec. X305.4, net of booked valuation reserves on accrued interest receivable or allowance for uncollectible interest on loans; and

f. Foreign exchange profit arising from revaluation of foreign exchange denominated accounts.

For purposes of this Subsec., any balance of *Paid-in Surplus* account may be included in the amount available for stock dividends.

§ X136.4 Reporting and verification

Declaration of dividends shall be reported by the bank concerned to the appropriate department of the SES in the prescribed form within ten (10) business days after date of declaration.

Pending verification of abovementioned report by the appropriate department of the SES, the bank concerned shall not make any announcement or communication on the declaration of dividends nor shall any payment be made thereon.

Banks, however, whose shares are listed with any domestic stock exchange may declare dividends and give immediate notice of such declaration to the SEC and the stock exchanges, in compliance with pertinent rules of SEC: *Provided*, That no record date is fixed for such dividend pending verification of the report on such declaration by the appropriate department of the SES.

In any case, the declaration may be announced and the dividends paid, if after thirty (30) banking days from the date the report required herein shall have been received by the BSP, no advice against such declaration has been received by the bank concerned.

§ X136.5 Recording of dividends. The liability for dividends declared shall be taken up in the books upon receipt of

§§ X136.5 - 3137
 08.12.31

BSP approval thereof, or if no such approval is received, after thirty (30) banking/business days from the date the required report on dividend declaration was received by the appropriate department of the SES , whichever comes earlier. A memorandum entry may be made to record the dividend declaration on the date of approval by the board of directors and for full disclosure purposes, the dividends declared may be disclosed in the financial statements by means of a footnote which should include a statement to the effect that the dividend declaration is subject to review by the BSP.

Dividends of all kinds, whether on common or on preferred shares of stock, should not be treated as interest expense, considering that as a general policy, only irredeemable stock may be issued by banks.

§ X136.6 *Issuance of fractional shares*
 Whenever the declaration of stock dividend results in the issuance of fractional shares, banks may observe the following guidelines:

- a. The amount corresponding to the fraction should be given in the form of cash dividend; and
- b. The certificate of stock issued should be in whole numbers, and the fractional shares shall be issued in the form of scrip certificates. In no case shall the certificate of stock be issued including such fractional share. The scrip certificate is temporary in nature and should be redeemed in cash when the bank is in a position to do so, or stockholders holding such scrip certificates may negotiate with other stockholders for the purchase or sale of such shares to convert them into full shares, subject to the limitations on stockholdings as provided by law.

Sec. X137 (Reserved)

Sec. 1137 (Reserved)

Sec. 2137 (Reserved)

Sec. 3137 **Limitations/Amount Available on Dividends Declared by Rural Banks and Cooperative Banks.** The following rules shall also govern the declaration of dividends by RBs and Coop Banks.

a. *RBs.* In addition to the requirements prescribed in Sec. X136, an RB may declare cash dividends only if the amount of its reserve for retirement of government preferred stock is at least equal to the amount which should have been accumulated had the bank transferred annually to the reserve account from its undivided profits an amount equal to at least an average of one-tenth (1/10) of the total amount of preferred stock.

In no case shall cash dividends be declared whenever any of the following circumstances is present:

(i) Arrearages in its obligations with the BSP amount to ₱1.0 million or more unless covered by an approved plan of payment which is being fully complied with: *Provided, however,* That cash dividends shall not exceed ten percent (10%) per annum; or

(ii) Past due loans comprise twenty-five percent (25%) or more of the total loan portfolio at any time during the last six (6) months prior to the dividend declaration.

b. *Coop Banks*
 (1) Interest on share capital -
 (a) Interest on share capital shall be declared only upon compliance with the requirements prescribed under *Item “a”* above.

(b) Government preferred shares shall be entitled to interest as enumerated in Subsec. 3137.1: *Provided,* That no cumulative interest shall be allowed for any kind or class of share issued by the Coop Bank.

Unless otherwise provided for in the by-laws of the Coop Bank, the share capital

shall earn interest at the rate computed as follows:

$$\text{Rate of Interest} = \frac{X (\text{Net Surplus less Statutory Reserves})}{\text{Total Average Share Month}}$$
where:
(i) X shall be a percentage to be determined by the board of directors allocated for interest on share capital; and
(ii) Statutory Reserves shall refer to Article 87 of R.A. No. 6938.

No allocation of interest on share capital shall be made without the approval of the general assembly which may increase or decrease any or both.

- (2) Patronage refund -
(a) The amount allocated for patronage refund shall not be less than thirty percent (30%) of the net surplus after deducting the statutory reserves based on the principle of equity;
(b) The rate of patronage refund shall not be more than twice the rate of interest on share capital;
(c) The sum allocated for patronage refunds shall be made available at the same rate to all cooperative patrons of the Coop Bank in proportion to their individual patronage: *Provided, That* -
(i) In the case of a cooperative member patron with paid-up share capital contribution, its proportionate amount of patronage refund shall be paid unless it agrees to credit the amount to its account as additional share capital contribution;
(ii) In the case of a cooperative member patron with unpaid share capital contribution, its proportionate amount of patronage refund shall be credited to its share capital contribution;
(iii) In the case of a non-member patron, its proportionate amount of patronage refund shall be set aside in a general fund for such patrons and shall be allocated to

non-member patrons only upon request and presentation of evidence of the amount of its patronage. The amount so allocated shall be credited to such patron toward payment of the minimum capital contribution for membership. When a sum equal to this amount has accumulated at any time within a period specified in the by-laws, such patron shall be deemed and become a member of the Coop Bank if it so agrees or requests and complies with the provisions of the by laws for admission to membership; and

(iv) If within any period of time specified in the by-laws, any subscriber who has not fully paid his subscribed share capital or any non-member patron which has accumulated the sum necessary for membership but does not request nor agree to become a member or fails to comply with the provision of the by-laws for admission to membership, the amount so accumulated or credited to their account together with any part of the general fund for non-member patrons shall be credited to the reserve fund or to the education and training fund of the Coop Bank.

3137.1 Dividends on government shares

- a. *Held prior to 09 June 1992.* Whenever dividends of not less than fourteen percent (14%) are declared on common stock, government preferred stock shall be entitled to a cash dividend not to exceed two percent (2%) of total outstanding preferred stock. Should the dividends declared on common stock be less than fourteen percent (14%), the dividend on preferred stock shall be proportionately reduced.
b. *Held on or after 09 June 1992.* Shares held by the LBP, DBP, or by any government-owned or-controlled bank or FI shall share in dividend distributions from the date of issuance in the amount of four percent (4%) on the first and second years;

3137.1 - X141.1
13.12.31

six percent (6%) on the third and fourth years; eight percent (8%) on the fifth and sixth years; ten percent (10%) on the seventh and eighth years; and twelve percent (12%) on the ninth to the fifteenth years, which shall be cumulative: *Provided*, That the RB and the government-owned or controlled bank are not precluded from entering into an agreement providing for rates of dividends other than those prescribed by law.

c. Held on or after the effectivity of the implementing rules and regulations of R.A. No. 10574. Shares held by the LBP, DBP, or by any government-owned or-controlled bank or FI shall share in dividend distributions from the date of issuance in an amount based on the lending benchmark approved by the Bangko Sentral plus the prevailing non-prime spread of the government FI: *Provided*, That the RB and the government-owned or -controlled bank are not precluded from entering into an agreement providing for rates of dividends other than those prescribed by law.
(As amended by Circular No. 809 dated 23 August 2013)

Secs. X138 - X140 (Reserved)

H. DIRECTORS, OFFICERS AND EMPLOYEES

Strengthening Corporate Governance. It is the thrust of the Bangko Sentral to continuously strengthen corporate governance in its supervised financial institutions cognizant that this is central in sustaining the resiliency and stability of the financial system. In this light, the Bangko Sentral is aligning its existing regulations with international best practices that promote good corporate governance such as the Principles for Enhancing Corporate Governance issued by the Basel Committee on Banking Supervision.

Applicability to branches of foreign banks. Branches of foreign banks shall comply with the governance policies, practices and

systems of the head office as well as meet the applicable standards, principles and requirements set forth under Secs. X141, X142, and X174, except the reportorial requirements under Subsec. X141.3c(9) on group structures.

Reports of assessment of the risk management, compliance function and internal audit group of branches of foreign banks shall be made available to the Bangko Sentral, during on-site examination or any time upon request.
(Circular No. 749 dated 27 February 2012)

Sec. X141 Definition; Qualifications; Powers/Responsibilities and Duties of Board of Directors; Confirmation of the Election/Appointments of Directors and Officers; Place of Board of Directors Meeting; Reports Required; Sanctions

This Section shall also apply to Coop Banks.
(As amended by Circular No. 682 dated 15 February 2010)

X141.1 Definition/limits

a. *Definition of directors.* Directors shall include:

- (1) directors who are named as such in the articles of incorporation;
- (2) directors duly elected in subsequent meetings of the stockholders or those appointed by virtue of the charter of government-owned banks; and
- (3) those elected to fill vacancies in the board of directors.

b. *Limits on the number of the members of the board of directors.* Pursuant to Sections 15 and 17 of R.A. No. 8791, there shall be at least five (5), and a maximum of fifteen (15) members of the board of directors of a bank: *Provided*, That in case of a bank/QB/trust entity merger or consolidation, the number of directors may be increased up to the total number of the members of board of directors of the merging or consolidating bank/QB/trust entity as provided for in their respective

articles of incorporation, but in no case to exceed twenty-one (21). The board shall determine the appropriate number of its members to ensure that the number thereof is commensurate to the size and complexity of the bank's operations.

To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates. A sufficient number of qualified non-executive members shall be elected to promote the independence of the board from the views of senior management. For this purpose, *non-executive* members of the board of directors shall refer to those who are not part of the day to day management of banking operations and shall include the independent directors.

c. *Minimum number of independent directors.*¹ At least twenty percent (20%) but not less than two (2) members of the board of directors shall be independent directors: *Provided*, That any fractional result from applying the required minimum proportion, i.e., twenty percent (20%), shall be rounded-up to the nearest whole number: *Provided, further*, That in the case of RBs, at least one (1) independent director shall be elected to the board: *Provided, furthermore*, That RBs whose business model is deemed complex by the Bangko Sentral, shall have at least twenty percent (20%) but not less than two (2) members of the board of directors as independent directors: *Provided, finally*, That any fractional result from applying the required minimum proportion, i.e. twenty percent (20%), shall be rounded-up to the nearest whole number.

d. *Limitation on nationality of directors.* Non-Filipino citizens may become members of the board of directors of a bank to the extent of the foreign participation in the equity of said bank: *Provided*, That pursuant to Section 23 of the Corporation Code of the Philippines (BP Blg. 68), a

majority of the directors must be residents of the Philippines.

e. *Conduct of board meetings.* The meetings of the board of directors may be conducted through modern technologies such as, but not limited to, teleconferencing and video conferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein: *Provided*, That every member of the board shall participate in at least fifty percent (50%) and shall physically attend at least twenty-five percent (25%) of all board meetings every year: *Provided, further*, That in the case of a director who is unable to physically attend or participate in board meetings via teleconferencing or video conferencing, the corporate secretary shall execute a notarized certification attesting that said director was given the agenda materials prior to the meeting and that his/her comments/decisions thereon were submitted for deliberation/discussion and were taken up in the actual board meeting, and that the submission of said certification shall be considered compliance with the required fifty percent (50%) minimum attendance in board meetings.

(As amended by Circular Nos. 809 dated 23 August 2013, 757 dated 08 May 2012 and 749 dated 27 February 2012)

¶ X141.2 *Qualifications of a director*

a. A director shall have the following minimum qualifications:

(1) He shall be at least twenty-five (25) years of age at the time of his election or appointment;

(2) He shall be at least a college graduate or have at least five (5) years experience in business;

(3) He must have attended a special seminar on corporate governance for board

¹ The required number of independent directors in the board and the definition of independent director shall apply prospectively effective 17 March 2012 or in the succeeding election of the members of the board of directors.

X141.2
14.12.31

of directors conducted or accredited by the Bangko Sentral: *Provided*, That incumbent directors as well as those elected after 17 September 2001 must attend said seminar on or before 30 June 2003 or within a period of six (6) months from date of election for those elected after 30 June 2003, as the case may be: *Provided, further*, That the following persons are exempted from attending said seminar:

- i. Foreign nationals who have attended corporate governance training covering core topics in the Bangko Sentral -recommended syllabus and certified by the Corporate Secretary as having been made aware of the general responsibility and specific duties and responsibilities of the board of directors and specific duties and responsibilities of a director prescribed under Items *b*, *c* and *d* of Subsec. X141.3;
- ii. Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;
- iii. Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members; or
- iv. Former chief justices of the Philippine Supreme Court; and

(4) He must be fit and proper for the position of a director of the bank. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/ training, diligence and knowledge/ experience.

The members of the board of directors shall possess the foregoing qualifications for directors in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations.

b. Independent directors

In selecting independent directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry out his duties and responsibilities: *Provided*, That the rules and regulations of the SEC governing public and listed companies on the maximum number of companies of the conglomerate in which an individual can serve as an independent director shall apply to independent directors of all types of banks.

An independent director shall refer to a person who -

- (1) is not or has not been an officer or employee of the bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his election;
- (2) is not a director or officer of the related companies of the institution s majority stockholder;
- (3) is not a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
- (4) is not a relative, legitimate or common-law of any director, officer or stockholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies. For this purpose, *relatives* refer to the spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law;
- (5) is not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders; and
- (6) is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or

any of its substantial shareholders, either in his personal capacity or through his firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

An independent director of a bank may only serve as such for a total of five (5) consecutive years: *Provided*, That the maximum term and any *cooling off* period prescribed by the SEC for public and listed companies shall apply to all types of banks.

The foregoing terms and phrases used in Items □(1) to (6)□ of this Subsection shall have the following meaning:

(a) *Parent* is a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries;

(b) *Subsidiary* means a corporation more than fifty percent (50%) of the voting stock of which is owned or controlled directly or indirectly through one (1) or more intermediaries by a bank;

(c) *Affiliate* is a juridical person that directly or indirectly, through one (1) or more intermediaries, is controlled by, or is under common control with the bank or its affiliates.

(d) *Related interests* as defined under Sections 12 and 13 of R.A. No. 8791 shall mean individuals, related to each other within the fourth degree of consanguinity or affinity, legitimate or common law, and two (2) or more corporations owned or controlled by a single individual or by the

same family group or the same group of persons.

(e) *Control* exists when the parent owns directly or indirectly through subsidiaries more than one-half (1/2) 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 (1/2) or less of the voting power of an enterprise when there is:

i. Power over more than one-half (1/2) of the voting rights by virtue of an agreement with other stockholders; or

ii. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or

iii. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or

iv. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or

v. Any other arrangement similar to any of the above.

(f) *Related company* means another company which is:

i. Its parent or holding company;

ii. Its subsidiary or affiliate; or

iii. A corporation where a bank or its majority stockholder own such number of shares that will allow/enable him to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.

(g) *Substantial or major shareholder* shall mean a person, whether natural or juridical, owning such number of shares that will allow him to elect at least one (1) member of the board of directors of a bank or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

□□ **X141.2 - X141.3**
14.12.31

(h) *Majority stockholder or majority shareholder* means a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a bank. (As amended by Circular Nos. 840 dated 02 July 2014, 793 dated 05 July 2013, 757 dated 08 May 2012, 749 dated 27 February 2012 and 682 dated 15 February 2010)

□ **X141.3 Powers/responsibilities and duties of directors**

a. *Powers of the board of directors.* The corporate powers of a bank shall be exercised, its business conducted and all its property controlled and held, by its board of directors. The powers of the board of directors as conferred by law are original and cannot be revoked by the stockholders. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the bank.

b. *General responsibility of the board of directors.* The position of a bank director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The board of directors is primarily responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the board of directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day to day affairs of the institution.

c. *Specific duties and responsibilities of the board of directors*

(1) *To approve and monitor the implementation of strategic objectives.* Consistent with the institution's strategic

objectives, business plans shall be established for the bank including its trust operations, and initiatives thereto shall be implemented with clearly defined responsibilities and accountabilities. These shall take into account the bank's long-term financial interests, its level of risk tolerance and its ability to manage risks effectively. The board shall establish a system for measuring performance against plans through regular monitoring and reviews, with corrective action taken as needed.

The board shall likewise ensure that *the bank has beneficial influence on the economy* by continuously providing services and facilities which will be supportive of the national economy.

(2) *To approve and oversee the implementation of policies governing major areas of banking operations.* The board shall approve policies on all major business activities, e.g., investments, loans, asset and liability management, trust, business planning and budgeting. The board shall accordingly define the bank's level of risk tolerance in respect of said activities. A mechanism to ensure compliance with said policies shall also be provided.

The board shall set out matters and authorities reserved to it for decision, which include, among others major capital expenditures, equity investments and divestments. The board shall also establish the limits of the discretionary powers of each officer, committee, sub-committee and such other groups for purposes of lending, investing or any other financial undertaking that exposes the bank to significant risks.

(3) *To approve and oversee the implementation of risk management policies.* The board of directors shall be responsible for defining the bank's level of risk tolerance and for the approval and oversight of the implementation of policies and procedures relating to the management of risks throughout the institution,

including its trust operations. The risk management policy shall include:

- (a) a comprehensive risk management approach;
- (b) a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
- (c) a clear delineation of lines of responsibilities for managing risk;
- (d) an adequate system for measuring risk; and
- (e) effective internal controls and a comprehensive risk-reporting process. The

board of directors shall ensure that a robust internal reporting system is in place that shall enable each employee to contribute to the appreciation of the bank s overall risk exposures.

The board of directors shall ensure that the risk management function is given adequate resources to enable it to effectively perform its functions. The risk management function shall be afforded with adequate personnel, access to information technology systems and systems

(Next page is Part I - Page 67)

development resources, and support and access to internal information.

(4) *To oversee selection and performance of senior management.* It is the primary responsibility of the board of directors to appoint competent management team at all times, monitor and assess the performance of the management team based on established performance standards that are consistent with the bank's strategic objectives, and conduct regular review of bank's policies with the management team.

(a) The board of directors shall apply fit and proper standards on key personnel. Integrity, technical expertise and experience in the institution's business, either current or planned, shall be the key considerations in the selection process. And because mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the institution. The board of directors shall replace members of senior management, when necessary, and have in place an appropriate plan of succession.

(b) The board of directors shall regularly monitor the actions of senior management and ensure that these are consistent with the policies that it has approved. It shall put in place formal performance standards to be able to effectively assess the performance of senior management. The performance standards shall be consistent with the bank's strategic objectives and business plans, taking into account the bank's long-term financial interests.

(c) The board of directors shall regularly meet with senior management to engage in discussions, question and critically review the reports and information provided by the latter. The board of directors shall set the frequency of meeting with senior management taking into account the size,

complexity of operations and risk profile of the bank.

(d) The board of directors shall regularly review policies, internal controls and self-assessment functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues. The board of directors shall set the frequency of review taking into account the size, complexity of operations and risk profile of the bank.

The board of directors shall ensure that senior management's expertise and knowledge shall remain relevant given the bank's strategic objectives, complexity of operations and risk profile.

(5) *To consistently conduct the affairs of the institution with a high degree of integrity.* Since reputation is a very valuable asset, it is in the institution's best interest that in dealings with the public, it observes a high standard of integrity. The board of directors shall lead in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior for itself, the senior management and other employees. The board of directors shall:

(a) Articulate clear policies on the handling of any transaction with DOSRI and other related parties ensuring that there is effective compliance with existing laws, rules and regulations at all times and no stakeholder is unduly disadvantaged. In this regard, the board of directors shall define related party transaction, which is expected to cover a wider definition than DOSRI under existing regulations and a broader spectrum of transactions (i.e., not limited to credit exposures), such that relevant transactions that could pose material risk or potential abuse to the bank and its stakeholders are captured.

X141.3
13.12.31

- (b) Require the bank s stockholders to confirm by majority vote, in the annual stockholders meeting, the bank s significant transactions with its DOSRI and other related parties.
- (c) Articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the institution, or unethical conduct.
- (d) Articulate policies that will prevent the use of the facilities of the bank in furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.
- (e) Explicitly discourage the taking of excessive risks as defined by internal policies and establish an employees compensation scheme effectively aligned with prudent risk taking. The compensation scheme shall be adjusted for all types of risk and sensitive to the time horizon of risk. Further, the grant of compensation in forms other than cash shall be consistent with the overall risk alignment of the bank. The board of directors shall regularly monitor and review the compensation scheme to ensure that it operates and achieves the objectives as intended.
- (f) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the bank at all times. Further, the board of directors shall ensure that all transactions involving the pension fund are conducted at arm s length terms.
- (g) Allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or

- questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the board itself; and
 - (h) Articulate policies in communicating corporate values, codes of conduct and other standards in the bank as well as the means to confidentially report concerns or violations to an appropriate body.
- (6) *To define appropriate governance policies and practices for the bank and for its own work and to establish means to ensure that such are followed and periodically reviewed for ongoing improvement*¹. The board of directors, through policies and its own practices, shall establish and actively promote, communicate and recognize sound governance principles and practices to reflect a culture of strong governance in the bank as seen by both internal and external stakeholders.
- (a) The board of directors shall ensure that the bank s organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability, especially between the roles of the chairman of the board of directors and chief executive officer/president.
 - (b) The board of directors shall maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.
 - (c) The board of directors shall structure itself in a way, including in terms

¹ Banks shall submit the following to the appropriate department of the SES on or before 15 June 2012:

- (1) A Secretary s Certificate attesting the approval of the board of directors to changes in the bank s policies aligning the same with the provisions of Subsecs. X141.1 to X141.3, X142.3 and X142.4 and Secs. X175 to X176; and
- (2) 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.

of size, frequency of meetings and the use of committees, so as to promote efficiency, critical discussion of issues and thorough review of matters. It shall meet regularly to properly discharge its functions. It shall also ensure that independent views in board meetings shall be given full consideration and all such meetings shall be duly minuted.

(d) The board shall conduct and maintain the affairs of the institution within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound banking practice. The board shall appoint a compliance officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. The compliance officer shall be vested with appropriate authority and provided with appropriate support and resources.

(e) The board of directors shall establish a system of checks and balances which applies in the first instance to the board itself. Among the members of the board, an effective system of checks and balances must exist. The system shall also provide a mechanism for effective check and control by the board over the chief executive officer and key managers and by the latter over the line officers of the bank. Checks and balances in the board shall be enhanced by appointing a chairperson who is a non-executive, whenever possible.

(f) The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the chief executive officer, the individual directors, and the bank itself, which may be facilitated by the corporate governance committee or

external facilitators. The composition of the board shall also be reviewed regularly with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation shall be adopted which shall include, but not limited to, the setting of benchmark and peer group analysis.

(g) The board shall ensure that individual members of the board and the shareholders are accurately and timely informed. It shall provide all its members and to the shareholders a comprehensive and understandable assessment of the bank's performance, financial condition and risk exposures. All members of the board shall have reasonable access to any information about the institution at all times. It shall also provide appropriate information that flows internally and to the public.

(7) *To constitute committees to increase efficiency and allow deeper focus in specific areas.* The board of directors shall create committees, the number and nature of which would depend on the size of the bank and the board, the complexity of operations, long-term strategies and risk tolerance level of the bank.

(a) The board of directors shall approve, review and update at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures.

(b) The board of directors shall appoint members of the committees taking into account the optimal mix of skills and experience to allow the members to fully understand, be critical and objectively evaluate the issues. In order to promote objectivity, the board of directors, shall appoint independent directors and non-executive members of the board to the greatest extent possible while ensuring that such mix will not impair the collective skills,

□ X141.3
13.12.31

experience, and effectiveness of the committees. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance committees, without prior approval of the Monetary Board.

(c) The board of directors shall ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.

(d) The board of directors shall constitute, at a minimum, the following committees:

(i) *Audit committee.* The audit committee shall be composed of at least three (3) members of the board of directors, wherein two (2) of whom shall be independent directors, including the chairperson, preferably with accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the bank. To the greatest extent possible, the audit committee shall be composed of a sufficient number of independent and non-executive board members. Further, the chief executive officer, chief financial officer and/or treasurer, or officers holding equivalent positions, shall not be appointed as members of the audit committee.

The audit committee provides oversight over the institution's financial reporting policies, practices and control and internal and external audit functions. It shall be responsible for the setting up of the internal

audit department and for the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee. In cases of appointment or dismissal of external auditors, it is encouraged that the decision be made only by independent and non-executive audit committee members. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.

The audit committee shall review and approve the audit scope and frequency. It shall receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.

The audit committee shall have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions. The audit committee shall ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually.

The audit committee shall establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

(ii) *Risk oversight committee.* The risk oversight committee shall be responsible for the development and oversight of the risk

management program for the bank and its trust unit. The committee shall be composed of at least three (3) members of the board of directors including at least one (1) independent director, and a chairperson who is a non-executive member. The members of the risk oversight committee shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached. The bank's risk management unit and the chief risk officer shall communicate formally and informally to the risk oversight committee any material information relative to the discharge of its function. The risk oversight committee, shall, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

The core responsibilities of the risk oversight committee are to:

a. *Identify and evaluate exposures.* The committee shall assess the probability of each risk becoming reality and shall estimate its possible effect and cost. Priority areas of concern are those risks that are most likely to occur and are costly when they happen.

b. *Develop risk management strategies.* The risk oversight committee shall develop a written plan defining the strategies for managing and controlling the major risks. It shall identify practical strategies to reduce the chance of harm and failure or minimize losses if the risk becomes real.

c. *Oversee the implementation of the risk management plan.* The risk oversight

committee shall conduct regular discussion on the institution's current risk exposure based on regular management reports and assess how the concerned units or offices reduced these risks.

d. *Review and revise the plan as needed.* The committee shall evaluate the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The committee shall report regularly to the board of directors the entity's overall risk exposure, actions taken to reduce the risks, and recommend further action or plans as necessary.

(iii) *Corporate governance committee.* The corporate governance committee shall assist the board of directors in fulfilling its corporate governance responsibilities. It shall review and evaluate the qualifications of all persons nominated to the board as well as those nominated to other positions requiring appointment by the board of directors. The committee shall be composed of at least three (3) members of the board of directors, two (2) of whom shall be independent directors, including the chairperson.

The committee shall be responsible for ensuring the board's effectiveness and due observance of corporate governance principles and guidelines. It shall oversee the periodic performance evaluation of the board and its committees and executive management; and shall also conduct an annual self-evaluation of its performance. The corporate governance committee may coordinate with external facilitators in carrying out board assessment, within the frequency approved by the entire board. The corporate governance committee shall also decide whether or not a director is able to and has been adequately carrying out his/her duties as director based on its own

X141.3
13.12.31

assessment or the assessment of external facilitators, bearing in mind the director s contribution and performance (e.g., competence, candor, attendance, preparedness and participation). Internal guidelines shall be adopted that address the competing time commitments that are faced when directors serve on multiple boards.

The committee shall make recommendations to the board regarding the continuing education of directors, assignment to board committees, succession plan for the board members and senior officers, and their remuneration commensurate with corporate and individual performance.

The corporate governance committee shall decide the manner by which the board s performance shall be evaluated and propose an objective performance criteria approved by the board. Such performance indicators shall address how the board has enhanced long term shareholders value. *Provided*, That in case of simple or non-complex banks, the board of directors may, at a minimum, constitute only the audit committee: *Provided, further*, That the board shall discuss risk management and corporate governance matters in their board meetings, with the views of the independent directors duly noted and minuted.

For this purpose, a bank s business model is deemed simple if a bank is primarily engaged in the business of deposit-taking and lending: *Provided*, That a UB or KB shall be deemed a complex bank while a TB, RB or Coop Bank shall be deemed a simple bank. Nonetheless, a UB or KB may apply with the Bangko Sentral for a reclassification as simple bank in order to avail of the reduced minimum requirement on the constitution of board committees. The Bangko Sentral may likewise declare a TB, RB or Coop Bank as complex, and therefore necessitating complete compliance with the aforementioned requirements.

Any TB, RB and Coop Bank having at least (3) of the following characteristics shall be deemed a complex bank:

- a. Total assets of at least P6 billion;
- b. Extensive branch network;
- c. Non-traditional financial products and services by virtue of special authorities (e.g. trust, quasi-banking, derivatives licenses), as well as distinctive products like credit cards, remittance, trade-related services, contract-to-sell (CTS) financing, among other financial services;
- d. Use of non-conventional business model, such as those using non-traditional delivery platform such as electronic platforms; and
- e. Business strategy characterized by risk appetite that is aggressive and risk exposures which are increasing, such as those with robust branch expansion programs or acquisition plans.

TBs, RBs and Coop Banks classified as complex banks shall designate a full-time chief compliance officer, and establish audit, risk oversight and corporate governance committee.

Non-complex bank that shall adopt the reduced minimum requirement under this Subsection on the creation of only an audit committee shall submit the following to the appropriate department of the SES:

(1) A secretary s certificate attesting the approval of the board of directors to create only the audit committee/dissolve the other board-level committees if and when approved by the Bangko Sentral; and

(2) A letter signed by the president/chief executive officer requesting for approval for creating/maintaining only the audit committee.

(8) *To effectively utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors.* The board of directors shall recognize and acknowledge the importance of the assessment of the

independent, competent and qualified internal and external auditors as well as the risk and compliance officers in ensuring the safety and soundness of the operations of a bank on a going-concern basis and communicate the same through out the bank. This shall be displayed by undertaking timely and effective actions on issues identified.

Further, non-executive board members shall meet regularly, other than in meetings of the audit and risk oversight committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.

(9) *In group structures, the board of directors of the parent company banks shall have the overall responsibility for defining an appropriate corporate governance framework that shall contribute to the effective oversight over entities in the group.* Towards this end, the board of directors of the parent company bank shall ensure consistent adoption of corporate governance policies and systems across the group and shall carry-out the following duties and responsibilities:

(a) To define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the bank and its subsidiaries are exposed. The board shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.

(b) To define the level of risk tolerance for the group, which shall be linked to the process of determining the adequacy of capital of the group.

(c) To ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems.

(d) To establish a system for monitoring compliance of each entity in the group with all applicable policies, practices and systems.

(e) To define and approve policies and clear strategies for the establishment of new structures.

(f) To understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company bank. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's capital, risk profile and funding under normal and contingent circumstances.

(g) To develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.

(h) To require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board.

(i) To disclose to the Bangko Sentral all entities in the group (e.g., owned directly or indirectly by the parent company bank and/or its subsidiaries/affiliates including special purpose entities (SPEs), and other entities that the bank exerts control over or those that exert control over the bank, or those that are related to the bank and/or its subsidiaries/affiliates either through common ownership/directorship/officership) as well as all significant transactions between entities in the group involving any Bangko

X141.3
13.12.31

Sentral regulated entity in accordance with *Appendix 6*. For this purpose, significant shall refer to transactions that would require board approval based on the bank s internal policies or as provided under existing regulations: *Provided*, That the bank shall continue to submit any report required under existing regulations covering transactions between companies within the group.

In cases where the bank is a subsidiary/ affiliate of a non-BSP regulated parent company, its board of directors shall carry out the following duties and responsibilities:

(a) To ensure that the bank complies with the governance policies, practices and systems of the parent company as well as meets the standards and requirements set forth under existing laws, rules and regulations.

(b) To define and approve policies and clear strategies for the establishment of new structures (e.g., subsidiaries/affiliate of the bank). The board of directors shall also report to the Bangko Sentral any plan to create additional group structures.

(c) To understand the roles, relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the bank s capital, risk profile and funding under normal and contingent circumstances.

(d) To require the risk management, compliance function and internal audit group of the bank to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board.

(e) To disclose to the Bangko Sentral all entities in the group (e.g., parent company,

entities owned directly or indirectly by the parent company and/or its subsidiaries/ affiliates including special purpose entities (SPEs), and other entities that the bank exerts control over or those that are related to the bank and/or its subsidiaries/affiliates either through common ownership/ directorship/officership) as well as all significant transactions between entities in the group involving any BSP-regulated entity in accordance with *Appendix 6*. For this purpose, *significant* shall refer to transactions that would require board approval based on the bank s internal policies or as provided under existing regulations. *Provided*, That the bank shall continue to submit any report required under existing regulations covering transactions between companies within the group.

d. *Specific duties and responsibilities of a director*

(1) *To remain fit and proper for the position for the duration of his term.* A director is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.

(2) *To conduct fair business transactions with the bank and to ensure that personal interest does not bias board decisions.* Directors should, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the institution cannot be avoided, it should be

done in the regular course of business and upon terms not less favorable to the institution than those offered to others. The basic principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that would compromise his impartiality.

(3) *To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and general public.* A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.

(4) *To devote time and attention necessary to properly discharge their duties and responsibilities.* Directors should devote sufficient time to familiarize themselves with the institution's business. They must be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the board's work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the board.

(5) *To act judiciously.* Before deciding on any matter brought before the BOD, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

(6) *To contribute significantly to the decision-making process of the board.*

Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board.

(7) *To exercise independent judgment.* A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollarily, he should support plans and ideas that he thinks will be beneficial to the institution.

(8) *To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws, the requirements of the Bangko Sentral and where applicable, the requirements of other regulatory agencies.* A director should also keep himself informed of the industry developments and business trends in order to safeguard the institution's competitiveness.

(9) *To observe confidentiality.* Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said information to any other person without the authority of the board.

e. *Duties and responsibilities of the chairperson of the board of directors:*

(1) *To provide leadership in the board of directors.* The chairperson of the board shall ensure effective functioning of the board, including maintaining a relationship of trust with board members.

(2) *To ensure that the board takes an informed decision.* The chairperson of the board shall ensure a sound decision making process and he should encourage and promote critical discussion and ensure that dissenting views can be expressed and discussed within the decision-making process.

X141.3 - X141.4
13.12.31

(As amended by M-2013-035 dated 30 July 2013, Circular Nos.757 dated 08 May 2012 and 749 dated 27 February 2012)

X141.4 Confirmation of the election/appointment of directors/officers. The election/appointment of directors/officers of banks shall be subject to confirmation by the following:

| Confirming Authority | Position Level |
|--|--|
| a. Monetary Board | Directors and senior vice president and above (or equivalent ranks) of UBs and KBs, and of Islamic Banks, TBs, RBs and Coop Banks with total assets of at least P1.0 billion |
| b. An SES Committee to be composed of: - Deputy Governor, SES - Assistant Governors/Managing Directors, SE I/II/III/CSSS | Directors and senior vice president and above (or equivalent ranks) of Islamic Banks, TBs, RBs and Coop Banks with total assets of less than P1.0 billion |

The election/appointment of abovementioned directors/officers shall be deemed to have been confirmed by the Bangko Sentral, if after sixty (60) banking days from receipt of the required reports, no advice against said election/appointment has been received by the bank concerned.

However, the confirmation by the Monetary Board/SES Committee of the election/appointment to above-mentioned position levels shall not be required in the following cases:

- a. Re-election of a director (as a director) in the same bank or election of the same director in another bank, QB, trust entities other than stand-alone or trust corporation within a banking group;
- b. Re-election of an independent director (as an independent director or not) in the same bank or election of the same director (as an independent director or not) in another bank, QB, trust entities other than stand-alone or trust corporation within a banking group; and
- c. Promotion of an officer, other than to that which requires (i) prior Monetary Board approval, or (ii) a different set of

minimum qualifications, or (iii) a different level of confirming authority as provided in the first paragraph hereof, in the same bank or appointment/transfer to another bank, QB, trust entities other than stand-alone or trust corporation within a banking group:

Provided, That the director/officer concerned has been previously confirmed or in the case of compliance officer or trust officer who will be promoted to the rank of senior vice president or above (or equivalent rank), previously approved/confirmed by the Monetary Board, or if previously confirmed by the SES Committee, his/her re-election/ promotion/ transfer requires the same level of confirming authority as provided in the first paragraph hereof: *Provided, further*, That said director/officer has had continuous service within the same bank or banking group. This exemption shall apply to directors/officers confirmed by the Monetary Board/SES Committee starting 01 January 2011.

The appointment of officers below the rank of SVP shall be subject neither to Monetary Board approval nor Bangko Sentral confirmation.

The appointment of compliance officers and trust officers regardless of rank shall be subject to prior Monetary Board approval/confirmation as provided in Subsecs. X180.4 and X406.10, respectively.

For purposes of this Subsection, the term *banking group* shall refer to the parent bank and its subsidiary banks, QBs, trust entities other than stand-alone and trust corporations as well as other banks, QBs, trust entities other than stand-alone and trust corporations over which the parent bank has the power to exercise control as defined in Subsec. X141.2.

The documentary requirements for the confirmation of the election/appointment of directors/officers/trust officer, and approval of the appointment of compliance

officers of banks/QBs/NBFI with trust authority/trust corporations are shown in Appendix 98.
(CL-2011-045 dated 01 July 2011, as amended by Cir. No. 758 dated 11 May 2012 and Cir. No. 766 dated 17 August 2012)

X141.5 *Place of board of directors*meeting. Banks shall include in their by-laws a provision that meetings of their board of directors shall be held only within the

Philippines.

X141.6 - X141.8 (Reserved)

X141.9 *Certifications required*
Banks shall furnish all of their first time directors within a bank or banking group with a copy of the general responsibility and specific duties and responsibilities of the board of directors and of a director

(Next page is Part I - Page 77)

prescribed under Items “b”, “c” and “d” of Subsec. X141.3 upon election.

The bank must submit to the appropriate department of the SES, within ten (10) banking days from date of election, a certification under oath of the directors concerned that they have received copies of such general responsibility and specific duties and responsibilities and that they fully understand and accept the same, in accordance with *Appendix 6*.

The bank must submit to the appropriate department of the SES a certification under oath of the director/ officer with rank of senior vice president and above, and officer whose appointment requires prior Monetary Board approval that he/she has all the prescribed qualifications and none of the disqualifications within ten (10) banking days from the date of election/re-election of the directors/meeting of the board of directors in which the officers are appointed/promoted, in accordance with *Appendix 6*.

(As amended by Circular No. 758 dated 11 May 2012)

§ X141.10 Sanctions. Without prejudice to the other sanctions prescribed under Section 37 of R.A. No. 7653 and to the provisions of Section 16 of R.A. No. 8791, any director of a bank who violates or fails to observe and/or perform any of the above responsibilities and duties shall, for each violation or offense, be penalized as follows:

| <u>For directors of</u> | <u>Amount</u> |
|---------------------------|---------------|
| UBs/KBs | P 30,000 |
| TBs/IBs | 15,000 |
| RBs/Coop Banks (national) | 5,000 |
| Coop Banks (local) | 1,000 |

Sec. X142 Definition; Qualifications; and Duties and Responsibilities of Officers

This Section shall also apply to Coop Banks.

(As amended by Circular No. 682 dated 15 February 2010)

§ X142.1 Definition of officers. Officers

shall include the president, executive vice president, senior vice-president, vice president, general manager, treasurer, secretary, trust officer 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 through announcement, representation, publication or any kind of communication made by the bank: *Provided*, That a person holding the position of chairman or vice-chairman of the board or another position in the board shall not be considered as an officer unless the duties of his position in the board include functions of management such as those ordinarily performed by regular officers: *Provided, further*, That members of a group or committee, including sub-groups or sub-committees, whose duties include functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.

(As amended by Circular No. 562 dated 13 March 2007)

§ X142.2 Qualifications of an officer

An officer shall have the following minimum qualifications:

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 or trust operations acceptable to the appropriate department of the SES: *Provided, however*, That the trust officer who shall be appointed shall possess any of the following:

(1) at least five (5) years of actual experience¹ in trust operations;

(2) at least three (3) years of actual experience in trust operations and must have:

(a) completed at least ninety (90) training hours in trust, other fiduciary business, or

¹ Actual experience refers to exposures in trust operations either as officer of a trust entity or members of trust committee

§ X142.2 - X143.1
12.12.31

investment management activities acceptable to the Bangko Sentral; or

(b) completed a relevant global or local professional certification program; or

(3) at least five (5) years of actual experience as an officer of a bank and must have:

(a) completed at least ninety (90) training hours in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or

(b) completed a relevant global or local professional certification program; 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.

In the case of Coop Bank, the manager must have actual banking experience (at least manager or assistant manager).

The foregoing qualifications for officers shall be in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations.

(As amended by Circular Nos. 766 dated 17 August 2012, 682 dated 15 February 2010 and 665 dated 04 September 2009)

§ X142.3 Duties and responsibilities of officers

(1) *To set the tone of good governance from the top.* Bank officers shall promote the good governance practices within the bank by ensuring that policies on governance as approved by the board of directors are consistently adopted across the bank.

(2) *To oversee the day-to-day management of the bank.* Bank officers shall ensure that bank’s activities and operations are consistent with the bank’s strategic objectives, risk strategy, corporate values and policies as approved by the board of directors. They shall establish a bank-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the organization.

(3) *To ensure that duties are effectively delegated to the staff and to establish a*

management structure that promotes accountability and transparency. Bank officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each bank personnel. Bank officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the board of directors for the performance of the bank.

(4) *To promote and strengthen checks and balances systems in the bank.* Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.

(As amended by Circular No. 749 dated 27 February 2012)

§ X142.4 (2011 - X142.3) Appointment of officers

(Deleted by Circular No. 758 dated 11 May 2012)

Sec. X143 Disqualification and Watchlisting of Directors and Officers

This Section shall also apply to Coop Banks.

(As amended by Circular No. 682 dated 15 February 2010)

§ X143.1 *Persons disqualified to become directors.* Without prejudice to specific provisions of law prescribing disqualifications for directors, the following 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 a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for

Public Officials and Employees);

(2) Persons who have been convicted by final judgment of a court sentencing them to serve a maximum term of imprisonment of more than six (6) years;

(3) Persons who have been convicted by final judgment of the court for violation of banking laws, rules and regulations;

(4) Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract;

(5) Directors, officers or employees of closed banks who were found to be culpable for such institution's closure as determined by the Monetary Board;

(6) Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; or

(7) Directors and officers of banks or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

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 or any material information to the appropriate department of the SES when required pursuant to a provision of law or of a circular, memorandum, rule or regulation of the Bangko Sentral. 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, and directors who failed to physically attend for whatever reasons in at least twenty-five percent (25%) of all board meetings in any year, except that when a notarized certification executed by the corporate secretary has been submitted attesting that said directors were given the agenda materials prior to the meeting and that their comments/decisions thereon were submitted for deliberation/discussion and were taken up in the actual board meeting, said directors shall be considered present in the board meeting. This disqualification applies only for purposes of the immediately 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 where he/she is a director or officer, or at least two (2) obligations with other banks/FIs, under different credit lines or loan contracts, are past due pursuant to Sec. X306;

(b) *Obligations* shall include all borrowings from a bank 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 FIs;

(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

§ X143.1
08.12.31

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 who have been convicted by a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713, violation of banking laws, rules and regulations or those sentenced to serve a maximum term of imprisonment of more than six (6) years but whose conviction has not yet become final and executory;

(5) Directors and officers of closed banks 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/reelection;

(7) Directors who failed to attend the special seminar for board of directors required under Item “c” of Subsec. X141.2. 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 or upon clearance, on their request, from the Monetary Board after showing good and justifiable reasons, or after the lapse of five (5) years from the time they were officially advised by the

appropriate department of the SES of their disqualification;

(9) Those under preventive suspension;

(10) Persons with derogatory records as certified by, or on the official files of, the judiciary, NBI, Philippine National Police (PNP), quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries for irregularities or violations of any law, rules and regulations that would adversely affect the integrity of the director/officer or the ability to effectively discharge his duties. This disqualification applies until they have cleared themselves of the alleged irregularities/violations or after a lapse of five (5) years from the time the complaint, which was the basis of the derogatory record, was initiated;

(11) Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;

(12) Directors and officers of banks or any person found by the Monetary Board to be unfit for the position of director or officer because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or an offense/violation involving dishonesty or breach of trust, and which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court; and

(13) Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where

a penalty of suspension from office or fine is imposed, regardless whether the finding of the Monetary Board is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court. The disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid.

(As amended by Circular Nos. 584 dated 28 September 2007 and 513 dated 10 February 2006)

▯ **X143.2 *Persons disqualified to become officers***

a. The disqualifications for directors mentioned in Subsec. X143.1 shall likewise apply to officers, except those stated in Items ▯b(2)▯ and ▯b(7)▯.

b. The spouses or relatives within the second degree of consanguinity or affinity are prohibited from holding officership positions across the following functional categories within a bank:

1. Decision making and senior management function, e.g., chairman, president, chief executive officer (CEO), chief operating officer (COO), general manager, and chief financial officer (CFO) other than the treasurer or controller;

2. Treasury function, e.g., Treasurer and Vice President – Treasury;

3. Recordkeeping and financial reporting functions, e.g., controller and chief accountant;

4. Safekeeping of assets, e.g., chief cashier;

5. Risk management function, e.g., chief risk officer;

6. Compliance function, e.g., compliance officer; and

7. Internal audit function, e.g., internal auditor.

The spouse or a relative within the second degree of consanguinity or affinity of any person holding the position of

manager, cashier, or accountant of a branch or extension office of a bank or their respective equivalent positions is disqualified from holding or being appointed to any of said positions in the same branch or extension office.

c. Any appointive or elective official¹, whether full time or part time, except in cases where such service is incident to financial assistance provided by the government or government owned or -controlled corporations (GOCCs) or in cases allowed under existing law.

d. In the case of Coop Banks, any officer or employee of CDA or any elective public official, except a barangay official.

e. Except as may otherwise be allowed under Commonwealth Act No. 108, otherwise known as The Anti-Dummy Law , as amended, foreigners cannot be officers or employees of banks.

(As amended by Circular Nos. 809 dated 23 August 2013 and 699 dated 17 November 2010)

▯ **X143.3 *Effect of non-possession of qualifications or possession of disqualifications.***

A director/officer elected/appointed who does not possess all the qualifications mentioned under Subsecs. X141.2 and X142.2 and/or has any of the disqualifications mentioned under Subsecs. X143.1 and X143.2 shall not be confirmed by the confirming authority under Subsec. X141.4 and shall be removed from office even if he/she has assumed the position to which he/she was elected or appointed pursuant to Section 16 of R.A. No. 8791. A confirmed director/officer or officer not requiring confirmation found to possess any of the disqualifications, enumerated in the abovementioned Subsections shall be subject to the disqualification procedures provided under Subsec. X143.4.

(As amended by Circular Nos. 758 dated 11 May 2012 and 513 dated 10 February 2006)

¹ In the case of RB, appointive and elective public officials currently holding officership positions shall continue holding such position until the end of their current terms effective 13 September 2013.

¶ X143.4
08.12.31

- ¶ X143.4 *Disqualification procedures***
- a. The board of directors and management of every institution shall be responsible for determining the existence of the ground for disqualification of the institution's director/officer or employee and for reporting the same to the Bangko Sentral. While the concerned institution may conduct its own investigation and impose appropriate sanction/s as are allowable, this shall be without prejudice to the authority of the Monetary Board to disqualify a director/officer/employee from being elected/appointed as director/officer in any FI under the supervision of the Bangko Sentral. Grounds for disqualification made known to the institution, shall be reported to the appropriate department of the SES within seventy-two (72) hours from knowledge thereof.
- b. On the basis of knowledge and evidence on the existence of any of the grounds for disqualification mentioned in Subsecs. X143.1 and X143.2, the director or officer concerned shall be notified in writing either by personal service or through registered mail with registry return receipt card at his/her last known address by the appropriate department of the SES of the existence of the ground for his/her disqualification and shall be allowed to submit within fifteen (15) calendar days from receipt of such notice an explanation on why he/she should not be disqualified and included in the watchlisted file, together with the evidence in support of his/her position. The head of said department may allow an extension on meritorious ground.
- c. Upon receipt of the reply explanation of the director/officer concerned, the appropriate department of the SES shall proceed to evaluate the case.
- The director/officer concerned shall be afforded the opportunity to defend/clear himself/herself.
- d. If no reply has been received from the director/officer concerned upon the expiration of the period prescribed under Item *b* above,

- said failure to reply shall be deemed a waiver and the appropriate department of the SES shall proceed to evaluate the case based on available records/evidence.
- e. If the ground for disqualification is delinquency in the payment of obligation, the concerned director or officer shall be given a period of thirty (30) calendar days within which to settle said obligation or, restore it to its current status or, to explain why he/she should not be disqualified and included in the watchlisted file, before the evaluation on his disqualification and watchlisting is elevated to the Monetary Board.
- f. For directors/officers of closed banks, the concerned department of the SES shall make appropriate recommendation to the Monetary Board clearing said directors/officers when there is no pending case/complaint or evidence against them. When there is evidence that a director/officer has committed irregularity, the appropriate department of the SES shall make recommendation to the Monetary Board that his/her case be referred to the Office of Special Investigation (OSI) for further investigation and that he/she be included in the masterlist of temporarily disqualified persons until the final resolution of his/her case. Directors/officers with pending cases/complaints shall also be included in said masterlist of temporarily disqualified persons upon approval by the Monetary Board until the final resolution of their cases. If the director/officer is cleared from involvement in any irregularity, the appropriate department of the SES shall recommend to the Monetary Board his/her delisting. On the other hand, if the director/officer concerned is found to be responsible for the closure of the institution, the concerned department of the SES shall recommend to the Monetary Board his/her delisting from the masterlist of temporarily disqualified persons and his/her inclusion in the masterlist of permanently disqualified persons.
- g. If the disqualification is based on

dismissal from employment for cause, the appropriate department of the SES shall, as much as practicable, endeavor to establish the specific acts or omissions constituting the offense or the ultimate facts which resulted in the dismissal to be able to determine if the disqualification of the director/officer concerned is warranted or not. The evaluation of the case shall be made for the purpose of determining if disqualification would be appropriate and not for the purpose of passing judgment on the findings and decision of the entity concerned. The appropriate department of the SES may decide to recommend to the Monetary Board a penalty lower than disqualification (e.g., reprimand, suspension, etc.) if, in its judgment the act committed or omitted by the director/officer concerned does not warrant disqualification.

h. All other cases of disqualification, whether permanent or temporary shall be elevated to the Monetary Board for approval and shall be subject to the procedures provided in Items ¶a¶, ¶b¶, ¶c¶ and ¶d¶ above.

i. Upon approval by the Monetary Board, the concerned director/officer shall be informed by the appropriate department of the SES in writing either by personal service or through registered mail with registry return receipt card, at his/her last known address of his/her disqualification from being elected/appointed as director/officer in any FI under the supervision of Bangko Sentral and/or of his/her inclusion in the masterlist of watchlisted persons so disqualified.

j. The board of directors of the concerned institution shall be immediately informed of cases of disqualification approved by the Monetary Board and shall be directed to act thereon not later than the following board meeting. Within seventy-two (72) hours thereafter, the corporate secretary shall report to the Governor of the Bangko Sentral through the appropriate department of the SES the action taken by

the board on the director/officer involved.

k. Persons who are elected or appointed as director or officer in any of the BSP-supervised institutions for the first time but are subject to any of the grounds for disqualification provided for under Subsecs. X143.1 and X143.2, shall be afforded the procedural due process prescribed above.

l. Whenever a director/officer is cleared in the process mentioned under Item ¶c¶ above or, when the ground for disqualification ceases to exist, he/she would be eligible to become director or officer of any bank, QB, trust entity or any institution under the supervision of the Bangko Sentral only upon prior approval by the Monetary Board. It shall be the responsibility of the appropriate department of the SES to elevate to the Monetary Board the lifting of the disqualification of the concerned director/officer and his/her delisting from the masterlist of watchlisted persons.

(As amended by Circular No. 584 dated 28 September 2007)

¶ **X143.5 Watchlisting.** To provide the Bangko Sentral with a central information file to be used as reference in passing upon and reviewing the qualifications of persons elected or appointed as director or officer of a bank, QB or trust entity, the SES shall maintain a watchlist of persons disqualified to be a director or officer of such entities under its supervision under the following procedures:

a. *Watchlist categories.* Watchlisting shall be categorized as follows:

(1) Disqualification File A (Permanent) - Directors/officers/employees permanently disqualified by the Monetary Board from holding a director/officer position.

(2) Disqualification File B (Temporary) - Directors/officers/employees temporarily disqualified by the Monetary Board from holding a director/officer position.

X143.5 - X144
13.12.31

b. *Inclusion of directors/officers/employees in the watchlist.* Directors/officers/employees disqualified under Subsec. X143.4 shall be included in the watchlist disqualification files A or B .

c. *Confidentiality.* Watchlist files shall be for internal use only of the Bangko Sentral and may not be accessed or queried upon by outside parties including banks, QBs NBFIs with trust authority and trust corporations except with the authority of the person concerned (without prejudice to the authority of the Governor and the Monetary Board to authorize release of the information) and with the approval of the concerned SES Department Head or SES Subsector Head or the Deputy Governor, SES or the Governor or the Monetary Board.

The Bangko Sentral will disclose information on the persons included in its watchlist files only upon submission of a duly notarized authorization from the concerned person and approval of such request by the concerned SES Department Head or SES Subsector Head or the Deputy Governor, SES or the Governor or the Monetary Board. The prescribed authorization form to be submitted to the appropriate department of the SES is in Appendix 76.

Banks can gain access to said information in the said watchlist for the sole purpose of screening their nominees/applicants for directors/officers and/or confirming their elected directors and appointed officers. Banks must obtain the said authorization on an individual basis.

d. *Delisting.* All delistings shall be approved by the Monetary Board upon recommendation of the operating departments of SES except in cases of persons known to be dead where delisting shall be automatic upon proof of death and need not be elevated to the Monetary Board. Delisting may be approved by the Monetary Board in the following cases:

(1) Watchlist - Disqualification File B (Temporary) -

(a) After the lapse of the specific period of disqualification;

(b) When the conviction by the court for crimes involving dishonesty, breach of trust and/or violation of banking law becomes final and executory, in which case the director/officer/employee is relisted to Watchlist - Disqualification File A (Permanent); and

(c) Upon favorable decision or clearance by the appropriate body, i.e., court, NBI, Bangko Sentral, bank, QB, trust entity or such other agency/body where the concerned individual had derogatory record.

Directors/officers/employees delisted from the Watchlist - Disqualification File B other than those upgraded to Watchlist - Disqualification File A shall be eligible for re-employment with any bank, QB or trust entity.

(As amended by Circular No. 758 dated 11 May 2012, CL-2007-001 dated 04 January 2007 and CL-2006-046 dated 21 December 2006)

Sec. X144 Bio-data of Directors and Officers

a. Banks shall submit to the appropriate department of the SES a bio-data with ID picture of their (i) directors/officers with rank of senior vice president (SVP) and above (or equivalent ranks), (ii) officers below the rank of SVP requiring a different set of minimum qualifications, or (iii) officers whose appointment requires prior Monetary Board approval upon every election/re-election/appointment/promotion in a prescribed form and for first time directors/officers with rank of SVP and above (or equivalent ranks) within a particular bank/banking group whose election/appointment requires Monetary Board/SES Committee confirmation or whose appointment requires prior Monetary Board approval, the duly notarized authorization form per

Appendix 76, within ten (10) banking days from the date of election/re-election of the directors/meeting of the board of directors in which the officers are appointed/promoted, in accordance with *Appendix 6*.

The bio-data shall be updated and submitted (i) in case of change of name due to change in civil status, within ten (10) banking days from the date the change occurred, and (ii) in cases of requests for prior Monetary Board approval of interlocks.

For other officers below the rank of SVP, the bank shall not be required to submit their bio-data to the Bangko Sentral.

b. The bank shall, however, keep a complete record of the bio-data of all its directors and officers and shall maintain a system of updating said records which shall be made available during on-site examination or when required by the Bangko Sentral for submission for off-site verification.

c. Banks shall also submit to the appropriate department of the SES, a duly notarized list of the incumbent members of the board of directors and officers (President or equivalent rank, down the line, format attached as *Appendix 98b*), within ten (10) banking days from the annual election of the board of directors as provided in the bank's by-laws, in accordance with *Appendix 6*.

d. If after evaluation, the appropriate department of the SES shall find grounds for disqualification, the director/officer so elected/re-elected/appointed/promoted may be recommended for removal from office even if he/she has assumed the position to which he/she was elected/re-elected/appointed/promoted pursuant to Section 16 of R.A. No. 8791.

In the case of the independent directors, the bio-data shall be accompanied by a certification under oath from the director concerned that he/she is an independent director as defined under Subsec. X141.1

that all the information thereby supplied are true and correct, and that he/she:

(1) Is not or has not been an officer or employee of the bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his election;

(2) Is not a director or officer of the related companies of the institution's majority stockholder;

(3) Is not a majority stockholder of the institution, any of its related companies, or of its majority shareholders;

(4) is not a relative, legitimate or common law of any director, officer or stockholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies. For this purpose, *relatives* refer to the spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law;

(5) Is not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders;

(6) Is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and could not materially interfere with or influence the exercise of his judgment; and

(7) Complies with all the qualifications required of an independent director and

¶¶ X144 - X145
14.12.31

does not possess any of the disqualifications therefor; and has not withheld nor suppressed any information material to his or her qualification or disqualification as an independent director.

(As amended by Circular Nos. 793 dated 05 July 2013 and 758 dated 11 May 2012)

Sec. X145 Interlocking Directorships and/or Officerships. In order to safeguard against the excessive concentration of economic power, unfair competitive advantage or conflict of interest situations to the detriment of others through the exercise by the same person or group of persons of undue influence over the policy-making and/or management functions of similar FIs while at the same time allowing banks, QBs and non-bank financial institutions (NBFIs) without quasi-banking functions to benefit from organizational synergy or economies of scale and effective sharing of managerial and technical expertise, the following regulations shall govern interlocking directorships and/or officerships within the financial system consisting of banks, QBs and NBFIs.

For purposes of this Section, QBs shall refer to investment houses, finance companies, trust entities and all other NBFIs with quasi-banking functions while NBFIs shall refer to investment houses, finance companies, trust entities, insurance companies, securities dealers/brokers, credit card companies, non-stock savings and loan associations (NSSLAs), holding companies, investment companies, government NBFIs, asset management companies, insurance agencies/brokers, venture capital corporations, FX dealers, money changers, lending investors, pawnshops, fund managers, mutual building and loan associations, remittance agents and all other NBFIs without quasi-banking functions.

a. *Interlocking directorships*

While concurrent directorship may be the least prejudicial of the various

relationship cited in this Section to the interests of the FIs involved, certain measures are still necessary to safeguard against the disadvantages that could result from indiscriminate concurrent directorship.

(1) Except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorships between banks or between a bank and a QB or an NBF.

(2) Without the need for prior approval of the Monetary Board, concurrent directorships between entities not involving an investment house shall be allowed in the following cases:

(a) Banks not belonging to the same category: *Provided*, That not more than one (1) bank shall have quasi-banking functions;

(b) A bank and an NBF;

(c) A bank without quasi-banking functions and a QB; and

(d) A bank and one (1) or more of its subsidiary bank/s, QB/s and NBF/s.

For purposes of the foregoing, a husband and his wife shall be considered as one (1) person.

b. *Interlocking directorships and officerships*

In order to prevent any conflict of interest resulting from the exercise of directorship coupled with the reinforcing influence of an officer's decision-making and implementing powers, the following rules shall be observed:

(1) Except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorship and officership between banks or between a bank and a QB or an NBF; and

(2) Without the need for prior approval of the Monetary Board, concurrent directorship and officership between a bank and one (1) or more of its subsidiary bank/s, QB/s and NBF/s, other than investment house/s, shall be allowed.

(Next Page is Part I - Page 79)

c. Interlocking officerships

A concurrent officership in different FIs may present more serious problems of self-dealing and conflict of interest. Multiple positions may result in poor governance or unfair competitive advantage. Considering the full-time nature of officer positions, the difficulties of serving two (2) offices at the same time, and the need for effective and efficient management, the following rules shall be observed:

As a general rule, there shall be no concurrent officerships, including secondments, between banks or, between a bank and a QB or an NBF¹. For this purpose, *secondment* shall refer to the transfer/detachment of a person from his regular organization for temporary assignment elsewhere where the seconded employee remains the employee of the home employer although his salaries and other remuneration may be borne by the host organization.

In the case of non-governmental organizations (NGOs)/foundations that are engaged in retail microfinance operations, as defined under Subsec. X326.1.e(9), bank officers are prohibited from holding officership position or other positions that may cause them to be involved in the daily microfinance operations of related NGOs/foundations.

However, subject to prior approval of the Monetary Board, concurrent officerships, including secondments, may be allowed in the following cases:

(1) Between a bank and not more than two (2) of its subsidiary bank/s, QB/s, and NBF¹/s, other than investment house/s; or

(2) Between a bank and not more than two (2) of its subsidiary QB/s and NBF¹/s; or

(3) Between two (2) banks, or between a bank and a QB or an NBF¹, other than an investment house: *Provided*, That at least

twenty percent (20%) of the equity of each of the banks, QBs or NBFIs is owned by a holding company or a bank/QB and the interlocking arrangement is necessary for the holding company or the bank/QB to provide technical expertise or managerial assistance to its subsidiaries/affiliates.

Aforementioned concurrent officerships may be allowed, subject to the following conditions:

(a) that the positions do not involve any functional conflict of interests;

(b) that any officer holding the positions of president, chief executive officer, chief operating officer or chief financial officer or their equivalent may not be concurrently appointed to any of said positions or their equivalent;

(c) that the officer involved, or his spouse or any of his relatives within the first degree of consanguinity or affinity or by legal adoption, or a corporation, association or firm wholly- or majority-owned or controlled by such officer or his relatives enumerated above, does not own in his/its own capacity more than twenty percent (20%) of the subscribed capital stock of the entities in which the bank has equity investments; and

(d) that where any of the positions involved is held on full-time basis, adequate justification shall be submitted to the Monetary Board; or

(4) Concurrent officership positions in the same capacity which do not involve management functions, i.e., internal auditor, corporate secretary, assistant corporate secretary and security officer, between a bank and one or more of its subsidiary QB/s and NBF¹/s, or between bank/s, QB/s and NBF¹/s, other than investment house/s: *Provided*, That at least twenty percent (20%) of the equity of each of the banks, QBs and NBFIs is owned by a holding company or by any of the banks/QBs within the group.

¹ Bank officers, who concurrently held officership position or other positions that caused them to be involved in the daily microfinance operations of related NGOs/ foundations, were given up to 30 September 2011 to relinquish such officer position.

¶¶ X145 - X146
14.12.31

(5) Concurrent officership positions as corporate secretary or assistant corporate secretary between bank/s, QB/s and NBFIs, other than investment house/s, outside of those covered under Item ¶c(4) of this Section: *Provided*, That proof of disclosure to and consent from all of the involved FIs, on the concurrent officership positions, shall be submitted to the Bangko Sentral.

For purposes of this Section, members of a group or committee, including sub-groups or sub-committees, whose duties include functions of management such as those ordinarily performed by regular officers, shall likewise be considered as officers.

It shall be the responsibility of the Corporate Governance Committee to conduct an annual performance evaluation of the board of directors and senior management. When a director or officer has multiple positions, the Committee should determine whether or not said director or officer is able to and has been adequately carrying out his/her duties and, if necessary, recommend changes to the board based upon said performance/review.

The general principles and standards that will govern the business relationships between banks and their related NGOs/ foundations engaged in retail microfinance are found in *Appendix 27*.

(As amended by Circular Nos. 851 dated 30 September 2014 and 725 dated 26 June 2011, M-2011-033 dated 15 June 2011, Circular Nos. 646 dated 23 February 2009 and 592 dated 28 December 2007)

¶ **X145.1 Representatives of government.** The provisions of this Section shall apply to persons appointed to such positions as representatives of the government or government-owned or controlled entities unless otherwise provided under existing laws. *(As amended by Circular No. 592 dated 28 December 2007)*

Sec. X146 Profit Sharing Programs. Profit sharing programs adopted in favor of directors, officers and employees shall be

reflected in the by-laws of the bank, subject to the following guidelines:

a. The base in any profit sharing program shall be the net income for the year of the bank as shown in its Consolidated Statement of Income and Expenses for the year, net of the following:

(1) All cumulative dividends accruing to preferred stock to the extent not covered by earned surplus;

(2) Accrued interest receivable credited to income but not yet collected, net of reserves already set up for uncollected interest on loans;

(3) Unbooked valuation reserves on loans or the amount required to update valuation reserves in accordance with the schedule approved by the Monetary Board, as well as all amortizations due on deferred charges;

(4) Provisions for current year's taxes;

(5) Income tax deferred for the year. *Provided, however*, That in case of reversal of deferred income taxes which were deducted from net income in computing for profit sharing of previous years, the deferred income tax reversed to expense shall be added back to net income to arrive at the base for profit sharing for the year during which the reversal is made;

(6) Accumulated profits not yet received but already recorded by a bank representing its share in profits of its subsidiaries under the equity method of accounting; and

b. The bank may provide in its by-laws for other priorities in the computation of net profits for purposes of profit sharing: *Provided*, That in no case shall profit sharing take precedence over any of the items in the preceding paragraph; and

c. Prior approval of the Monetary Board shall be necessary before a bank which has received financial assistance from the Bangko Sentral may implement its profit sharing program. *Financial assistance* shall refer to

emergency loans and advances and such other forms of credit accommodations which are intended to provide banks with liquidity in times of need.

Sec. X147 Compensation and Other Benefits of Directors and Officers. To protect the funds of depositors and creditors, the Monetary Board may regulate/ restrict the payment by the bank of compensation, allowances, fees, bonuses, stock options, profit sharing and fringe benefits to its directors and officers in exceptional cases and when the circumstances warrant, such as, but not limited to, the following:

a. When the bank is under controllership, conservatorship or when it has outstanding emergency loans and advances and such other forms of credit accommodation from the BSP which are intended to provide it with liquidity in times of need;

b. When the institution is found by the Monetary Board to be conducting business in an unsafe or unsound manner;

c. When it is found by the Monetary Board to be in an unsatisfactory financial condition such as, but not limited to, the following cases:

- (1) Its capital is impaired;
- (2) It has suffered continuous losses from operations for the past three (3) years;
- (3) Its composite CAMEL(S) rating in the latest examination is below "3"; and
- (4) It is under rehabilitation by the BSP/ PDIC which rehabilitation may include debt-to-equity conversion, etc.

In the presence of any one (1) or more of the circumstances mentioned above, the Monetary Board may impose the following restrictions in the compensation and other benefits of directors and officers:

a. In the case of profit sharing, the provision of Sec. X146 shall be observed except that for purposes of this Section, the

total amount of unbooked valuation reserves and deferred charges shall be deducted from the net income.

b. Except for the financial assistance to meet expenses for the medical, maternity, education and other emergency needs of the directors or officers or their immediate family, the other forms of financial assistance may be suspended.

c. When the total compensation package including salaries, allowances, fees and bonuses of directors and officers are significantly excessive as compared with peer group averages, the Monetary Board may order their reduction to reasonable levels: *Provided*, That even if a bank is in financial trouble, it may nevertheless be allowed to grant relatively higher salary packages in order to attract competent officers and quality staff as part of its rehabilitation program.

The foregoing provisions founded on Section 18 of R.A. No. 8791 shall be deemed part of the benefits and compensation programs of banks.

Sec. 1147 (Reserved)

Sec. 2147 (Reserved)

Sec. 3147 Bonding/Training of Directors, Officers and Employees. Officers and employees handling funds or securities amounting to P5,000 or more in any one (1) year shall be bonded in an amount determined by the Monetary Board.

Directors, officers and other personnel of RBs/Coop Banks shall undergo such training in banking as may be required by the BSP.

Sec. X148 Real Estate and Chattel Transactions with DOSRI and Employees The following regulations shall govern all real estate/chattel transactions (such as, but not limited to, rentals or leases, purchases

§§ X148 - X148.1
11.12.31

and sales, of the bank's owned property, including foreclosed assets) entered between the bank and its director(s), officer(s), stockholder(s) or related interest(s), as defined under Items "a", "b", "c", and "e", respectively, of Subsec. X326.1 or between the bank and its employee(s).

Real estate/chattel transactions with DOSRI and employee(s) shall require the prior written approval of the majority members of the board of directors, with the exclusion of the director(s) concerned in cases where the transaction involves the director or his related interest(s): *Provided, however,* That real estate/chattel transactions with a bank's officer(s)/employee(s) that are availed in strict conformity with the terms and conditions of a BSP-approved fringe benefit program shall require the prior written approval of the bank's duly authorized committee/officer(s).

Real estate/chattel transactions with DOSRI and/or employee(s) shall, at all times, be entered into in the best interest of the bank. Records and supporting documents on such real estate/ chattel transactions shall be adequately maintained and made available for inspection and/or submitted upon request of the BSP.

(Circular No. 737 dated 19 September 2011)

§ X148.1 Certification on real estate/ chattel transactions with DOSRI and employee(s). Banks shall, within ten (10) banking days from approval by a majority of its board of directors, submit to the appropriate department of the SES, the *Certification on Real Estate/Chattel Transactions with DOSRI and Employee(s)* (see prescribed format in *Appendix 99*), covering real estate/chattel transactions between the bank and its director(s), officer(s), stockholder(s), related interest(s) and employee(s), except those that are availed of in strict conformity with the terms and of conditions of a fringe benefit program

approved by the bank's board of directors and by the BSP.

The *Certification on Real Estate/Chattel Transactions with DOSRI and Employee(s)* shall be accompanied by a certified true copy of the resolution of the board of directors authorizing said transaction(s) and shall be signed by at least the majority members of the bank's board of directors (excluding the director(s) concerned in the case of transactions involving the director(s) or his related interest(s)) who shall be required to certify therein, that:

(a) The transactions were approved by a majority of the bank's board of directors, excluding the director(s) concerned (in the case of transactions involving the director or his related interest(s)), in a meeting held for such purpose;

(b) A certified true copy of said approval as manifested in a resolution passed by the board of directors is attached as an annex to the certification;

(c) The reported transactions have been thoroughly reviewed and verified as having been entered into in the best interest of the bank; and

(d) The records and underlying documents (e.g. contracts/agreements, etc.) supporting such transactions are adequately maintained and shall be made available for inspection by BSP examiners and submitted upon request of the appropriate department of the SES.

Said *Certification on Real Estate/Chattel Transactions with DOSRI and Employee(s)* shall, at a minimum, disclose the following information:

(a) Board resolution No. and date;

(b) Name of DOSRI/employee;

(c) Transaction date;

(d) Type of transaction (i.e., sale, lease, etc.);

(e) Description of real estate or chattel property (e.g., TCT No. or CCT No., location and area in square meters in case of real property, and certificate of

registration number, make, model number, motor number and/or chassis number, as may be applicable, for chattels);

(f) Appraised or market value or prevailing rental rate;

(g) Reference or source of the amount reported under Item (f) above;

(h) Net carrying value of the property; and

(i) Transaction price (i.e., selling price, rental, etc.)

(Circular No. 737 dated 19 September 2011)

□□ X148.2 □ X148.8 (Reserved)

□ X148.9 **Sanctions.** The following sanctions shall be imposed on the bank and/or its concerned directors/officers for violations noted:

a. *On the bank*

1. *Monetary fines.* A bank which fails to comply with the provisions of this Section shall be subject to monetary penalties under Appendix 67.

(a) *For non-submission of the Certification on Real Estate/Chattel Transactions with DOSRI and Employee(s) and/or the certified true copy of the resolution of the bank's board of directors.* A bank which fails to submit the Certification on Real Estate/Chattel Transactions with DOSRI and Employee(s) and/or the certified true copy of the resolution of the board of directors authorizing such transactions within the prescribed deadline shall be subject to the monetary penalties applicable to less serious offenses under Appendix 67, which shall be reckoned on a daily basis from the day following the due date of submission until the required *Certification on Real Estate/Chattel Transactions with DOSRI and Employee(s) and/or the certified true copy of the resolution of the board of directors* is filed with the Bangko Sentral.

(b) *For the willful making of a false/misleading statement in the Certification on*

Real Estate/Chattel Transactions with DOSRI and Employee(s) and/or the certified true copy of the resolution of the bank's board of directors. A bank which has been found to have willfully made a false or misleading statement in the *Certification on Real Estate/Chattel Transactions with DOSRI and Employee(s) and/or the certified true copy of the resolution of the bank's board of directors* shall be subject to the monetary penalties applicable to less serious offenses under Appendix 67, for the willful making of a false or misleading statement which shall be reckoned on a daily basis from the day following the due date of the said certification until such time that an amended or corrected *Certification on Real Estate/Chattel Transactions with DOSRI and Employee(s) and/or the certified true copy of the resolution of the board of directors* has been submitted to the Bangko Sentral.

b. *On the concerned director/officer*

1. *For willful non-compliance.* Directors/officers of the bank who willfully fail/refuse to comply with the provisions of this Section shall be subject to the monetary penalties applicable to less serious offenses under Appendix 67.

2. *For false/misleading statements.* Directors/officers which have been found to have willfully falsely certified or willfully submitted misleading statements in the *Certification on Real Estate/Chattel Transactions with DOSRI and Employee(s) and/or the certified true copy of the resolution of the board of directors* shall be subject to the monetary penalties applicable to less serious offenses under Appendix 67, which shall be reckoned on a daily basis from the day following the due date of the said certification until such time that an amended or corrected certification or certified true copy of the resolution of the board of directors has been submitted to the Bangko Sentral.

The imposition of the above sanctions is without prejudice to the filing of

¶¶ X148.9 - X149.9
14.12.31

appropriate criminal charges against culpable persons as provided under Section 35 of R.A. No. 7653 for the willful making of a false/misleading statement.
(Circular No. 737 dated 19 September 2011)

Sec. X149 Conducting Business in an Unsafe/Unsound Manner. Whether a particular activity may be considered as conducting business in an unsafe or unsound manner, all relevant facts must be considered. An analysis of the impact thereof on the bank's operations and financial conditions must be undertaken, including evaluation of capital position, asset condition, management, earnings posture and liquidity position.

In determining whether a particular act or omission, which is not otherwise prohibited by any law, rule or regulation affecting banks, may be deemed as conducting business in an unsafe or unsound manner, the Monetary Board, upon report of the head of the supervising or examining department based on findings in an examination or a complaint, shall consider any of the following circumstances:

- a. The act or omission has resulted or may result in material loss or damage, or abnormal risk or danger to the safety, stability, liquidity or solvency of the institution;
- b. 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;
- c. 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
- d. The act or omission involves entering into any contract or transaction manifestly and grossly disadvantageous to the bank,

whether or not the director or officer profited or will profit thereby. The list of activities which may be considered unsafe and unsound is shown in *Appendix 48*.
(As amended by Circular No. 640 dated 16 January 2009)

¶¶ X149.1 ¶ X149.7 (Reserved)

¶ **X149.8 Reportorial requirement.** For purposes of determining market median rates on deposits and monitoring banks that rely excessively on large, high-cost or volatile deposits/borrowings specified in Item ¶g¶ of *Appendix 48*, all banks shall submit a quarterly report on bank deposit interest rates which shall be included in the report of selected branch accounts.

Guidelines on reportorial requirement for bank interest rates is provided in *Appendix 105*.

(Circular No. 848 dated 08 September 2014)

¶ **X149.9 Sanctions.** The Monetary Board may, at its discretion and based on the seriousness and materiality of the acts or omissions, impose any or all of the following sanctions provided under Section 37 of R.A. No. 7653 and Section 56 of R.A. No. 8791, whenever a bank conducts business in an unsafe and unsound manner:

- a. Issue an order requiring the bank to cease and desist from conducting business in an unsafe and unsound manner and may further order that immediate action be taken to correct the conditions resulting from such unsafe or unsound practice;
- b. Fines in amounts as may be determined by the Monetary Board to be appropriate, but in no case to exceed P30,000 a day on a per transaction basis taking into consideration the attendant circumstances, such as the gravity of the act or omission and the size of the bank, to be imposed on the bank, their directors and/or responsible officers;
- c. Suspension of interbank clearing privileges/immediate exclusion from clearing;

- d. Suspension of rediscounting privileges or access to Bangko Sentral credit facilities;
- e. Suspension of lending or foreign exchange operations or authority to accept new deposits or make new investments;
- f. Suspension of responsible directors and/or officers;
- g. Revocation of quasi-banking license; and/or
- h. Receivership and liquidation under Section 30 of R.A. No. 7653. All other provisions of Sections 30 and 37 of R.A. No. 7653, whenever appropriate, shall also be applicable on the conduct of business in an unsafe or unsound manner.

The imposition of the above sanctions is without prejudice to the filing of appropriate criminal charges against culpable persons as provided in Sections 34, 35 and 36 of R.A. No. 7653.

Sec. X150 Rules of Procedure on Administrative Cases Involving Directors and Officers of Banks. The rules of procedure on administrative cases involving directors and officers of banks are shown in *Appendix 64*.

I. BANKING OFFICES

Sec. X151 Establishment/Relocation/Voluntary Closure/Sale of Branches. The Bangko Sentral shall promote and maximize the delivery of efficient and competitive banking services especially to underserved markets and customers through innovative policies. Toward this end, the following are the rules and regulations that shall govern the establishment, relocation, voluntary closure and sale of local branches of domestic banks, including locally incorporated subsidiaries of foreign banks and the establishment of branches of foreign banks in the Philippines shall continue to

be governed by the provisions of Sec. X105 on liberalized entry and scope of operations of foreign banks and Sec. X153 on establishment of additional branches of foreign banks¹.

For purposes of this Section and its Subsections, the following definitions shall apply:

Branch shall refer to any permanent office or place of business in the Philippines other than the head office where deposits are accepted and/or withdrawals are serviced by tellers or other authorized personnel. It maintains a complete set of books of accounts.

Extension office shall refer to any permanent office or place of business in the Philippines other than the head office or a branch, where deposits are accepted and/or withdrawals are serviced by tellers or other authorized personnel. It does not maintain a complete set of books of accounts as its transactions are taken-up directly in the books of the head office or a branch to which it is attached. It shall be treated as a branch for purposes of this Section and its Subsections.

Other banking office (OBO) shall refer to any permanent office or place of business in the Philippines other than the head office, branch or extension office, which engages in any or all of the following non-transactional banking-related activities:

- a. Market loans, deposits and other bank products and services;
- b. Accept loan applications and conduct preliminary credit evaluation as well as perform credit administration support services;
- c. Host on-site automated teller machines (ATMs);
- d. Perform customer care services;
- e. Perform customer identification process, receive account opening documents and facilitate account activation:

¹ With additional special regulatory relief in areas affected by Tropical Depression Yolanda as provided under *Appendix 89a (Circular No. 820 dated 06 December 2013)*.

X151 - X151.1
11.12.31

Provided, That account opening approval and actual opening of deposit accounts shall be done only at the head office/branches/extension offices; and
f. Such other non-transactional banking related activities as may be authorized by the Bangko Sentral.

An OBO may also be recognized as microfinance-oriented . A microfinance-oriented OBO (MF-OBO)/micro-banking office (MBO) shall refer to an OBO that primarily caters to the banking needs and services of microfinance clients and overseas Filipinos (OFs) and their beneficiaries. As contemplated under *Appendix 45*, microfinance clients are micro-credit borrowers and/or micro-depositors.

In addition to the non-transactional banking-related activities and services allowable for regular OBOs, MF-OBO/MBOs may also engage in any or all of the following limited transactional banking activities and services that enable and facilitate financial inclusion and broader access to financial services:

- (1) Accept micro-deposits including initial deposit and service withdrawals thereof;
- (2) Accept check deposits of microfinance clients for collection and credit to own deposit accounts;
- (3) Disburse/release proceeds of micro-loans and collect loan amortization payments and related charges. The collection includes the microfinance borrower s embedded deposits that are part of the loan amortization payments;
- (4) Present, market, sell and service micro-insurance products in accordance with existing regulations;
- (5) Receive/pay-out funds in connection with authorized remittance transactions;
- (6) Act as a cash/money in and cash/money out for electronic money (e-money) transactions;

(7) Collect premiums/pay out benefits from/to members of social security institutions such as the Government Service Insurance System (GSIS), Social Security System (SSS), Philippine Health Insurance Corporation (Philhealth), Employees Compensation Commission (ECC), and other government authorized pension and benefit systems;

(8) Pay out benefits under government sponsored conditional cash transfer schemes;

(9) Accept utilities payment; and

(10)Purchase foreign currencies up to the maximum equivalent of USD300 per client per day for credit to micro-deposit accounts;

subject to the following conditions:

(a) An MF-OBO/MBO shall only perform the transactional activities it has specifically applied for and had been authorized by the Bangko Sentral to perform. Subsequent enhancements are likewise subject to prior Bangko Sentral approval;

(b) The bank shall ensure the timely accounting and proper recording of all financial transactions of its OBOs and observe adequate internal control procedures to ensure the safety of funds and reliability of financial records and reports emanating from all transactions; and

(c) The bank president shall submit within thirty (30) calendar days from the end of a financial year a comprehensive statement under oath that all the bank s OBOs and their activities are duly authorized by the Bangko Sentral.

(As amended by M-2011-032 dated 06 June 2011, Circular Nos. 694 dated 14 October 2010, 669 dated 22 October 2009 and 624 dated 13 October 2008)

X151.1 **Prior Monetary Board approval.** No bank operating in the Philippines shall establish branches, extension offices or other banking offices or transact business outside the premises

of its duly authorized principal office or head office without the prior approval of the Monetary Board.
(As amended by Circular No. 624 dated 13 October 2008)

¶ **X151.2 Pre-requisites for the grant of authority to establish a branch.** With prior approval of the Monetary Board, banks may establish branches subject to the following pre-qualification requirements:

a. The bank has complied with the minimum capital requirement under Subsec. X111.1, but not lower than P10 million, in the case of RBs.

In the case of branches to be established in restricted areas pursuant to Subsec. X151.4 Item ¶d¶, the bank must have combined capital accounts of at least P10 billion for a UB/KB and at least P3 billion for a TB: *Provided*, That a UB/KB with combined capital accounts of less than P10 billion or a TB with combined capital accounts of less than P3 billion shall be allowed to execute an undertaking to build up capital for a maximum period not later than 30 June 2014.

b. The bank’s risk-based CAR at the time of filing the application is not lower than twelve percent (12%);

c. The bank’s CAMELS composite rating in the latest examination is at least 3, with management component score not lower than 3 ;

d. The bank has established a risk management system appropriate to its operations, characterized by clear delineation of responsibility for risk management, adequate risk measurement system, appropriately structured risk limits, effective internal control system and complete, timely and efficient risk reporting system;

e. The bank has no major supervisory concerns outstanding on safety and soundness as indicated by the following during the period immediately preceding the date of application or as of the date of application:

| ¶¶ X151.1 - X151.2 14.12.31 | | |
|---|----------|---------------------------|
| (1) No unbooked valuation reserves | | as of date of application |
| (2) No deficiency in regular and liquidity reserve requirements on deposits and deposit substitutes | | 12 weeks |
| (3) No deficiency in asset and liquid asset cover for EFCDU/ FCDU liabilities | 3 months | |
| (4) Compliant with ceilings on loans to DOSRI | 12 weeks | |
| (5) No deficiency in liquidity floor on government deposits | 3 months | |
| (6) Compliant with the single borrower’s loan limit and limit on total investment in real estate and improvements including bank equipment | | as of date of application |
| (7) No past due obligation with the Bangko Sentral or with any FI | | as of date of application |
| (8) No float items outstanding in the Due From/To Head Office/Branches/Offices and Due from BSP accounts exceeding one percent (1%) of the total resources as of end of the month | 3 months | |
| (9) No uncorrected findings of unsafe and unsound banking practices | | as of date of application |
| (10) Has adequate accounting records, systems, procedures and internal control | | as of date of application |
| (11) Has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or Bangko Sentral Management | | as of date of application |
| (12) It has neither unpaid assessment due nor past due obligation with the PDIC. | | as of date of application |

In the case of branches to be established in restricted areas, neither the bank nor any of its subsidiary banks is under Prompt Corrective Action (PCA) or if under PCA, it shall be compliant with PCA resolution guidelines.

X151.2
14.12.31

f. For purposes of evaluating branch applications and determining the number of additional branches a bank may establish, theoretical capital shall be assigned to each branch to be established, including approved but unopened branches as follows:

| (In millions) | | | | |
|---|-----------------------------------|-------|------|---------|
| Location of Branch | Date of Implementation | UB/KB | TB | RB COOP |
| Metro Manila | Up to 30 June 2012 | P50 | P15 | P5. |
| | From 01 July 2012 to 30 June 2013 | P65 | P18 | P6.5 |
| | From 01 July 2013 to 30 June 2014 | P80 | P21 | P8.0 |
| | From 01 July 2014 | P100 | P25 | P10 |
| Cities of Cebu and Davao | From 18 January 2006 | P25 | P5.0 | P2.5 |
| 1st to 3rd class cities | Up to 30 June 2012 | P25 | P5.0 | P2.5 |
| | From 01 July 2012 to 30 June 2013 | P25 | P6.5 | P2.5 |
| | From 01 July 2013 to 30 June 2014 | P25 | P8.0 | P2.5 |
| | From 01 July 2014 | P25 | P10 | P2.5 |
| 4th to 6th class cities | Up to 30 June 2012 | P25 | P5.0 | P1.5 |
| | From 01 July 2012 to 30 June 2013 | P25 | P6.5 | P1.8 |
| | From 01 July 2013 to 30 June 2014 | P25 | P8.0 | P2.1 |
| | From 01 July 2014 | P25 | P10 | P2.5 |
| 1st to 3rd class municipalities 4th to 6th class cities | From 18 January 2006 | P20 | P5.0 | P1.0 |
| | Up to 30 June 2012 | P15 | P2.5 | P0.5 |
| | From 01 July 2012 to 30 June 2013 | P16.5 | P3.3 | P0.65 |
| | From 01 July 2013 to 30 June 2014 | P18 | P4.1 | P0.8 |
| 5th to 6th class municipalities | From 01 July 2014 | P20 | P5.0 | P1.0 |
| | From 18 January 2006 | P15 | P2.5 | P0.5 |

Provided, That:

(1) Applications received and approved up to 30 June 2012 shall be assessed the amount of theoretical capital applicable on 14 July 2012, subject to subsequent reassessments using the increased amount of theoretical capital effective (i) 01 July 2012, (ii) 01 July 2013, and (iii) 01 July 2014, respectively;

(2) Application received and approved from 01 July 2012 to 30 June 2013 shall be assessed the amount of theoretical capital effective 01 July 2012, subject to subsequent reassessments using the increased amount of theoretical capital effective (i) 01 July 2013, and (ii) 01 July 2014, respectively;

(3) Applications received and approved from 01 July 2013 to 30 June 2014 shall be assessed the amount of theoretical capital effective 01 July 2013, subject to subsequent reassessment using the increased amount of theoretical capital effective 01 July 2014; and

(4) Applications received and approved starting 01 July 2014 shall be assessed using the increased amount of theoretical capital effective said date.

The assigned theoretical capital for the proposed branch/es shall be deducted from the applicant bank s existing qualifying capital as defined under applicable and existing capital adequacy framework, solely for the purpose of determining whether its qualifying capital can support the establishment of the additional branch/es. The applicant bank s notional risk-based CAR, after deducting the applicable theoretical capital for the proposed branch/es from the existing qualifying capital, shall not be less than the minimum requirement at the time of approval, provided also that at the time of opening of such branch/es the notional CAR remains compliant with the minimum requirement.

If the applicant bank's risk-based CAR after deducting the assigned capital for the proposed branch from the existing qualifying capital would be less than ten percent (10%), its application shall not be processed unless it infused such amount as may be necessary to maintain its risk-based CAR to at least ten percent (10%);

g. The bank has been operating profitably for the year immediately preceding the date of application, or in the case of newly-established banks, the submitted projection showed that profitability will be attained on the third year of operations, at the latest; and

h. Additional requirements for the establishment of microfinance/BMBE-oriented branches of banks which are not microfinance/BMBE-oriented are as follows:

(1) The branch shall have a manual of operations on microfinancing duly approved by the bank's board of directors;

(2) The branch shall have an adequate loan tracking system that allows daily monitoring of loan releases, collections and arrearages, and any restructuring and refinancing arrangements;

(3) The proposed branch shall be managed by a person with adequate experience or training in microfinancing activities; and

(4) At least seventy percent (70%) of the deposits generated by the branch to be established shall be actually lent out to qualified microfinance/BMBE borrowers and the microfinance/BMBE loans of said branch shall at all times be at least fifty percent (50%) of its gross loan portfolio.

A microfinance-oriented branch is a branch that provides financial services and caters primarily to the credit needs of basic or disadvantaged sectors such as those specified under the second paragraph of

Subsec. X102.3, so as to enable them to raise their income levels and improve their living standards. Microfinance loans are granted on the basis of the borrower's cash flow and are typically unsecured.

A BMBE-oriented branch of a bank is a branch that caters primarily to the credit needs of BMBEs duly registered under R.A. No. 9178.

(As amended by Circular Nos. 827 dated 28 February 2014, 728 dated 23 June 2011, 715 dated 04 March 2011, 682 dated 15 February 2010, 674 dated 10 December 2009 and 624 dated 13 October 2008)

¶ **X151.3 Application for authority to establish branches.** An application for authority to establish a branch shall be signed by the president of the bank or officer of equivalent rank and shall be accompanied by the following information/documents:

a. Business plan detailing the primary banking activities/products and services to be offered; competition analysis to show that its application will not lead to over banking in the target market; and financial projections for the first three (3) years of operations showing sustained viability, as may be required by the appropriate department of the SES: *Provided*, That normally operating UBs, KBs, and TBs with total resources of P1 billion or more shall be exempt from the foregoing requirements. A bank is not considered normally operating if it is under PCA or is non-compliant with supervisory directives duly confirmed by the Monetary Board. In the evaluation of the business plan, due consideration shall be given to banks that are able or are committed to invest or deploy branch resources in their area of operations;

b. Certified true copy of the resolution of the bank's board of directors authorizing the establishment of the branch and indicating its proposed site;

X151.3 - X151.4
12.12.31

- c. Organizational set up of the proposed branch showing the proposed staffing pattern; and
 - d. Certification/Undertaking signed by the president of the bank or officer of equivalent rank that the bank has complied or will comply, as the case maybe, with the prerequisites for the grant of authority to establish a branch under Subsec. X151.2.
- (As amended by Circular No. 624 dated 13 October 2008)

X151.4 Branching guidelines
Branches may be established, subject to the following guidelines:

- a. A bank may apply to establish as many branches as its qualifying capital can support consistent with the theoretical capital requirement computed in accordance with the provisions of Subsec. X151.2.f, taking into account any approved but unopened branch/es outstanding at the time of application.
- For branch applications in restricted areas pursuant to Item d hereof, qualified banks may apply to establish as many branches as their qualifying capital can support within Phase 1 period consistent with the theoretical capital requirement computed in accordance with the provisions of Subsec. X151.2 Item f;
- b. Only applications submitted with complete documentary requirements enumerated in Subsec. X151.3 shall be accepted. Processing shall be on a first-come, first-served basis;
- c. Industry/market notice of application for authority to establish a branch shall be posted at the Bangko Sentral website upon receipt thereof;

For branch applications in restricted areas, the Bangko Sentral shall post on its website, within a reasonable time from the ninety (90) calendar day period in Item d hereof, the list of applicant banks, the

number of branch applications received from each applicant bank, and the final number of branch applications granted to each applicant bank under Phase 1;

d. As a general rule, banks shall be allowed to establish branches anywhere in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Para aque, Pasay, Pasig, Quezon and San Juan (restricted areas). However, pursuant to the policy of the Bangko Sentral to promote a competitive market environment conducive to a better and improved quality of financial services delivery, the branching restriction in these eight (8) areas is lifted under a two (2)-phased liberalization approach.

Under Phase 1, private domestically incorporated UBs/KBs and TBs that have less than 200 branches in the restricted areas as of 31 December 2010 may apply for branches in restricted areas starting 14 July 2011 and will remain open up to 11 October 2011 and establish the same until 30 June 2014. The branching restriction shall be fully lifted starting 01 July 2014 under Phase 2: *Provided*, That branching applications in said areas shall remain subject to the requirements on capital level of at least P10 billion and P3 billion for U/KBs and TBs, respectively, non-PCA status, usual prerequisites and procedures under Subsecs. X151.2 and X151.3 including the theoretical capital requirement and a special licensing fee of P20 million and P15 million per approved branch application of a U/KB and TB, respectively.

Government-owned banks may likewise apply for branches in the restricted areas subject to justification as to consistency with mandates under their respective charters: *Provided, however*, That RBs/Coop Banks shall not be allowed to establish branches in Metro Manila: *Provided, further*, That -

(1) Branches of microfinance-oriented banks, microfinance-oriented branches of banks which are not microfinance-oriented may be established anywhere, subject to compliance with, among other requirements, the minimum capital requirement under Item ¶a of Subsec. X151.2 and the following conditions:

(a) A microfinance-oriented TB or RB may be allowed to establish branches in Metro Manila, including in the restricted areas, if it has combined capital accounts of at least P1.0 billion in case of a TB, or at least P100.0 million in case of an RB; and

(b) A TB or RB/Coop Bank may be allowed to establish microfinance-oriented branches in Metro Manila, including in the restricted areas, if it has combined capital accounts of at least P1.0 billion in case of a TB, or at least P100.0 million in case of an RB/Coop Bank.

(2) Subject to the submission of the specific business purpose for establishing the branch, among other justifications:

(a) A TB with head office located outside the restricted areas or an RB with head office located outside the restricted areas but within Metro Manila with combined capital accounts of at least P1.5 billion may be allowed to establish one (1) branch anywhere within the restricted areas if it has no existing branch in said areas; and

(b) An RB with head office located outside Metro Manila with combined capital accounts of at least P1.5 billion may be allowed to establish one (1) branch anywhere in Metro Manila, including in the restricted areas, if it has no existing branch/es in Metro Manila.

(3) A TB with head office outside Metro Manila with combined capital accounts of at least P1.0 billion may establish branches in Metro Manila, except in the restricted areas.

(4) A TB with head office outside Metro Manila and Cities of Cebu and Davao with combined capital accounts of at least P500 million may establish branches in the Cities of Cebu and Davao.

(5) Subject to the restrictions in Items ¶6, ¶7, ¶8 and ¶9 hereof, an RB with combined capital accounts of at least P10.0 million, may establish branches in cities/municipalities of higher classification and with corresponding higher capitalization requirements, except in Metro Manila: *Provided*, That where the majority of the RB's total assets and/or majority of its total deposit liabilities are regularly accounted for by branches located in such cities/municipalities of higher classification, the RB shall comply with the required minimum capital under Subsec. X111.1 for that city/municipality of the highest classification within one (1) year from the Bangko Sentral finding.

(6) An RB or a Coop Bank shall only be allowed to establish branches if its combined capital accounts is at least P10.0 million;

(7) An RB with combined of at least P10.0 million but less than P50.0 million may establish branches anywhere within 2- hour normal travel time by land/sea public transport from the head office, except in Metro Manila;

(8) An RB with combined capital accounts of at least P50.0 million but less than P100.0 million may establish branches in any island group (Luzon, Visayas or Mindanao) where the head office is located, except in Metro Manila;

(9) An RB with combined capital accounts of at least P100.0 million capital accounts may establish branches anywhere in the Philippines, except in Metro Manila unless qualified under Items ¶d(1) and ¶d(2) above; and

(10) In the case of Coop Banks:

X151.4 - X151.5
14.12.31

- a. 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 Sec. X151;
- b. 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;
- c. The establishment of branches/ extension offices mentioned in Items 1 and 2 above shall be subject to the following minimum combined capital requirement:
 - i. At least P10.0 million to establish branches/extension offices anywhere within the province where its head office is located;
 - ii. At least 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
 - iii. 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 Subsec. X151.4 on the branching guidelines;
 - iv. Other relevant branching rules and regulations which are not inconsistent with the above provisions shall continue to be governed by Sec. X151; and
 - v. For branches to be established in the restricted areas, the maximum number of branches that may be established by qualified banks under Phase 1 shall be subject to final adjustment by the Monetary Board based on the total number of applications received. Should the total number of branch applications received by the Bangko Sentral under Item d above

exceed the total number determined by the Monetary Board to be optimal over the Phase 1 period, each qualifying applicant bank shall be granted a pro-rata share based on the total number of branches applied for.

e. The Monetary Board may decide to disapprove an otherwise qualified branch application if in its determination such branch application will lead to an overbanking situation in the specific market.

(As amended by Circular No. 759 dated 30 May 2012, CL-2011-052 dated 27 July 2011, Circular Nos. 727 and 728 both dated 23 June 2011, 696 dated 29 October 2010, 692 dated 23 July 2010, 682 dated 15 February 2010 and 624 dated 13 October 2008)

X151.5 Branch processing and special licensing fee

- a. Branch processing fee

The bank shall be immediately charged with the total processing fee computed for all branches approved, in accordance with the following:

| Bank Category | Branch Processing Fees | |
|---|---|--|
| | Metro Manila, Cities of Cebu and Davao, All Other Cities, 1 st to 2 nd Class Municipalities | 3 rd to 6 th Class Muni - nicipalities |
| a. UBs/KBs/ Affiliated TBs | P200,000 | P100,000 |
| b. Non-affiliated TBs | P100,000 | P50,000 |
| c. RBs/Coop Banks | P25,000 | P25,000 |
| d. Microfinance -oriented banks or microfinance -oriented branches of banks | P5,000 | 5,000 |

Provided, That branches of TBs, RBs and Coop Banks to be established within the region where the head office is located shall be free from assessment.

In no case shall staggered payment for

the total branch processing fee be allowed. Moreover, failure to open an approved branch within the prescribed period shall result in the forfeiture of the branch processing fee paid.

b. *Special licensing fee*

For branch applications in the restricted areas, the applicant bank shall upon acceptance of branch application pay a special licensing fee per branch depending on the bank s category, as follows:

| Bank Category | Licensing Fee Per Branch |
|---------------|--------------------------|
| UB/KB | P20 million |
| TB | 15 million |

Relocation of approved but unopened branches/OBOs under Subsec. X151.7, branches/OBOs under Subsec. X151.9, and relocation of head offices under Sec. X152, shall be subject, in the manner therein provided, to the special licensing fees.

(As amended by Circular Nos. 847 dated 28 August 2014, 759 dated 30 May 2012, 728 dated 23 June 2011 and 624 dated 13 October 2008)

¶ **X151.6 Establishment of other banking offices.** Other banking offices may be established with prior Monetary Board approval, and subject to compliance with the following:

- a. Minimum capital requirement under Subsec. X111.1 but not lower than P10.0 million in the case of RBs and Coop Banks;
- b. Ten percent (10%) risk-based CAR;
- c. CAMELS composite rating not lower than 3 , with Management component score not lower than 3 in the latest examination of the bank;
- d. Not under Prompt Corrective Action (PCA) or under conditions subject to PCA;
- e. No major supervisory concerns on safety and soundness such as those enumerated under Item ¶e of Subsec. X151.2 as of the date of application; and

¶¶ **X151.5 - X151.6**
14.12.31

f. Additional requirement for the establishment of MF-OBOs/MBOs:

- 1) At least fifty percent (50%) of total transactions generated are with microfinance clients;
- 2) It shall have a maximum on-site cash limit not exceeding P500,000 per day, commensurate to its level of banking activities;
- 3) It shall have adequate physical facilities and security arrangements as well as information and transaction support systems appropriate to the level of banking activities undertaken and services offered;
- 4) It shall be managed by a responsible officer with adequate experience or training in microfinancing activities; and
- 5) It shall have a manual of operations appropriate to its authorized activities that is periodically reviewed and updated and duly approved by the bank s board of directors.

The application to establish other banking offices shall be signed by the president of the bank or officer of equivalent rank and submitted to the appropriate department of the SES together with the following documents:

- 1. Certified true copy of the resolution of the bank s board of directors authorizing the establishment of the other banking office and indicating its proposed site;
- 2. Purpose statement indicating the bank s objective or reason for establishing the other banking office; and
- 3. Undertaking signed by the president of the bank or officer of equivalent rank that said other banking office shall not accept deposits and/or service withdrawals thru tellers or other authorized personnel.

OBOs may be established only in areas where the bank is allowed to establish branches as provided under Subsec. X151.4 on branching guidelines.

□□ **X151.6 - X151.7**
14.12.31

The processing guidelines on the establishment of MF-OBOs/MBOs are in Appendix 93.

Transitory provision. The bank is given up to 15 April 2011 to declare to the Bangko Sentral the desired classification (regular or MF-OBO/MBO) of its existing OBOs: *Provided, That* all existing OBOs shall conform to the provisions of Sec. X151 and this Subsection or phase out non-conforming activities by 04 May 2011: *Provided, further, That* the president of a bank with an existing OBO covered by this transitory provision shall certify under oath to the Bangko Sentral within thirty (30) calendar days from the end of the transition period that all existing OBOs conform to the provisions of Sec. X151 and this Subsection.

(As amended by Circular No. 825 dated 07 February 2014, M-2011-019 dated 29 March 2011, M-2010-040 dated 04 November 2010, Circular Nos. 694 dated 14 October 2010, 682 dated 15 February 2010 and 624 dated 13 October 2008)

□ **X151.7 Opening of banking offices**
Approved branches/OBOs shall be opened, as follows:

a. Approved branches shall be opened, within three (3) years from the date of approval thereof and shall not be subject to any extension.

The opening of approved branches may, however, be suspended or revoked by the appropriate department of the SES upon approval of the Deputy Governor, should any of the following conditions be found to exist:

(1) The bank's qualifying capital is no longer sufficient to support the remaining unopened branches;

(2) The bank or any of its subsidiary bank is initiated under PCA or is under condition/s subject to PCA or if already under PCA, continuously fails to comply with the MOU/PCA plan;

(3) The bank has major supervisory

concerns outstanding on safety and soundness.

For whatever reason, failure to open the approved branch/es within the three (3) year period shall result in the forfeiture of the bank's right to open such branch/es.

b. Approved OBOs shall be opened within one (1) year from the date of approval thereof and shall not be subject to any extension.

Approved but not yet opened branches/OBO may be relocated upon prior approval by the Deputy Governor, SES, subject to the presentation of justification and valid reason for the relocation, and resubmission of the information/documents enumerated in Subsec. X151.3 on application for authority to establish branches: *Provided, That* branches located outside the restricted areas which will be relocated to restricted areas shall be subject to the special licensing fee under Subsec. X151.5 upon approval of the relocation: *Provided, further, That* the opening of the relocated branch/OBO shall be made within the prescribed period mentioned above from date of Monetary Board approval of its establishment and shall not be subject to any extension.

As an incentive to merger/consolidation of banks or purchase/acquisition of majority or all of the outstanding shares of stock of a distressed bank for the purpose of rehabilitating the same, opening or relocation of approved but not yet opened branches/OBOs may be allowed within two (2) years from date of merger/consolidation or purchase/acquisition of majority or all of the outstanding shares of stock of a distressed bank for the purpose of rehabilitating the same.

Approved branches in the restricted areas shall be opened on or before 30 June 2014. Reasonable extensions may be authorized by the Monetary Board on a

case-to-case basis provided there are meritorious grounds: *Provided*, That approved branches of banks that have executed an undertaking to build up the required capital shall not be allowed to be opened until the capital requirement is met: *Provided, further*, That approved branches of banks under PCA shall not be allowed to be opened until the PCA status is lifted: *Provided, finally*, That the approved branching shall be suspended should PCA be initiated on an applicant bank or any of its subsidiary banks.

Failure to open a branch within the period authorized by the Monetary Board may result in forfeiture of the branch licensing fee and the right to open such branch.

Approved branches with unexpired period to open as of 17 June 2012, shall be given three (3) years to open, reckoned from their original dates of Monetary Board approval and shall not be subject to any extension.

(As amended by Circular Nos. 847 dated 28 August 2014, 777 dated 13 December 2012, 759 dated 30 May 2012, 728 dated 23 June 2011, 697 dated 29 October 2010 and 624 dated 13 October 2008)

¶ **X151.8 Requirements for opening a branch/other banking office.** Not later than five (5) banking days from the date of opening, the bank shall submit to the appropriate department of the SES of the following information/documents:

a. A written notice of the actual date of opening of its branch/OBO; and

b. A certification signed by the chief compliance officer and the head of the branches department with the rank of a vice president, or its equivalent or by a higher ranking officer on compliance with the following:

(1) Adequacy of banking facilities including installation of security devices

under Subsec. X181.4 and accessibility to disabled persons under Subsec. X160.10;

(2) Posting in conspicuous places in the branch premises of the required notices, schedules and other relevant information pertaining to the branch's lending and deposit operations;

(3) Availability of efficient means of reporting/communication facilities (to be specified) between the head office, branches and extension office; and

(4) The requirements enumerated under Subsecs. X151.2/X151.6 as of the time of actual opening of the branch/other banking office.

A bank that fails to comply with any one (1) of the requirements in Subsecs. X151.2/X151.6 on the prerequisites for the grant of authority to establish a branch/establishment of OBOs as of the date of the intended opening of the branch/OBO shall refrain from opening the branch/OBO on such date until it has complied with all of the requirements under Subsecs. X151.2/X151.6: *Provided*, That the provisions of Subsec. X151.7 on the date of opening of banks shall be observed.

(As amended by Circular Nos. 759 dated 30 May 2012, 697 dated 29 October 2010 and 624 dated 13 October 2008)

¶ **X151.9 Relocation of branches/other banking offices¹.** Relocation of existing branches/OBOs, whether to be opened at the new site on the next banking day or within one (1) year from the date of closure of the branch/OBO, shall be allowed in accordance with the following procedures:

a. Notice of relocation of branch/OBO signed by the president of the bank or officer of equivalent rank, together with a certified true copy of the resolution of the bank's board of directors authorizing said relocation, and an undertaking that the bank shall comply with the notification requirement under Item *b* below, shall be

¹ With additional special regulatory relief in areas affected by Tropical Depression Yolanda as provided under Appendix 89a (Circular No. 820 dated 06 December 2013).

X151.9 - X151.10
14.12.31

submitted by the bank to the appropriate department of the SES. The notice shall include information as to the new relocation site, the timetable for said relocation, date and manner of payment of special licensing fee under Subsec. X151.5, as may be applicable, and the branch/OBO that will handle the transactions of the branch/OBO to be relocated, as may be applicable.

b. If no reply is received by the bank from the Bangko Sentral within thirty (30) calendar days from date of receipt by the Bangko Sentral of the said notification, notice of relocation shall be sent by the bank to the depositors and other creditors last known addresses by registered mail service of the Philippine Postal Corporation (Philpost) or delivery service of other mail couriers or electronic mail, and posters shall also be displayed in conspicuous places in the premises of the branch/OBO to be relocated at least forty-five (45) calendar days prior to the closure of the branch/OBO to be relocated. Information as to the new relocation site, the date of the opening at the new site, and the address of the branch/OBO that will handle the transactions of the branch/OBO to be relocated, as may be applicable, shall be indicated in the said notice/posters. Proofs of receipt of notice by the depositors and the creditors shall be kept on file and made available upon request of the Bangko Sentral;

c. Within five (5) banking days from the date of closure of the branch/OBO to be relocated, a notice of such closure signed by the Chief Compliance Officer (CCO) and the head of the branches department with the rank of a vice president or equivalent rank or by a higher ranking officer, together with a certification that the notification requirement in Item *b* above has been complied with and, for branches/OBOs that will be opened at the new site beyond the next banking day, an undertaking that the branch/OBO shall be opened at the new site within one (1) year from the date of such

closure shall be submitted to the appropriate department of the SES;

d. Within five (5) banking days from the date of opening of the relocated branch/OBO, a notice of such opening, together with a certification signed by the CCO and the head of the branches department with the rank of a vice president or its equivalent rank or by a higher ranking officer that the bank has complied with Items *b.1* to *b.4* of Subsec. X151.8 on the requirements for opening a branch/OBO shall be submitted to the appropriate department of the SES. Information as to the site of the branch/OBO that was closed and the date of such closure, as well as the site of the branch/OBO that was opened and the date of such opening shall be indicated in the said notice;

e. Branches/OBO may be relocated anywhere, subject to the branching guidelines under Subsec. X151.4: *Provided*, That branches/OBOs located outside the restricted areas which will be relocated to restricted areas shall be subject to the special licensing fee under Subsec. X151.5; and

f. Relocation of branches/OBOs beyond one (1) year shall be deemed as permanent closure and surrender of license of the branch/OBO at the old site, and the opening of a branch/OBO at the new site shall be deemed as an establishment of a new branch/OBO, subject to the provisions of Subsecs. X151.2/X151.6 on the prerequisites for the grant of authority to establish a branch/establishment of OBOs. *(As amended by Circular Nos. 847 dated 28 August 2014, 783 dated 21 January 2013, 697 dated 29 October 2010 and 624 dated 13 October 2008)*

X151.10 Temporary closure¹, permanent closure and surrender of branch/other banking office license, and sale/acquisition of branches/other banking offices

a. Temporary closure of existing branches/OBOs. Temporary closure of existing branches/OBOs for the purpose of undertaking renovations/major repairs of

¹ With additional special regulatory relief in areas affected by Tropical Depression Yolanda as provided under Appendix 89a (Circular No. 820 dated 06 December 2013)

office premises/facilities and for other valid reasons may be allowed: *Provided*, That the branch/OBO shall be reopened within a period of one (1) year from the date of temporary closure in accordance with the following procedures:

(1) Notice of temporary closure signed by the president of the bank or officer of equivalent rank, together with a certified true copy of the resolution of the bank's board of directors authorizing said temporary closure and stating the justifications/reasons therefor; and an undertaking that the bank shall comply with the notification requirement under Item ▯2▯ below, shall be submitted to the appropriate department of the SES. The notice shall include information as to the timetable for the said temporary closure and the branch/OBO that will handle the transactions of the branch/OBO to be temporarily closed;

(2) If no reply is received by the bank from the Bangko Sentral within thirty (30) calendar days from the date of receipt by the Bangko Sentral of the said notification, notice of temporary closure shall be sent by the bank to the depositors and other creditors last known addresses by registered mail service of the PhilPost or delivery service of other mail couriers or electronic mail, and posters shall also be displayed in conspicuous places in the premises of the branch/OBO at least forty-five (45) calendar days prior to the temporary closure. Information as to the date of the reopening and the address of the branch/OBO that will handle the transactions of the branch/OBO to be temporarily closed shall be indicated in the said notice/posters. Proofs of receipts of notice by the depositors and other creditors shall be kept on file and made available upon request of the Bangko Sentral;

(3) Within five (5) banking days from the date of temporary closure of the branch/OBO, a notice of such closure, signed by the CCO and the head of the branches department with the rank of a vice president or equivalent rank or by a higher ranking

officer, together with a certification that the notification requirement in Item ▯(2)▯ above has been complied with and an undertaking that the branch/OBO shall be reopened within one (1) year from the date of such closure shall be submitted to the appropriate department of the SES; and

(4) Within five (5) banking days from the date of reopening of the branch/OBO, a notice of such reopening together with a certification signed by the CCO and the head of the branches department with the rank of vice president or its equivalent or by a higher ranking officer that the bank has complied with Items ▯b.1▯ to ▯b.4▯ of Subsec. X151.8 on the requirements for opening a branch/OBO shall be submitted to the appropriate department of the SES.

Temporary closure of branches/OBOs beyond one (1) year shall be deemed as permanent closure and surrender of license of the branch/OBO, and re-opening thereof shall be deemed as an establishment of a new branch/OBO, subject to the provisions of Subsecs. X151.2/ X151.6 on the prerequisites for the grant of authority to establish a branch/establishment of OBOs.

b. *Permanent closure and surrender of branch/other banking office license.* Permanent closure and surrender of branch/OBO license may be effected only with prior approval of the Monetary Board in accordance with the following procedures:

(1) Request for Monetary Board approval to the closure of the branch/OBO signed by the president of the bank or officer of equivalent rank, together with a certified true copy of the resolution of the bank's board of directors authorizing said closure and stating the justifications/reasons therefor, shall be submitted by the bank to the appropriate department of the SES;

(2) Upon receipt of the notice of Monetary Board approval but at least forty-five (45) calendar days prior to the closure, notice of closure shall be sent by the bank to the depositors and other creditors last

§ X151.10
13.12.31

known addresses by registered mail service of the PhilPost or delivery service of other mail couriers or electronic mail, and posters shall also be displayed in conspicuous places in the premises of the branch/OBO to be closed. Proofs of receipt of notice by the depositors and other creditors shall be kept on file and made available upon request of the Bangko Sentral;

(3) Within five (5) banking days from the date of closure of the branch/OBO, a notice of such closure signed by the CCO and the head of the branches department with the rank of a vice president or equivalent rank, or by a higher ranking officer, together with a certification that the notification requirement in Item 2 above has been complied with, shall be submitted to the appropriate department of the SES;

c. *Sale/acquisition of branches/OBOs.* Sale/acquisition of existing/operating branches/ OBOs may be allowed with prior approval of the Monetary Board in accordance with the following procedures:

(1) Prior written consent of the PDIC in the transfer of assets and assumption of liabilities as provided under Section 21 of the PDIC Charter (R.A. No. 3591), as amended by R.A. No. 9302 shall be obtained by both the selling bank and the acquiring bank;

(2) Request for Monetary Board approval to close the branch/OBO to be sold signed by the president of the bank or officer of equivalent rank, together with a certified true copy of the resolution of the bank's board of directors authorizing the sale shall be submitted by the selling bank to the appropriate department of the SES;

(3) Upon receipt of the notice of Monetary Board approval but at least forty-five (45) calendar days prior to the closure, notice of closure shall be sent to the depositors and other creditors last known addresses by registered mail service of the PhilPost or delivery service of other mail courier or

electronic mail, and posters shall also be displayed in conspicuous places in the premises of the branch/OBO to be sold. Proofs of receipt of notice by the depositors and other creditors shall be kept on file and made available upon request of the Bangko Sentral;

(4) Within five (5) banking days from the date of closure of the branch/OBO, a notice of such closure signed by the CCO and the head of the branches department with the rank of a vice president or equivalent rank or by a higher ranking officer, together with a certification that the notification requirement under Item 3 above has been complied with, shall be submitted to the appropriate department of the SES;

(5) Request for Monetary Board approval to acquire the branch/other banking office signed by the president of the bank or officer of equivalent rank, together with a certified true copy of the resolution of the bank's board of directors authorizing the acquisition shall be submitted by the acquiring bank to the appropriate department of the SES. The acquiring bank shall likewise comply with the following:

(a) Minimum capital requirement under Subsec. X111.1 but not lower than ten P10.0 million in the case of of RBs and Coop Banks;

(b) Ten percent (10%) risk-based CAR;

(c) CAMELS composite rating not lower than 3 with Management component score not lower than 3 in the latest examination of the bank; and

(d) Ceiling on total investments of a bank in real estate and improvements thereon, including bank equipment.

A UB, KB or TB may purchase/acquire branches/OBOs anywhere, including in Metro Manila and in the restricted areas: *Provided*, That a TB may purchase/acquire branches/OBOs in Metro Manila, including in the restricted areas, if it has combined capital accounts of at least P1.0 billion, and

purchase/acquire branches/OBOs in the Cities of Cebu and Davao, if it has combined capital accounts of at least P500.0 million:

(6) The acquiring bank shall pay a licensing fee per branch/OBO acquired, as follows:

| Type of Acquiring Bank | Location of Branch/OBO to be Acquired | |
|------------------------|---------------------------------------|----------------------|
| | Within Metro Manila | Outside Metro Manila |
| UBs and KBs | P 1.0 million | P 0.5 million |
| TBs | P 0.5 million | P 0.25 million |

and;

(7) Within five (5) banking days from the date of opening of the acquired branch/OBO, a notice of such opening, together with a certification signed by the CCO and the head of branches department with the rank of a vice president or its equivalent rank or by a higher ranking officer that the bank has complied with Items *b. 1* to *b. 4* of Subsec. X151.8 on the requirements for opening a branch/OBO shall be submitted by the acquiring bank to the appropriate department of the SES.

The forty-five (45) – days prior notice requirement for temporary closure of offices (required under X151.10) in affected areas is hereby waived for offices that have been de facto closed since 08 November 2013. Banks are directed to post a notice to the effect that said office has been temporarily closed, together with information on the new location to service clients.

(As amended by Circular Nos., 783 dated 21 January 2013, 727 dated 23 June 2011, 697 dated 29 October 2010 and 624 dated 13 October 2008)

X151.11 Relocation/Transfer of branch licenses of closed banks. Buyers of closed banks shall be allowed to relocate/transfer acquired branches subject to the conditions stated under Items *d* and *e* of the first paragraph of Subsec. X151.9 on relocation of branches/OBOs.

(As amended by Circular Nos. 847 dated 28 August 2014, 783 dated 21 January 2013, 697 dated 29 October 2010 and 624 dated 13 October 2008)

X151.10 - X151.19
14.12.31

X151.12 Sanctions

a. Any violation of the provisions of Subsecs. X151.1 - X151.11 depending on the materiality or seriousness of the violation, may constitute a ground for considering the same as unsafe and unsound banking practice and may be a ground for cancellation of the franchise and closure of any branch/OBO established herein without prejudice to the imposition of the applicable criminal and administrative sanctions prescribed under Sections 36 and 37, respectively, of R.A. No. 7653; and

b. If any part of any certification submitted by the bank as required in this Section is found to be false, the following sanctions shall be imposed:

1. *On the bank.* Suspension for one (1) year of the privilege to establish and/or open approved branches/other banking offices, and/or relocate branches/other banking offices.

2. *On the certifying officer.* A fine of P5,000 per day (P200 per day for RBs/Coop Banks) from the time the certification was made up to the time the certification was found to be false for each branch/other banking office opened, relocated, closed or sold without prejudice to the sanctions under Section 35 of R.A. No. 7653.

(As amended by Circular Nos. 694 dated 14 October 2010 and 624 dated 13 October 2008)

X151.13 - X151.18 (Reserved)

X151.19 (2008 - X155) Telling booths. The following rules shall govern the establishment of telling booths in BIR offices:

a. As a general policy, the establishment of telling booths in BIR offices are not authorized. However, in cases where telling booths in offices are needed as determined by the BIR, banks shall secure prior Monetary Board approval;

b. A bank s application shall be accompanied by a letter from the BIR

¶¶ X151.19 - X152
14.12.31

Commissioner or Deputy Commissioner or other officer specifically authorized by the Commissioner to sign such letter, stating that the BIR has agreed to allow the applicant bank to establish a tellering booth in the specified BIR office;

c. The applicant bank has complied with the standard prequalification requirements prescribed in *Appendix 5*; and

d. Tax collections received shall be subject to rules on government deposits.

Sec. X152 Relocation of Head Offices

Relocation of a bank's head office shall require prior approval of the Monetary Board in accordance with the following procedures:

a. Request for Monetary Board approval of the relocation of the bank's head office signed by the president of the bank or officer of equivalent rank shall be submitted to the appropriate department of the SES together with the following documentary requirements:

(1) A certified true copy of the resolution of the bank's board of directors authorizing the proposed relocation/transfer of the head office, and stating the justification/reasons therefor;

(2) A certified true copy of stockholders resolution authorizing the amendment of the articles of incorporation of the bank;

(3) Description of the building and/or place of relocation, manner of occupancy, i.e., whether lease or purchase, estimate of the total costs to be incurred in connection with the transfer, and the proposed timetable for such relocation; and

(4) Plan for the disposition of the original site.

b. Upon receipt of the notice of Monetary Board approval but at least three (3) months prior to the relocation, notice of relocation shall be sent to depositors and

other creditors by registered mail or POD service of the Philpost or other mail couriers, and poster shall be displayed in conspicuous places in the premises of the head office to be relocated: *Provided*, That said notification period may be reduced to forty-five (45) calendar days under any of the following circumstances:

(1) As an incentive to merger or consolidation of banks;

(2) As an incentive to the purchase or acquisition of majority or all of the outstanding shares of stock of a distressed bank for the purpose of rehabilitating the same; or

(3) The proposed relocation site is within the same municipality/city of the head office to be relocated.

c. Within five (5) banking days from the date of relocation, a notice of relocation, together with a certification signed by the president of the bank or officer of equivalent rank that the notification requirement under Item ¶b¶ above and the installation of the required security devices under Item ¶b¶ of Subsec. X181.4 on minimum security measures have been complied with, shall be submitted to the appropriate department of the SES.

A bank's head office may be relocated anywhere it is allowed to establish branches as provided in Subsec X151.4 on branching guidelines: *Provided*, That head offices located outside the restricted areas which will be relocated to restricted areas shall be subject to the special licensing fee under Subsec. X151.5 upon approval of the relocation.

The executive offices of the bank shall not be separated from the head office, i.e., these shall be located where the bank's head office is located.

Relocation of any other department/unit of the bank not performing front-office operation, i.e., not dealing with the banking

public, shall not require prior Monetary Board approval: *Provided, however, That within five (5) banking days from date of relocation, a notice of relocation signed by a vice president or officer of equivalent rank or by a higher ranking officer, together with a certified true copy of the resolution of the bank's board of directors authorizing the relocation, shall be submitted to the appropriate department of the SES.*

(As amended by Circular Nos. 847 dated 28 August 2014, 697 dated 29 October 2010 and 624 dated 13 October 2008)

□ **X152.1 Sanctions.** If any part of the certification submitted by the bank as required in this Section is found to be false, the sanctions under Subsec. X151.12 shall be imposed.

Sec. X153 Establishment of Sub-branches of Foreign Bank Branches. Authority to establish sub-branches of foreign banks may be granted subject to Monetary Board approval. The following guidelines shall govern the establishment of sub-branches of foreign banks in the Philippines pursuant to R.A. No. 7721, as amended by R.A. No. 10641.

(As amended by Circular No. 858 dated 21 November 2014)

□ **X153.1 Application for authority to establish sub-branches.** An application for authority to establish sub-branches shall be signed by the Country Manager or the highest ranking officer in the Philippines of the applicant foreign bank, and shall be accompanied by the following information/documents:

a. Certified true copy of the resolution of the foreign bank's board of directors authorizing the foreign bank's Country Manager or highest ranking officer in the Philippines to apply for authority to establish sub-branch/es and represent the bank in connection therewith; and

b. Proposed business plan for the sub-branch/es.

(As amended by Circular No. 858 dated 21 November 2014)

□ **X153.2 Requirements for establishment of sub-branches.** In addition to the standard pre-qualification requirement for the grant of banking authorities in *Appendix 5*, the applicant foreign bank shall be subject to the branch processing fee provided in Subsec. X151.5: *Provided, That sub-branch applications in the cities of Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig, Quezon and San Juan in Metro Manila shall also be subject to the special licensing fee under Subsec. X151.5, as applicable.*

(As amended by Circular Nos. 858 dated 21 November 2014 and 822 dated 13 December 2013)

□ **X153.3 Date of opening.** The opening of approved sub-branches shall be subject to the provisions of Subsec. X151.7.

(As amended by Circular Nos. 858 dated 21 November 2014 and 783 dated 21 January 2013)

□ **X153.4 Requirements for opening a sub-branch.** After a foreign bank's application to establish a sub-branch has been approved, it may open the same subject to the following conditions:

a. Submission by the applicant foreign bank of a written notice at least thirty (30) days prior to the intended date of opening, accompanied by the following:

(1) Proof or evidence of inward remittance needed to meet the additional capital requirements under Subsec. X111.1, as applicable;

(2) List of principal and junior officers of the proposed sub-branch/es and their respective designations and salaries;

(3) Personal information sheet (bio-data) for each of the officers to enable the Bangko Sentral to evaluate their qualifications as officers; and

X153.4 - X154
14.12.31

(4) A certification signed by the bank's Philippine Country Manager that the requirements enumerated under Subsec. X153.2 has been complied with up to the date of the aforementioned written notice.

A bank that fails to continuously comply with the requirements under Subsec. X153.2 shall be given an extension of time to open such branch after it has shown compliance for another test period of the same duration required of each requirement in Subsec. X153.2: *Provided*, That the provisions of Subsec. X153.3 shall be observed if the branch cannot open within six (6) months from the date of approval thereof: *Provided, further*, That before such branch opens for business, the bank shall submit to the Bangko Sentral the requirements under Subsec. X153.4a with the certification to the effect that the bank has complied with requirements of Subsec. X153.2 up to the date of the written notice within the period prescribed therein;

b. The foreign bank branch has adequate staff, equipment, and other facilities to meet the needs of its commercial banking operations: *Provided*, That the bank's premises, vault and office equipment, after inspection by the representatives of the SES shall have been found to be substantially in compliance with specifications on security standards and ready for use by the bank; and

c. Issuance by the Governor of the permit to open and operate the approved branch/es.

Banks shall submit a written notice to the appropriate department of the SES of the actual date of opening of sub-branches not later than ten (10) banking days from such opening.
(As amended by Circular Nos. 858 dated 21 November 2014 and 822 dated 13 December 2013)

X153.5 *Limitations on establishment of sub-branches*
A foreign bank authorized to establish branches in the Philippines pursuant to the provisions of R.A. No. 7721, as amended by R.A. No. 10641, may open up to five (5) sub-branches as may be approved by the Monetary Board.
(As amended by Circular No. 858 dated 21 November 2014)

X153.6 *Sanctions.* If a bank fails to submit any certification as required in this Section, or any part of the certification submitted by the bank as required in this Section is found to be false, the sanctions under Subsec. X151.12 shall be imposed.

Sec. X154 Establishment of Offices Abroad
The following rules shall govern the establishment by domestic banks of branches and other offices abroad.
For purposes of this Section, the term *offices* shall include branches, agencies, representative offices, remittance centers, remittance desk offices and other offices.

(Next Page is Part I - Page 95)

□ **X154.1 Application for authority to establish an office abroad.** An application for authority to establish an office abroad shall be signed by the president of the bank and shall be accompanied by the following information/documents:

- a. Certified true copy of the resolution of the bank's board of directors authorizing the establishment of that office indicating its proposed site;
- b. Economic justification for such establishment, indicating among other things, the services to be offered, the minimum outlay such as capital requirement of the host country, outlay for furniture, fixture and equipment, rental and other expenses;
- c. Organizational set up of the proposed office showing the proposed positions and the names, qualifications and experience of the proposed manager and other officers;
- d. Certification signed by the president or the executive vice president that the bank has complied with the standard pre-qualification requirements for the grant of banking authorities enumerated in *Appendix 5*; and
- e. Certification from the host country that the duly authorized personnel/examiners of the Bangko Sentral will be authorized to examine the proposed office.

□ **X154.2 Requirements for establishing an office abroad.** In addition to the standard prequalification requirements of *Appendix 5*, the applicant bank shall comply with the following:

- a. The citizenship requirements, ownership ceilings and other limitations on voting stockholdings in banks under existing law and regulations;
- b. Experience and expertise in international banking operations as shown by:
 - (1) Its international banking operations for at least three (3) years prior to the date of application;

- (2) Substantial income derived from international banking operations; and
- (3) Established correspondent relationship with reputable banks.

□ **X154.3 Conditions attached to the approved application.** An approved application to establish a banking office abroad shall be subject to the following conditions:

- a. Without prejudice to the qualification requirements in the country where the office is to be established, the proposed officer(s), at the time of appointment must be at least:
 - (1) Twenty-five (25) years of age;
 - (2) A college graduate, preferably with training and experience abroad;
 - (3) With three (3) years experience in international banking operations; and
 - (4) Must not possess any of the disqualification of an officer as provided for under existing regulations;
- b. The applicant bank shall comply with the licensing requirements of the host country and the necessary license to operate shall be secured from the appropriate government agency of the host country;
- c. The outward investment representing initial capital outlay and other outlays shall be subject to existing regulations;
- d. The proposed office shall submit periodic reports on its financial condition and profitability and such other reports that may be required by the Bangko Sentral;
- e. An office not authorized to perform banking business (e.g., representative and liaison offices) shall not carry any of the business of a bank as contemplated within the context of the Philippine banking system; and
- f. The applicant shall defray the necessary cost and expenses to be incurred by the appropriate department of the SES.

□ □ **X154.4 - X155.1**
13.12.31

□ **X154.4 Date of opening.** The opening of any office abroad shall be subject to the provisions of Subsec. X151.7.

(As amended by Circular No. 783 dated 21 January 2013)

□ **X154.5 Requirements for opening an office abroad.** After a bank's application to establish a branch has been approved, it may open the same subject to the following conditions:

a. Submission by the applicant bank of a written notice at least thirty (30) days prior to the intended date of opening, accompanied by the following:

(1) Proof or evidence of outward remittance needed to meet the capital requirements prescribed by the host country;

(2) List of principal and junior officers of the proposed branch/es and their respective designations and salaries; and

(3) Personal information sheet (Bio-data) for each of the officers to enable the Bangko Sentral to evaluate their qualifications as officers; and

b. A certification signed by the bank's president or executive vice president that the standard pre-qualification requirements enumerated in *Appendix 5* have been complied with up to the date of the aforementioned written notice.

A bank that fails to continuously comply with the requirements shall be given an extension of time to open such office after it has shown compliance for another test period of the same duration required of each requirement: *Provided*, That the provisions of Subsec. X151.7 shall be observed if the branch cannot open within six (6) months from the date of approval thereof: *Provided, further*, That before such branch opens for business, the bank shall submit to the Bangko Sentral the requirements under Subsec. X154.5a together with a certification stating that the bank has complied with the standard pre-qualification requirements in *Appendix 5* up to the date of the written notice within the

period prescribed therein.

□ **X154.6 Sanctions.** If any part of the certification submitted by the bank as required in this Section is found to be false, the sanctions under Subsec. X151.12 shall be imposed.

□ □ **X154.7 - X154.8 (Reserved)**

□ **X154.9 Establishment of a foreign subsidiary by a bank subsidiary.** The establishment of a foreign subsidiary by a bank subsidiary are subject to the guidelines in Subsec. X382.8.

Sec. X155 (2008 - X502) Mobile Foreign Exchange Booth; Off-site Automatic Multi-Currency Money Changers. The operation of mobile foreign currency booths and off-site automatic multi-currency money changers (OAMMC) shall be governed by this Section.

□ **X155.1 (2008 - X502.1) Mobile foreign exchange booths.** Without prior authority from the Bangko Sentral, banks may operate mobile foreign currency booths, subject to the following guidelines:

a. The bank shall advise the Bangko Sentral of the number of mobile foreign currency booths it will operate, the date it will start operations, the areas of operation and the branch where the foreign exchange acquisition will be turned over and booked;

b. The services of the mobile foreign currency booths shall be solely for changing foreign exchange currency into peso notes and coins, and not pesos to other foreign currency;

c. The mobile foreign currency booths shall not accept deposit or perform other banking functions other than purchase of foreign currencies;

d. The internal control system of the proposed mobile foreign currency booths shall be submitted to the appropriate

department of the SES, as well as other security measures adopted therein; and

e. The mobile foreign currency booths shall be covered by insurance to protect adequately the bank against losses of whatever nature arising from its operations.

□ **X155.2 (2008 - X502.2) Off-site automatic multi-currency money changers**

With prior approval of the Bangko Sentral, banks which have shown general compliance with banking laws, rules and regulations may install an OAMMC, subject to the following conditions:

a. The OAMMC shall be installed only in centers of activities like shopping centers, supermarkets, hotels and airports: *Provided*, That the site is within the area where the applicant bank has a regular branch to service the money changers;

b. The applicant bank shall maintain adequate internal control and security measures, which shall include immediate rejection and detection of fake currencies by the machines;

c. The transactions of the money changers shall be booked in specific branches which must be identified at the time of application for the putting up of an OAMMC; and

d. The services of the OAMMC shall be solely for changing foreign exchange currency into peso notes and coins, and not pesos to other foreign currencies.

J. BANKING DAYS AND HOURS

Sec. X156 Banking Days and Hours

Banks and/or their branches, extension offices (EOs) or other banking offices (OBOs), doing business in the Philippines, shall observe for the conduct of their business a regular banking week of five (5) days, except when such days are non-working holidays, including local holidays, declared by Presidential Proclamations. The regular banking week should fall on

Mondays to Fridays unless otherwise authorized by the Bangko Sentral in the interest of the banking public. On these days, said institution shall transact business for at least six (6) hours each day.

Subject to compliance with other relevant laws, banks, and/or their branches, EOs or OBOs, may opt to observe a banking week in excess of the five (5) days after reporting to the Bangko Sentral the additional days during which such banks or their branches or offices shall transact business for at least three (3) hours each day.

Banks and/or their branches, EOs or OBOs are allowed to close on certain days in celebration of important historical and/or religious events in the locality where these banks operate, even in the absence of a Presidential Proclamation approving the local holiday: *Provided*, That said closure has the prior approval of the bankers association in the locality and in the case of bank branches, their respective head offices: *Provided, further*, That said closure will only be allowed in the municipality or city where the festivities are centered: *Provided, finally*, that banks and/or their branches, EOs or OBOs shall submit, either individually or through their head offices, to the Supervisory Data Center, a prior notice of their intended closure on account of a specific local festivity not covered by a Presidential Proclamation at least two (2) working days before the intended date of closure.

The required notice under the previous paragraph shall be supported by a certification jointly signed by the President of the bank or officer of equivalent position and the head of the branches department, if any, that:

a) On the date of the temporary closure, the bank and/or their branches, EOs or OBOs which are microfinance-oriented/micro-banking office will maintain a skeletal force to handle out-of town clearing items in line with the provisions of Section X205;

□ □ **X156 - X156.2**
14.12.31

b) The notice of the bank's closure and the reason thereof shall be posted conspicuously in the bank's premises; and

c) For branches of banks, the closure has the prior approval of their respective head offices.

The copy of the resolution of the local bankers association and in the case of bank branches, their respective head offices, approving said closure shall be filed in the premises of the banking unit concerned, which resolution shall be made available during on-site examination or when required by the Bangko Sentral for submission for off-site verification.

In cases of closure of the bank and/or their branches/EOs/OBOs due to approved local holidays covered by a Presidential Proclamation, no notice of temporary closure to the Bangko Sentral shall be required.

(As amended by Circular Nos. 802 dated 21 June 2013, 634 dated 05 December 2008 and 624 dated 13 October 2008)

□ **X156.1 Banking hours beyond the minimum; banking services during holidays.** Banks may, at their discretion, remain open beyond the minimum six (6) hours and for as long as they find it necessary, even before 8:00 AM or after 8:00 PM, subject to the submission of prior written notice required under Subsec. X156.2 on report of, and changes in, banking days and hours, and compliance with the provisions of Subsecs. X156.3 on posting of schedule of banking days and hours, and X181.4 on minimum security measures.

Banks and/or their branch/es and/or extension offices may opt to remain open during any or all of their regular banking days that were covered by holidays for the purpose of servicing deposits and withdrawals: *Provided*, That a bank opting

to open its head office and/or branch/es and/or extension offices, shall submit to the appropriate department of the SES at least two (2) working days before the intended date of opening of the bank's head office and/or branches and/or extension offices, a notice signed by its president or officer of equivalent rank, of its intention to open during the holidays, together with a copy of the board resolution approving the same: *Provided, further*, That the notice shall specify which office (head office and/or branch/es and/or extension offices) will open on what dates and their schedule of banking hours.

Subject to submission of a notice signed by the bank president or officer of equivalent rank, authorized agent banks of the BIR (BIR-AABs), and/or its branch/es and/or extension offices, are allowed to open for two (2) Saturdays prior to April 15 of every year, and daily from April 1 to income tax payment deadline, to extend banking hours from 3:00 PM to 5:00 PM to receive internal revenue tax payments. The notice, which shall specify which office (head office and/or branch/es and/or extension offices) will open or extend banking hours on what dates, shall be submitted to the appropriate department of the SES on or before the last banking day of March of every year.

(As amended by Circular Nos. 835 dated 05 June 2014 and 634 dated 5 December 2008)

□ **X156.2 Report of, and changes in, banking days and hours.** The banking days and hours selected for each of the offices of banks shall be reported in writing to the appropriate department of the SES. Banks may change the banking days and hours previously reported to the Bangko Sentral by giving prior written notice: *Provided*, That changes in banking days or hours shall not

be made oftener than once every thirty (30) days, except during emergencies. *Emergency* shall mean (a) condition of an area or locality proclaimed by the President of the Philippines as in a state of emergency; or (b) an event or occasion or a combination of circumstances equivalent to a public calamity resulting from fire, flood, or like disaster, or through some unusual occurrence or pressing necessity not reasonably subject to anticipation calling for immediate action or remedy.

The prior written notice to the Bangko Sentral on changes in banking days and hours shall be given through the fastest means of communication, at least seven (7) banking days before the intended effectivity of the change in banking hours or days. In case a bank, due to an emergency, has to open outside, or close during, the banking hours or days reported to the Bangko Sentral, a written report submitted within twenty-four (24) hours from opening or closing, as the case may be, will suffice. The report shall state the specific nature of the emergency and the period the bank opened or closed or shall open or close by reason of emergency.

X156.3 *Posting of schedule of banking days and hours.* The schedule of banking days and hours reported to the Bangko Sentral shall be posted conspicuously at all times in the bank's premises.

Secs. X157 - X159 (Reserved)

K. BANKING PREMISES

Sec. X160 (2008 - X606) Bank Premises and Other Fixed Assets. The following rules

shall govern the premises and other fixed assets of banks.

X160.1 (2008 - X606.1) *Appreciation or increase in book value.* Bank premises, furniture, fixtures and equipment shall be accounted for using the cost model under PAS 16 Property, Plant and Equipment. ¹

Outstanding appraisal increment as of 13 October 2005 arising from mergers and consolidation and other cases approved by the Monetary Board, shall be deemed part of the cost of the assets. However, appraisal increment previously allowed to be booked shall be reversed.

Accordingly, the booking of appreciation or increase in the book value of bank premises and other fixed assets in cases where the market value of the property has greatly increased since the original purchase is no longer allowed.
(As amended by Circular No. 520 dated 20 March 2006)

X160.2 (2008 - X606.2) *Ceiling on total investments.* The total investment of a bank in real estate and improvements thereon, including bank equipment, shall not exceed fifty percent (50%) of the bank's net worth. In determining compliance with such ceiling, the following rules shall apply:
a. The investment shall include all real estate and equipment necessary for the bank's immediate use in the transaction of its business, such as:

(1) *Bank Premises - Land and Buildings, Buildings under Construction, Leasehold Rights and Improvements and Furniture, Fixtures and Equipment* (as defined in the Manual of Accounts for All Banks), owned and used by the bank in the conduct of its business, including staff houses, recreational facilities and landscaping costs, net of accumulated

(Next page is Part I - Page 99)

¹ With additional special regulatory relief in areas affected by Tropical Depression Yolanda as provided under Appendix 89a (Circular No. 820 dated 06 December 2013).

§§ X160.2 - X160.3
10.12.31

depreciation: *Provided, however,* That appraisal increment on bank premises shall not be included in the total investment in real estate and improvements for purposes of these guidelines; and

(2) Real properties, equipment or other chattels purchased by the bank in its name for the benefit of its officers and employees, net of depreciation and in the case of land or other non-depreciable property, net of payments already made to the bank by the officers and employees for whose benefits the property was bought, where such property has not yet been fully paid and ownership has not yet been transferred to them.

b. The following shall be included in the computation of a bank's total investment in bank premises:

(1) (a) The cost of real estate leased in whole or in part by the bank from a corporation, other than a corporation primarily engaged in real estate in which the bank has equity, equivalent to the amount obtained by applying the percentage of the equity of the bank in the lessor to the cost of that portion of the property being leased, or

(b) the amount of equity in the lessor, whichever is lower, plus the amount obtained by applying the percentage of the equity of the bank in the lessor to any outstanding loans of the lessor with the bank, the proceeds of which were used to purchase, construct or develop the real estate used for the bank's purposes.

(2) The lower of -

(a) the cost of real estate leased in whole or in part by the bank from a corporation in which any or a group of stockholders owning ten percent (10%) or more of the voting stock of the bank, directors and/or officers of the bank, hold or own more than fifteen percent (15%) of the subscribed capital stock of the lessor,

equivalent to the amount obtained by applying the percentage of the equity of said stockholders/directors/officers in the lessor to the cost of that portion of the property being leased by the bank, or

(b) the amount obtained by applying the percentage of the equity of the stockholders/directors/officers in the lessor to any outstanding loans of the corporation with the bank, the proceeds of which were used to purchase, construct or develop the real estate used for the bank's purposes.

The equity investment of a bank in a corporation engaged primarily in real estate shall be included in the computation of the bank's total investment in real estate, unless otherwise provided by the Monetary Board.

§ X160.3 (2008 - X606.3) *Reclassification of real and other properties acquired (ROPA) to bank premises, furniture, fixture and equipment; Sanctions.* Banks may reclassify ROPA to bank premises, furniture, fixture and equipment, subject to the following conditions:

(a) Prior written approval of the majority of the members of the board of directors has been obtained for such reclassification. The approval shall be manifested in a resolution passed by the board of directors during a meeting and shall contain the following information:

(1) Date ROPA was acquired;

(2) Description of ROPA property;

(3) Outstanding balance of ROPA at the time of reclassification;

(4) Specific purpose for reclassifying said property to bank premises, furniture, fixture and equipment; and

(5) Justification and plan for expansion, in the case of real and other property earmarked for future use.

Said resolution shall also be made available for inspection by BSP examiners,

§§ X160.3
10.12.31

together with the supporting records and documents involving the ROPA account; and

(b) 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 date of reclassification (in case of ROPA earmarked for future use) may be reclassified to bank premises, furniture, fixture and equipment;

(c) ROPA reclassified to bank premises, furniture, fixture and equipment shall be recorded at its net carrying amount where the amounts booked as cost, accumulated depreciation and allowances for losses for bank premises, furniture, fixture and equipment shall correspond to the balance of these accounts under ROPA at the time of reclassification. As such, the reclassification shall not give rise to any gains/(losses) being recognized in the bank books; and

(d) Said reclassification shall not cause the bank to exceed the prescribed ceiling on investment in real estate and improvements thereon, including bank equipment, provided under Subsec. X160.2.

Within five (5) banking days from date of reclassification, the bank shall submit the Certification on Compliance with Regulations on the Reclassification of ROPA to Bank Premises, Furniture, Fixture and Equipment (*Appendix 96*) signed by the president of the bank or officer of equivalent rank, to the appropriate department of the SES. Said certification shall be accompanied by the certified true copy of the resolution of the bank’s board of directors authorizing the reclassification.

Sanctions. The following sanctions shall be imposed for violations noted:

- 1. On the bank
 - a. Monetary fines

A bank which fails to comply with the provisions of this Subsection shall be subject to monetary penalties under *Appendix 67*.

1) *For non-submission of the required certification*

A bank which fails to submit the required Certification on Compliance with Regulations on the ROPA to Bank Premises, Furniture, Fixture and Equipment or the certified true copy of the resolution of the board of directors authorizing said reclassification within the prescribed deadline shall be subject to monetary penalties applicable to minor offenses under *Appendix 67* which shall be reckoned on a daily basis from the day following the due date of submission until the required certification on compliance or the certified true copy of the resolution of the board of directors is filed with the BSP.

2) *For false/misleading statements*

A bank which has been found to have willfully made a false or misleading statement in the required Certification on Compliance with Rules and Regulations on the ROPA to Bank Premises, Furniture, Fixture and Equipment or in the certified true copy of the resolution of the bank board of directors shall be subject to the monetary penalties applicable to minor offenses under *Appendix 67* for the willful making of a false or misleading statement which shall be reckoned on a daily basis from the day following the due date of the said certification until such time that an amended or corrected certification on compliance or certified true copy of the resolution of the board of directors has been submitted to the BSP.

2. On the concerned directors/officers of the bank.

a. For willful non-compliance

Directors/officers of the bank who willfully fail/refuse to comply with the provisions of this Subsection shall be subject

to the monetary penalties applicable to minor offenses under *Appendix 67*.

b. For false/misleading statements

Directors/officers of the bank which have been found to have willfully falsely certified or willfully submitted misleading statements in the required Certification on Compliance with the Regulation on the Reclassification of ROPA to Bank Premises, Furniture, Fixture and Equipment or in the certified true copy of the resolution of the bank s board of directors shall be subject to the monetary penalties applicable to minor offenses under *Appendix 67*, which shall be reckoned on a daily basis from the day following the due date of the said certification until such time that an amended or corrected certification on compliance or certified true copy of the resolution of the board of directors has been submitted to the Bangko Sentral.

The imposition of the above sanctions is without prejudice to the filing of appropriate criminal charges against culpable persons as provided under Section 35 of R.A. No. 7653 for the willful making of a false/misleading statement.

(As amended by Circular No. 701 dated 13 December 2010)

X160.4 - X160.9 (Reserved)

X160.10 (2008 - X606.10) *Batas Pambansa Blg. 344 - An Act to Enhance the Mobility of Disabled Persons by Requiring Certain Buildings, Institutions, Establishments and Public Utilities to Install Facilities and Other Devices.* In order to promote the realization of the rights of disabled persons to participate fully in the social life and the development of the societies in which they live and the enjoyment of the opportunities available to other citizens, no license or permit for the construction, repair or renovation of public and private buildings for public use, educational institutions, airports, sports and recreation centers and complexes, shopping centers or establishments, public parking places, workplaces, public utilities, shall be

granted or issued unless the owner or operator thereof shall install and incorporate in such building, establishment or public utility, such architectural facilities or structural features as shall reasonably enhance the mobility of disabled persons such as sidewalks, ramps, railings and the like. If feasible, all such existing buildings, institutions, establishments, or public utilities may be renovated or altered to enable the disabled persons to have access to them.

X160.11 *Republic Act No. 9994 An Act Granting Additional Benefits and Privileges to Senior Citizens, Further Amending Republic Act No. 7432 of 1992 as Amended by Republic Act No. 9257 of 2003.* To be able to give full support to the improvement of the total well-being of the elderly and their full participation in society, and to motivate and encourage them to contribute to nation building, senior citizens shall be provided with express lanes in all banking establishments, including all their branches and other offices. If the provision of express lanes is logistically impossible in any particular branch or office of any bank, said branch or office shall ensure that senior citizens are accorded priority service. The provision of express lanes and/or priority service shall be made known to the general public through a clearly written notice prominently displayed in the transaction counters of all banks and/or offices.
(Circular No. 805 dated 08 August 2013)

L. MANAGEMENT CONTRACTS AND OUTSOURCING OF BANKING FUNCTIONS

Sec. X161 (2008 - X168) Management Contracts

- a. Management contracts of banks with management firms shall be limited to consultancy and advisory services;
- b. Only a natural person may be elected or appointed as an officer of a bank,

¶¶ **X161 - X162.4**
12.12.31

without prejudice to such person being a nominee of a management corporation: *Provided*, That the responsibility and/or accountability of anyone elected or appointed to an officer position shall be personal in nature and cannot be delegated to a corporation; and

c. Any bank that enters into contracts contrary to this policy shall be denied the credit facilities of the Bangko Sentral.

Sec. X162 Statement of Principle on Outsourcing. An institution may outsource banking support and marketing activities subject to the provisions set forth below. Accordingly, an institution is exposed to operational risks as a result of outsourcing. As such, an institution that avails of outsourcing should have in place appropriate mechanisms to ensure the effective management of attendant risks.
(As amended by Circular No. 765 dated 03 August 2012)

¶ **X162.1 Governance in all cases of outsourcing of banking functions** When outsourcing is allowed by law, a bank shall:

a. Be responsible for the performance of the outsourced activity in the same manner and to the same extent as if it was performing directly the said activity;

b. Comply with all laws and regulations applicable in the Philippines including labor laws and those governing the banking activities/ services performed by the qualified service providers on the bank s behalf;

c. Monitor and review on an ongoing basis the performance of the service providers undertaking the outsourced activity and/or service; and

d. Update as necessary its assessment of the extent of the materiality of its outsourcing arrangements vis- -vis the adequacy of its risk management system.
(As amended by Circular No. 765 dated 03 August 2012)

¶ **X162.2 (2008 - X169.1) Prohibition against outsourcing of inherent banking**

functions. No bank shall outsource inherent banking functions such as:

a Services normally associated with placement of deposits and withdrawals including the recognition based on recording of movements in the deposit accounts;

b. Granting of loans and extension of other credit exposures;

c. Position-taking and market risk-taking activities;

d. Managing of risk exposures; and

e. Strategic decision-making.

(As amended by Circular No. 765 dated 03 August 2012)

¶ **X162.3 Definition.** *Outsourcing* shall refer to any contractual arrangement between a bank and a qualified service provider for the latter to perform designated activities on a continuing basis on behalf of the bank.
(Circular No. 765 dated 03 August 2012)

¶ **X162.4 Managing outsourcing-related risks.** No bank may outsource banking activities unless it has in place the appropriate processes, procedures, and information system that can adequately identify, monitor and mitigate operational risks that are borne by the bank as a result of its outsourcing activities.

A bank shall determine the materiality of its outsourcing arrangements when establishing guidelines, processes and controls in managing outsourcing risks. An outsourcing arrangement is considered material if the activity, when disrupted, has the potential to significantly impact the bank s business operations, reputation, profitability or regulatory responsibilities. A bank may take into consideration the following factors in determining the materiality of its outsourcing arrangements:

a. Importance of the activity to be outsourced and the potential impact of outsourcing on earnings, solvency, liquidity, funding and capital and risk profile;

- b. Consideration on the bank's reputation and ability to achieve its objectives, strategy and plans, should the service provider fail to perform the services;
- c. Aggregate exposure to a particular service provider in cases where the bank outsources various functions to the same service provider;
- d. Ability to maintain appropriate internal controls and meet regulatory requirements, if there are operational problems faced by the service provider; and
- e. Exposure to risk of confidentiality, integrity and availability of customer and bank data.

After due evaluation of a bank's risk management processes with respect to outsourcing, the Bangko Sentral may require the bank to terminate, modify, make alternative arrangements or re-integrate the activity into the bank, as may be necessary, in cases where the risk infrastructure is deemed inadequate for purposes of managing outsourcing-related risks.

(Circular No. 765 dated 03 August 2012)

▢ **X162.5 Authority to outsource.** Only those banks with a CAMELS composite rating of at least 3 and a Management rating of not lower than 3 shall be allowed to outsource designated activities without prior Bangko Sentral approval. Otherwise, the bank must secure prior approval from the appropriate department of the SES whose evaluation will be based on the bank's ability to manage risks attendant to outsourcing.

(Circular No. 765 dated 03 August 2012)

▢ **X162.6 Documentations.** The bank should maintain necessary documentation to show that outsourcing arrangements are properly reviewed and the appropriate due diligence has been undertaken prior to implementation.

The bank shall keep in its file the documents shown in *Appendix 100* and the same shall be made available to authorized

representatives of the Bangko Sentral for inspection.

(Circular No. 765 dated 03 August 2012)

▢ **X162.7 Intra-group outsourcing**
The guidelines and requirements of outsourcing to third-party service providers shall be observed when outsourcing within a business group including its head office, another branch or related company.

When the bank is the service provider, the bank may only render services it performs in the ordinary course of its banking business: *Provided*, That (i) the service is rendered to subsidiaries, affiliates and companies related to it by at least five percent (5%) common ownership; or (ii) the service is rendered to its own depositors on account of the bank being a depository.

The bank, acting as a service provider within its group, shall uphold the following:

- a. Confidentiality of deposits and investments in government bonds as defined under R.A. No. 1405, as amended; and
- b. Prohibition on cross-selling except as allowed under applicable regulations.

(Circular No. 765 dated 03 August 2012)

▢ **X162.8 Offshore outsourcing**
Offshore outsourcing exists when the service provider is located outside the country. Subsec. X162.7 on intra-group outsourcing likewise applies in cases of offshore outsourcing. In addition, offshore outsourcing of bank's domestic operations is permitted only when the service provider operates in jurisdictions which uphold confidentiality.

When the service provider is located in other countries, the bank should take into account and closely monitor, on continuing basis, government policies and other conditions in countries where the service provider is based during risk assessment process. The bank shall also develop appropriate contingency and exit strategies.

¶¶ **X162.8 - X172.1**
14.12.31

The Bangko Sentral examiners shall be given access to the service provider and those relating to the outsourced domestic operations of the bank. Such access may be fulfilled by on-site examination through coordination with host authorities, if necessary. The domestic branch of foreign bank shall be principally liable in cases where the clients are prejudiced due to errors, omissions and frauds of the service provider located offshore.

The Bangko Sentral may require the bank to terminate, modify, make alternative outsourcing arrangement or re-integrate the outsourced activity into the bank, as may be necessary, if confidentiality of customer information, effective customer redress mechanisms or the ability of the Bangko Sentral to carry out its supervision functions cannot be assured.

(Circular No. 765 dated 03 August 2012)

¶ **X162.9 Service providers.** The bank shall carry out due diligence in selecting service providers. It must ensure the integrity, technical expertise, operational capability, financial capacity and suitability of the service provider to perform the outsourced activity. In cases where the clients are prejudiced due to errors, omissions and frauds by the service provider, the bank shall be liable in providing the appropriate remedies as may be allowed by laws or regulations, without prejudice to recourse by the bank to the service provider.

(Circular No. 765 dated 03 August 2012)

¶ **X162.10 Transitory provision.** All outsourcing agreements must be aligned with the provisions of Sec. X162. Existing outsourcing agreements which are not in accordance with this Section will not be unwound. However, it must comply with

the requirements provided herein upon renewal of the agreements.

(Circular No. 765 dated 03 August 2012)

¶ **X162.11 (2008 - X169.19) Penalties**

Violation of this Section shall be subject to Sections 34, 35, 36 and 37 of R.A. No. 7653, the New Central Bank Act. If the offender is a director or officer or a bank, the Monetary Board may also suspend or remove such director or officer.

(As amended by Circular No. 765 dated 03 August 2012)

Secs. X163 - X171 (Reserved)

M. BANK OFFICES AS OUTLET OF FINANCIAL PRODUCTS OF ALLIED UNDERTAKINGS/INVESTMENT HOUSE

Sec. X172¹ (2008 - 1631.1; 2012 - 1172.1)

Statement of Principles. The Bangko Sentral recognizes that bank premises may serve as the point for the presentation and distribution of a range of financial products. However, this distribution mechanism can give an understanding that these financial products are created by the bank and thus could lead to an impression that the bank ultimately bears the responsibility for their performance. The Bangko Sentral, therefore, provides an enabling environment for cross-selling activities which defines the responsibilities of banks for managing the attendant risks and upholding consumer protection.

(As amended by Circular Nos. 844 dated 11 August 2014 and 801 dated 27 June 2013)

¶ **X172.1 Definition.** The following terms as used in this Section are governed by the following definition-

a. *Cross-selling* means the presentation and/or sale of a financial product, other than

¹ Within thirty (30) calendar days from 30 August 2014, the bank shall review all its existing cross-selling arrangements and determine its compliance with the revised rules. All deviations shall be reported to the Bangko Sentral within the same period. If the bank is fully compliant, it shall issue a certification to the Bangko Sentral to this effect. All financial products that had been allowed and/or approved for cross-selling prior to 30 August 2014 shall be given up to 31 August 2015 within which to comply with the requirements as set forth under this Section.

bank's own financial product, to a bank client inside bank premises through written or verbal communications.

b. *Financial conglomerate* refers to a group of interrelated entities providing significant services in at least two (2) different financial sectors (banking, securities and insurance). A banking group is subsumed within the context of a financial conglomerate. A financial product provider must have been disclosed and reported as part of the group structure pursuant to Subsec. X141.3.

c. *Financial product* of an allied undertaking under Section 20 of the General Banking Law refers to financial products created by a financial product provider belonging to the same financial conglomerate.

d. *Financial product provider* means a financial entity which creates the financial product. The financial product provider should be regulated or supervised by either the Bangko Sentral, the Securities and Exchange Commission (SEC) or the Insurance Commission (IC).

e. *Bank premises* refer to the physical area occupied by the bank's head office, branches and other offices.

f. *Investment risk* refers to the potential loss of the principal amount (either full or partial) invested by the investor. It also refers to the possibility of not achieving targeted rate of returns for a given investment transaction.

(Circular No. 801 dated 27 June 2013, as amended by Circular No. 844 dated 11 August 2014)

¶ X172.2 (2008 - 1631; 2012 ¶ 1172) **Financial products.** Unless otherwise provided, financial products should be created by a financial product provider belonging to the same financial conglomerate. Moreover, such financial products should have been duly approved by the respective regulator, as provided under its rules, before these can be presented and/or sold inside bank premises.

Simple retailed financial products which do not create exposure to investment risks may be cross-sold inside bank premises. These include:

a. *Retail lending or loan products* such as credit cards, home mortgage loans, personal loans, auto loans and other related retail loan products;

b. *Other retail financial products* such as cash cards, debit cards and other related products; and

c. Other similar financial products as may be authorized by the Monetary Board.

Simple insurance products such as traditional life (whole life, term, endowment), non-life (marine, fire, casualty, suretyship), and other similar protection-type insurance products, except variable insurance contracts, as governed by the Insurance Code are considered as simple retail financial products. These may be cross-sold inside bank premises regardless of whether the financial product provider belongs to the same financial conglomerate or not.

Collective investment schemes (CIS) of financial product providers belonging to the same financial conglomerate may be cross-sold inside bank premises. These refer to:

a. Mutual funds registered with the SEC;

b. UITFs as authorized by the Bangko Sentral;

c. Variable unit-linked life insurance policy (VULs) as governed by the Insurance Code or under the relevant rules and regulations as may be issued by the IC.

(As amended by Circular Nos. 844 dated 11 August 2014 and 801 dated 27 June 2013)

¶ X172.3 **Governance.** The board of directors of the bank (or its equivalent in the case of foreign bank branches) shall oversee the implementation of its policies relating to cross-selling arrangements.

The bank shall exercise due care and diligence in carrying out cross-selling activities. This process shall extend to both

¶¶ X172.3 - 1172.4
14.12.31

the financial products and financial product providers. The bank shall put in place a formal written policy to assess the nature of the financial product and its suitability for target customer segments. This written policy should, at the very least, enable the bank to reach an objective assessment of the suitability of the financial product to be cross-sold.

The bank shall recognize the customers right to product choice, to refuse bundled or tiered financial products or services under cross-selling arrangements, and to substitute equivalent financial products by reputable competitors.

The bank shall ensure that a mechanism is in place to address any complaints that may arise from cross-selling transactions. This mechanism shall form part of the agreement between the bank and the financial product provider.

The bank shall periodically review all of its cross-selling arrangements. In particular, the bank shall take into account operational and reputational risks that may arise in the arrangement. The results of the continuing review shall be reported to the board of directors of the bank. The bank shall likewise maintain a register of its cross-selling arrangements particularly on the list of financial products and financial product providers.

To avoid any impression that the fulfillment of promises of the CIS products cross-sold within bank premises are guaranteed by the bank, the following shall be observed, at all times:

a. Unless specifically trained and qualified for the purpose, the role of bank employees in cross-selling CIS shall be limited to the referral of bank clients to the representatives of financial product providers. Clients should give prior consent before any such referral.

b. There shall be clear distinction between representatives of financial product providers who sell CIS and bank employees.

Bank employees authorized to market and/or sell CIS shall be clearly identified.

c. The presentation and/or sale of CIS shall be conducted in an area distinct from areas where own bank products are sold.
(Circular No. 801 dated 27 June 2013, as amended by Circular No. 844 dated 11 August 2014)

¶ X172.4 (2008 - 1631.1; 2012 ¶ 1172.3) **Minimum documentary requirements.** The bank should maintain necessary documentation to support that cross-selling arrangements are properly reviewed and appropriate due diligence has been undertaken.

This shall, at a minimum, include the following:

- a. Approval of the board of directors of both the bank and the financial product provider to use the former s bank premises for the presentation and sale of the latter s financial products;
- b. Audited financial statements of the financial product provider for the last three (3) years;
- c. Detailed description of the financial product and proof of regulatory approval, if any;
- d. Registration and/or accreditation of the financial product provider from the respective regulator;
- e. Contract between the bank and the financial product provider;
- f. Sample of contracts between the financial product provider and its clients;
- g. Promotional materials; and
- h. Training profile and necessary license, if required, of representatives who will be handling the cross-selling activity.

These documents shall be made available when requested by Bangko Sentral examiners.

(As amended by Circular No. 801 dated 27 June 2013)

¶ 1172.4 (2008 - 1631.4) **Financial ratios and other related requirements**
(Deleted by Circular No. 801 dated 27 June 2013)

X172.5 (2013-X172.6;2012-1172.5; 2008-1631.5)
Fair and balanced view of the product. Advertising materials and contracts must give a fair and balanced view of the product. These materials may be considered fair and balanced when they are clear and easily understood; highlight the purpose and risks of the financial product; and do not omit any material information if such omission would cause the materials to be misleading.

Promotional materials. The bank shall ensure that the identity of the financial product provider is prominently displayed in the relevant marketing and advertising materials. The relationship of the bank with the financial product provider may be reflected in the promotional materials as long as it does not create an impression that it is the product of the bank whose premises are used.

The promotional materials should explicitly state that the product is not a deposit. The information contained in any document used in the presentation and sale of financial products inside bank premises must contain, at a minimum, the words: *financial product/s of (financial product provider) is/are not insured by the Philippine Deposit Insurance Corporation and is/are not guaranteed by the (name of bank)*, as the case may be. This shall be printed in capital letters, black letters against light background/white letters against dark background with the following print size:

| Size of Promotional Material | Print Size |
|------------------------------|------------|
| Legal/letter size | 12 |
| 15" x 20" | 24 |
| 19" x 25" | 36 |

Contracts. The following paragraph shall be printed at the end of the contract in the print size as the rest of the contract, or font size 12 whichever is bigger, in capital letters and in bold font:

This contract is between (name of client) and (name of financial product provider). All transactions arising out of or related to this contract shall be binding only between these two (2) contracting parties. It is understood that this transaction is neither insured by the Philippine Deposit Insurance Corporation (PDIC) nor guaranteed by the (name of bank).
(As amended by Circular Nos. 844 dated 11 August 2014 and 801 dated 27 June 2013)

X172.6 Cross-selling of collective investment schemes and its suitability to customers. In the cross-selling of CIS, enhanced consumer protection standards are necessary since bank clients who invest in these products are exposed to investment risk. At the onset, banks must ensure that CIS as financial products are compliant with relevant prudential regulations issued by the respective government bodies and agencies governing their issuance before entering into any cross-selling arrangements. With respect to consumer protection features, a cross-selling bank must ensure that financial product providers observe the following minimum practices:

a. Product Highlight Sheet (PHS). Potential clients must be provided with a PHS. This succinct document summarizes the key information of the financial product which will be material to the proper understanding by the client of the product, its features and risks. The PHS should at least be a separate document but may form part of the prospectus or contract.

Among the key questions that must be covered in the PHS are:

- (1) What are you investing in and who are you investing with?
- (2) What are the key risks of this investment?
- (3) What are the fees and charges for this investment?
- (4) How often are valuation available?

¶¶ X172.6 - X172.8
14.12.31

(5) How can you exit from this investment and what are the risks and costs in doing so?

(6) How do you contact us?

(7) What other important information should you know before you invest?

b. Client Suitability Assessment (CSA)

A CSA of each client shall be undertaken prior to the acquisition of an investment product by the client. The CSA should determine the client's understanding of, tolerance for and capacity in managing various risks.

c. Investment Policy Statement (IPS). As a complement to a CSA, an IPS must have been generated for a bank client. The IPS formalizes the investment philosophy of the client as well as any investment directive of the client with respect to the handling of his investible funds.

d. Disclosure of conflict of interest. Financial product providers should disclose any material information which can give rise to an actual or potential conflict of interest to the client. Financial product providers should take all reasonable steps to ensure fair dealings with client.

e. Standard disclosure statement. All promotional materials, product highlights sheet and contracts of collective investment schemes should contain a standard disclosure statement which reads as:

¶ *This is not a deposit product. Earnings are not assured and principal amount invested is exposed to risk of loss. This product cannot be sold to you unless its benefits and risks have been thoroughly explained. If you do not fully understand this product, do not purchase or invest in it.*¶

This disclosure statement shall be placed in the front cover of any material used within bank premises for cross-selling purposes. This is in addition to the minimum information provided in Subsec.

X172.5. The text should be in bold with a minimum font size of 12.

The cross-selling bank shall maintain adequate documentation, available for inspection by the Bangko Sentral examiners, to evidence that above requisites are properly undertaken.

(Circular No. 844 dated 11 August 2014)

¶ **X172.7 Financial product providers**

The bank shall exercise due care and diligence in selecting financial product providers. The bank shall consider the integrity, operational capability, financial capacity and track record of the financial product provider. In particular, the bank shall ensure that the financial product provider has in place a mechanism to resolve all queries, problems and other concerns arising from cross-selling activities.

It is the responsibility of the financial product provider to assess its representatives in terms of sufficient knowledge of the financial product, adequate training and necessary license, when required.

The Bangko Sentral should be satisfied that the bank and the financial product provider belong to the same financial conglomerate, as applicable, before cross-selling arrangements may be allowed.

When the financial product provider is under the supervision of the Bangko Sentral, the financial product provider must have a CAMELS composite rating of at least 3 or its equivalent.

(Circular No. 801 dated 27 June 2013, as amended by Circular No. 844 dated 11 August 2014)

¶ **1172.7 (2008 - 1631.7) Training**

(Deleted by Circular No. 801 dated 27 June 2013)

¶ **X172.8 (2012 ¶ 1172.2; 2008 - 1631.2) Authority to cross-sell.** Banks with CAMELS composite rating of at least 3 or its equivalent and without major supervisory concerns may be given

authority to engage in cross- selling activities.

The bank shall secure the approval of the Monetary Board before it can engage in cross-selling activities.

The application letter to engage in cross-selling activities shall be signed by the President, or the Country Officer in the case of foreign bank branches, and shall be submitted to the appropriate supervising department of the SES. For the initial financial products for cross-selling, the application letter shall also contain an explanation of the relationship of the bank with the financial product provider in the context of the financial conglomerate, as applicable. It shall also contain brief description of the financial products and justification of the cross-selling arrangements.

In addition, the bank shall submit the following:

a. Notarized Secretary s Certificate on the approval of the board of directors of the cross-selling of financial products;

b. Notarized Certification, signed by the bank s President or the Country Officer in the case of foreign bank branches and Compliance Officer, of the bank s compliance with pertinent banking laws, rules and regulations on cross-selling.

Once approved, the bank may continuously undertake cross-selling activities unless otherwise ordered by the Monetary Board.

The bank may subsequently apply for additional financial products for cross-selling. The application shall be supported by a notarized certification as indicated in Item ¶b¶ above. Approval of the same is delegated to the SES Subsector Head with responsibility for the bank, except for the CIS-type financial products, the approval of which is delegated to the Deputy Governor, SES: *Provided*, That all such approvals under delegated authority are subject to

confirmation by the Monetary Board prior to effectivity.

For any product approval, the Bangko Sentral reserves the right to validate on the bank s representation of compliance with cross-selling rules and regulations as circumstances may warrant.

The Monetary Board may suspend any or all cross-selling activities whenever a bank no longer meets the original conditions of the approval and/or by virtue of any subsequent issuances by the Bangko Sentral governing the conduct of cross-selling activities. The bank may re-submit an application to enter into cross-selling arrangements only when the CAMELS composite rating or its equivalent is at least

3 in the latest report of examination or any noted major supervisory concerns have been satisfactorily addressed as determined by the appropriate supervising department of the SES.

(As amended by Circular Nos. 844 dated 11 August 2014 and 801 dated 27 June 2013)

¶ **1172.8 (2008 - 1631.8) Other requirements.**

(Deleted by Circular No. 801 dated 27 June 2013)

¶ **X172.9 Complaints handling.** The bank shall be jointly responsible with the financial product provider in the resolution of any complaint arising from cross-selling transactions. For this purpose, the bank shall establish an effective redress mechanism which shall specifically include processes and procedures for handling any complaint arising from cross-selling transactions.

(Circular No. 801 dated 27 June 2013, as amended by Circular No. 844 dated 11 August 2014)

¶ **X172.10 (2008 - 1631.11; 2012 ¶ 1172.11) Sanctions.** Violations of the provisions of this Section shall constitute grounds for the imposition on the bank and/ or its directors/officers of any or a combination of the following:

X172.10 - 2172
14.12.31

- a. *Monetary penalty* - Any amount as may be authorized by the Monetary Board not to exceed P30,000 a day for each violation from the time the violation was committed until it is corrected; and
 - b. *Non-monetary sanction* - Any sanctions that the Monetary Board may deem appropriate and allowed by law considering the gravity of the offense.
- (As amended by Circular Nos.844 dated 11 August 2014 and 801 dated 27 June 2013)

Sec. 2172 Marketing, Sale and Servicing of Microinsurance Products by Thrift Banks
 In order to better serve microfinance clients pursuant to the financial inclusion thrust of National Strategy and Regulatory Framework for Microinsurance, a TB, including its authorized branch/es, extension office/s and other banking offices (OBOs), can present, market and sell microinsurance products as defined under the Insurance Commission s Memorandum Circular (IMC) No. 1-2010¹ dated 29 January 2010: *Provided*, That the microinsurance product is duly approved by the Insurance Commission.

The presentation, marketing and sale of microinsurance products by TB has been determined to be a necessary and complementary component of the primary business of TB considering the relationship of the latter with their microfinance clients. For this purpose, the Monetary Board has defined that for TBs, microinsurance products as defined under IMC Nos. 9-2006¹ dated 25 October 2010 and 1-2010² dated 29 January 2010 shall serve as a financial product of an allied undertaking under Section 20 of the General Banking Law.

A TB can also service (i.e., collect premiums and pay claims) microinsurance products as collection and payment agents pursuant to Section 53.3 of the General Banking Law.

A TB which intends to avail of the option to market or sell microinsurance products shall ensure that microinsurance products presented and marketed are clearly distinguishable from bank products. Towards this end, all organic documents, informational and promotional materials used in the presentation and sale of these products shall prominently display both the name of the issuing insurance provider and a clause stating that the insurance product/s of (name of issuing insurance provider) is/ are not insured by the PDIC and is/are not guaranteed by the (name of bank) . The bank shall also ensure compliance with pertinent laws and rules on the sale of microinsurance products set by the Insurance Commission. As part of product due diligence, the bank should check whether the microinsurance product-issuing insurance provider has a functioning customer care and claims-handling mechanism to handle consumer protection issues.

A bank, prior to selling and/or marketing microinsurance products, shall submit the following documents to the Bangko Sentral as bases for the latter s evaluation:

1. Copy of the approval of the bank s board of directors on the presentation, sale and servicing (i.e. collect premiums and pay claims) of microinsurance products;
2. Copy of duly executed written agreement between the bank and the insurance provider on the presentation, sale and servicing by the bank of the financial products of the latter, including the terms of compensation for the services;
3. Copy of the letter of approval from the Insurance Commission covering each of the microinsurance product to be marketed or sold by the bank;
4. Copy of the corresponding Certificate of Authority from the Insurance

¹ Dated 25 October 2006
² Dated 29 January 2010

Commission of the insurance provider/s
issuing the microinsurance products to be
marketed or sold; and

5. Bank s license from the Insurance
Commission as a microinsurance agent or
broker, as may be applicable.¹

(Next Page is Part I - Page 111)

¹ To act as a microinsurance agent of an authorized insurance provider, a bank needs to acquire the appropriate license from the IC. The requirements for such application consist of: (i) attendance in prescribed microinsurance training course and passing the qualifying examination at the end of the course; and (ii) amending a bank s articles of incorporation (AOI). In view of the latter requirement, applicant banks shall amend their AOI by including a secondary purpose of acting as a microinsurance agent, and shall submit simultaneously the amended AOI to the appropriate BSP office and the IC. (See IC Memo Circular No. 6-2011 dated 15 February 2011)

6. Certification from the bank president that he/she ascertained and will ensure continuing compliance with the following:

a. The product is authorized for cross selling under existing Bangko Sentral rules and regulations;

b. The microinsurance product is approved by the Insurance Commission and issued by an entity duly licensed and held in good standing by the Insurance Commission;

c. The bank conducted product due diligence to be suitable to its customers;

d. The organic, informational and promotional materials for the microinsurance products comply with Bangko Sentral requirements; and

e. The bank personnel concerned has undertaken the necessary training and passed the qualifying examination for the presentation and sale of microinsurance products, in compliance with the requirements set forth by the Insurance Commission on marketing personnel for insurance products.

7. A letter of undertaking from the bank president that he/she will ensure the retention of the following:

a. Copies of the latest Certificate of Authority from the Insurance Commission covering all insurance companies whose microinsurance products are being marketed or sold by the bank;

b. Copies of the letters of approval from the Insurance Commission covering all the microinsurance products to be marketed or sold;

c. Bank's license from the Insurance Commission as a microinsurance agent or broker or in lieu of a bank's license as a microinsurance agent or broker, copies of the license from the Insurance Commission covering all its marketing personnel for microinsurance products; and

8. Such other information that may be required by the Bangko Sentral.

(Circular No. 683 dated 23 February 2010, M-2011-015 dated 18 March 2011)

Sec. 3172 Marketing, Sale and Servicing of Microinsurance Products by Rural and Cooperative Banks. The marketing, sale and servicing of microinsurance products by RBs and Coop Banks shall comply with the guidelines in Sec. 2172.

(Circular No. 683 dated 23 February 2010)

N. RISK MANAGEMENT

Sec. X173 Supervision by Risks. The guidelines on supervision by risk to provide guidance on how many banks should identify, measure, monitor and control risks are shown in *Appendix 72*.

The guidelines set forth the expectations of the Bangko Sentral with respect to the management of risks and are intended to provide more consistency in how the risk-focused supervision function is applied to these risks. The Bangko Sentral will review the risks to ensure that a bank's internal risk management processes are integrated and comprehensive. All banks should follow the guidelines in their risk management efforts.

Applicability to branches of foreign banks. Branches of foreign banks shall comply with the governance policies, practices and systems of the head office as well as meet the applicable standards, principles and requirements set forth under Secs. X141, X142, X174, except the reportorial requirements under Subsec. X141.3c(9) on group structures.

Reports of assessment of the risk management, compliance function and internal audit group of branches of foreign banks shall be made available to the Bangko Sentral, during on-site examination or any time upon request.

(As amended by Circular Nos. 749 dated 27 February 2012 and 510 dated 19 January 2006)

▯▯ **X174 - X175**
12.12.31

Sec. X174 Risk Management Function. The risk management function is generally responsible for:

- a. identifying the key risk exposures and assessing and measuring the extent of risk exposures of the bank and its trust operations;
- b. monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the bank's internal capital adequacy assessment on an on-going basis;
- c. monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- d. reporting on a regular basis to senior management and to the board of directors of the results of assessment and monitoring.

Risk management personnel shall possess sufficient experience and qualifications, including knowledge on the banking business, the developments in the market, industry and product lines, as well as mastery of risk disciplines. They shall have the ability and willingness to challenge business lines regarding all aspects of risk arising from the bank's activities.

▯ **X174.1 Chief Risk Officer (CRO)**

UBs/KBs shall appoint a CRO, or any equivalent position, who shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. This independence shall be displayed in practice at all times as such, albeit the CRO may report to the President or Senior Management, he shall have direct access to the board of directors and the risk oversight committee without any impediment. In this regard, the board of directors shall confirm the performance ratings given by the President or Senior Management to the CRO.

The CRO shall have sufficient stature, authority and seniority within the bank. This will be assessed based on the ability of the CRO to influence decisions that affect the bank's exposure to risk. The CRO shall have the ability, without compromising his independence, to engage in discussion with the board of directors, chief executive officer and other senior management on key risk issues and to access such information as he deems necessary to form his or her judgment. The CRO shall meet with the board of directors/risk oversight committee on a regular basis and such meetings shall be duly minuted and adequately documented.

CROs shall be appointed and replaced with prior approval of the board of directors. In cases, when the CRO will be replaced, the bank shall report the same to the appropriate department of the SES within five (5) days from the time it has been approved by the board of directors. TBs, RBs and Coop Banks, may appoint a CRO, or any equivalent position, who shall be subject to the independence and qualification requirements applicable to CROs for UBs and KBs.

(Circular Nos. 757 dated 08 May 2012 and 749 dated 27 February 2012)

Sec. X175 (2011 - X174) Market Risk Management. The guidelines on market risk management in *Appendix 73* set forth the expectations of the Bangko Sentral with respect to the management of market risk and are intended to provide more consistency in how the risk-focused supervision function is applied to this risk. Banks are expected to have an integrated approach to risk management to identify, measure, monitor and control risks. Market risk should be reviewed together with other risks to determine overall risk profile.

The Bangko Sentral is aware of the increasing diversity of financial products and that industry techniques for measuring and

managing market risk are continuously evolving. As such, the guidelines are intended for general application; specific application will depend to some extent on the size, complexity and range of activities undertaken by individual banks.

The guidelines on risk management for derivatives are shown in *Appendix 25*.

(Circular No. 544 dated 15 September 2006, as amended by Circular Nos. 757 dated 08 May 2012, and 749 dated 27 February 2012)

Sec. X176 (2011 - X175) Liquidity Risk Management. The guidelines on liquidity risk management in *Appendix 74* set forth the expectations of the Bangko Sentral with respect to the management of liquidity risk and are intended to provide more consistency in how the risk-focused supervision function is applied to this risk. Banks are expected to have an integrated approach to risk management to identify, measure, monitor and control risks. Liquidity risk should be reviewed together with other risks to determine overall risk profile.

The guidelines are intended for general application; specific application will depend on the size and sophistication of a particular bank and the nature and complexity of its activities.

The guidelines on risk management for derivatives are shown in *Appendix 25*.

(Circular No. 545 dated 15 September 2006, as amended by Circular Nos. 757 dated 08 May 2012 and 749 dated 27 February 2012)

Sec. X177 Information Technology Risk Management (ITRM). The enhanced guidelines on ITRM keep abreast with the aggressive and widespread adoption of technology in the financial service industry and consequently strengthen existing Bangko Sentral framework for IT risk supervision. ITRM should be considered a component and integrated with the institutions risk management program. The guidelines likewise provide practical plans

to address risks associated with emerging trends in technology and growing concerns on cyber security.

(Circular No. 511 dated 03 February 2006, as amended by Circular Nos. 808 dated 22 August 2013, 757 dated 08 May 2012 and 749 dated 27 February 2012)

□ **X177.1 Declaration of policy.** A growing number of Bangko Sentral supervised institutions (BSIs) employ the advances in technology as leverage to offer innovative products, deliver fast and efficient service at affordable prices, and venture to new markets. Moreover, technology drives the efficiency of operations and financial accounting of these institutions, and improves their decision-making process. As technology becomes an integral part of the business and operations of BSIs, such technology usage and dependence, if not properly managed, may heighten technology risks. The Bangko Sentral expects BSIs to have the knowledge and skills necessary to understand and effectively manage technology risks. These institutions are required to have an integrated approach to risk management to identify, measure, monitor and control risks.

(Circular No. 808 dated 22 August 2013)

□ **X177.2 Purpose and scope.** The enhanced guidelines aim to provide guidance in managing risks associated with use of technology. The guidelines outlined are based on international standards and recognized principles of international practice for ITRM and shall serve as Bangko Sentral s baseline requirement for all BSIs.

The guidelines shall apply to BSIs which include banks, non-banks with quasi-banking function (NBQB), non-bank electronic money issuers and other non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision and/or regulation. Moreover, subject guidelines shall also apply to BSIs

¶ X177.2 - X177.4
14.12.31

with offshore data processing as may be appropriate to their situation. The framework covers different facets of ITRM, some of which are supplemented with detailed guidelines in *Appendices 75a, 75b, 75c, 75d, 75e and 75f*. The Bangko Sentral shall keep the Appendices updated and, in the future, issue additional regulations on new and emerging products, services, delivery channels, and other significant applications of technology.

Subject guidelines, including the *Appendices 75a, 75b, 75c, 75d, 75e and 75f*, are not one-size-fits-all and implementation of these need to be risk-based and commensurate with size, nature and types of products and services and complexity of IT operations of the individual BSIs. BSIs shall exercise sound judgment in determining applicable provisions relevant to their risk profile.

(Circular No. 808 dated 22 August 2013, as amended by Circular No. 833 dated 28 May 2014)

¶ X177.3 **Complexity of IT risk profile**

The Bangko Sentral shall risk profile all BSIs and classify them as either Complex or Simple. The assessment of complexity of IT risk profile is based largely on the degree of adoption of technology and considers size, nature and types of products and services and complexity of IT operations among the risk factors. In assessing IT operations, the nature of IT organization, degree of automation of core processes and applications and extent and reach of online branch network are likewise considered.

A BSI with Complex IT risk profile is highly dependent on technology. IT components are integral to the core business activities that major weaknesses on IT systems, maintenance and support, if not properly addressed, may cause operational inefficiencies, business disruptions and/or financial losses. On the other hand, a BSI with Simple IT risk profile relies or depends less on technology in the operations of its business, thus, is not

affected or lowly impacted by IT-related risks.

However, to facilitate classification, a TB, RB or Coop Bank shall be deemed as a simple BSI, while UBs and KBs, which generally have more complex types of products and services, shall be deemed as complex BSIs. Nonetheless, a UB or KB may apply with the Bangko Sentral for a reclassification as simple BSI in order to avail of reduced compliance with the provisions of this Section. The Bangko Sentral may likewise declare a TB, RB or Coop Bank as complex based on the assessment of the BSIs IT profile report (pursuant to Subsection X176.8) and other internal supervisory tools. Said banks shall receive notification in writing from the Bangko Sentral informing them of the deviation from the default classification and the basis for classifying them as complex BSIs.

Non-bank institutions which under existing Bangko Sentral rules and regulations and special laws are subject to Bangko Sentral supervision/regulation shall likewise be notified in writing of their classification immediately after 14 September 2013.

(Circular No. 808 dated 22 August 2013)

¶ X177.4 **IT rating system.** The Bangko Sentral, in the course of its on-site examination activities, shall evaluate BSIs ITRM system and measure the results based on Bangko Sentral's IT rating system. A composite rating is assigned based on a 1 to 4 numerical scale, as follows:

| | |
|---|---|
| 4 | BSIs with this rating exhibit strong performance in every respect. Noted weaknesses in IT are minor in nature and can be easily corrected during the normal course of business. |
| 3 | BSIs with this rating exhibit satisfactory performance but may demonstrate modest weaknesses in operating performance, |

| | |
|---|--|
| | monitoring, management processes or system development. |
| 2 | BSIs with this rating exhibit less than satisfactory performance and require considerable degree of supervision due to a combination of weaknesses that may range from moderate to severe. |
| 1 | BSIs with this rating exhibit deficient IT environment that may impair the future viability of the entity, thereby requiring immediate remedial action. |

(Circular No. 808 dated 22 August 2013)

X177.5 **Definition of terms.** In these guidelines, terms are used with the following meanings:

| Terminology | Definitions |
|----------------------------|---|
| Board of Directors (Board) | The governing body elected by the stockholders that exercises the corporate powers of a locally incorporated BSI. In case of a BSI incorporated or established outside the Philippines, this may refer to the functional oversight equivalent such as the Country Head (for foreign banks) or management committee or body empowered with oversight and supervision responsibilities. |

| Terminology | Definitions |
|----------------------------------|---|
| Cyberfraud | A deliberate act of omission or commission by any person carried out using the Internet and/ or other electronic channels, in order to communicate false or fraudulent representations to prospective victims, to conduct fraudulent transactions, or to transmit the proceeds of fraud to FIs connected with the perpetrator. Examples of cyberfraud in the financial industry may include, but are not limited to, theft of credit card data, computer hacking, electronic identity theft, phishing scams, ATM skimming and non-delivery of merchandise purchased online, among others. |
| Electronic Products and Services | The delivery of banking and financial products and services through electronic, interactive communication channels which include automated teller machines (ATMs), point of sales (POS) terminals, internet, mobile phones, touch tone |

X177.5
13.12.31

| Terminology | Definitions | Terminology | Definitions |
|---|--|-------------------------------|---|
| | telephones and other similar electronic devices. These encompass electronic banking, electronic payments, electronic money and other electronic products and services offered by BSIs. | Enterprise-wide Level | Extending throughout or involving an entire institution rather than a single business department or function. In this document, the words "enterprise-wide" and "organization-wide" are interchangeably used. |
| EMV (stands for Europay, Mastercard and Visa) | It is a global standard for credit, debit and prepaid payment cards based on chip card technology. EMV chip-based payment cards, also known as smart cards, contain an embedded microprocessor, a type of small computer. The microprocessor chip contains the information needed to use the card for payment, and is protected by various security features. Chip cards are a more secure alternative to traditional magnetic stripe payment cards. | Information Asset/ Resources | Encompass people and organization, IT processes, physical infrastructure (i.e. facilities, equipment), IT infrastructure (including computing hardware, network infrastructure, middleware) and other enterprise architecture components (including information, applications). |
| Encryption | A data security technique used to protect information from unauthorized inspection or alteration. Information is encoded so that data appears as meaningless string of letters and symbols during delivery or transmission. Upon receipt, the information is decoded using an encryption key. | Information Security | The protection of information assets from unauthorized access, use, disclosure, disruption, modification or destruction in order to provide confidentiality, integrity and availability. |
| | | Information Security Incident | A single or a series of unwanted or unexpected information security events that have a significant probability of compromising business operations and threatening the confidentiality, integrity or availability of BSI's information or information systems. |

| Terminology | Definitions | Terminology | Definitions |
|-----------------------------|---|-------------------------------------|---|
| Information Technology (IT) | Automated means of originating, processing, storing and communicating information and covers recording devices, communications network, computer systems (including hardware and software components and data) and other electronic devices. | | support. The related IT service is integral to the provision by BSI of a financial service and the BSI is dependent on the service on an ongoing basis. |
| IT Group/ Department | The unit of an organization within a BSI responsible for the activities of IT operations control, monitoring of IT services, infrastructure support and a combination of technology, people and processes. | IT Risk | Any potential adverse outcome, damage, loss, violation, failure or disruption associated with the use of or reliance on computer hardware, software, devices, systems, applications and networks. |
| IT Operations | Encompasses all processes and services that are provisioned by an IT Unit to internal and external clients. | IT Strategic Plan | A long-term plan (i.e., three- to five-year horizon) in which business and IT management cooperatively describe how IT resources will contribute to the institution's strategic objectives. |
| IT Outsourcing | An arrangement under which another party (either an affiliated entity within a corporate group or an entity external to the corporate group) undertakes to provide to a BSI all or part of an IT function or service. A BSI would use IT outsourcing for functions ranging from infrastructure to software development, maintenance and | IT Risk Management System (ITRMS) | Risk management system that enables a BSI to identify, measure, monitor and control IT-related risks. |
| | | Management Information System (MIS) | A general term for the computer systems in an institution that provide information about its business operations. |
| | | Network | Two or more computer systems that are grouped together to share information, software and hardware. |
| | | Offshore BSIs | Have their critical system processing and data located outside of |

X177.5 - X177.6
13.12.31

| Terminology | Definitions |
|------------------------------|--|
| | the Philippines. These are usually maintained and operated by organizations within the same business group that the BSIs belong to, such as their head office, subsidiary and/or affiliate. Locally-maintained systems, if any, are limited to non-core supporting applications such as collaboration systems and report processing tools. |
| Project Management | Planning, monitoring and controlling an activity. |
| Senior Management/Management | Officers of the institution given the authority by the Board to implement the policies it has laid down in the conduct of the business of the institution. |
| Service Level Agreement | Establishes mutual expectations and provide a baseline to measure IT performance. An SLA should contain, among others, the specified level of service, support options, enforcement or penalty provisions for services not provided, a guaranteed level of system performance as it relates to downtime or uptime, a specified level of customer support and what software or hardware |

| Terminology | Definitions |
|--|---|
| | will be provided and for what fee. |
| Triple Data Encryption Standard (3DES) | A mode of the DES encryption algorithm that encrypts data three times. Three 64-bit keys are used, instead of one, for an overall key length of 192 bits (the first encryption is encrypted with second key, and the resulting cipher text is again encrypted with a third key. |

(Circular No. 808 dated 22 August 2013)

X177.6 *Description of IT-related risks.* As BSIs increase their reliance on IT to deliver products and services, inappropriate usage of IT resources may have significant risk exposures. While IT does not trigger new types of risks, it brings in new dimensions to traditional banking risks (i.e. strategic risk, credit risk, market risk, liquidity risk and operational risk) that require new or enhanced control activities (e.g. a failure of a credit risk measurement application is an IT failure and, therefore, a systems failure in the sense of operational risk). Moreover, IT is an implied part of any system of internal controls, regardless of the type of risk and, consequently, forms an important element in organization-wide risk management. Among the risks associated with the use of IT are the following:

1. *Operational risk* is the risk to earnings and capital arising from problems with service or product delivery. This risk is a function of internal controls, IT systems, employee integrity and operating processes. Operational risk exists in all products and services;
2. *Strategic risk* is the risk to earnings and capital arising from adverse business decisions on IT-related investments or improper implementation of those

decisions. The 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 which include communication channels, operating systems, delivery networks and managerial capacities and capabilities;

3. *Reputation risk* is the risk to earnings and capital arising from negative public opinion. This affects the institution's ability to establish new relationships or services or continue servicing existing relationships. The risk can expose the institution to litigation, financial loss or damage to its reputation; and

4. *Compliance risk* is the risk to earnings and capital arising from the violations of, or non-conformance with laws, rules and regulations, prescribed practices or ethical standards. Compliance risk also arises in situations where the laws and rules governing certain products activities of the BSI's clients may be ambiguous or untested. Compliance risk exposes the institution to monetary penalties, non-monetary sanctions and possibility of contracts being annulled or declared unenforceable.

(Circular No. 808 dated 22 August 2013)

□ **X177.7 IT Risk Management System (ITRMS).** As BSIs become more dependent on IT systems and processes, technology risks and information security issues have become progressively more complex and pressing in recent years. Information security is just as important as the new technologies being installed by BSIs. As progress in technology shifts to higher gear, the trend in cyber-attacks, intrusions, and other form of incidents on computer systems shows that it will not only persist but will continue to increase in frequency and spread

in magnitude.

Management of IT risks and information security issues becomes a necessity and an important part of BSIs' risk management system. BSIs are therefore required to establish a robust ITRM system covering four (4) key components: 1) IT governance, 2) risk identification and assessment, 3) IT controls implementation, and 4) risk measurement and monitoring.

1. *IT Governance.* This is an integral part of BSIs' governance framework and consists of the leadership and organizational structures and processes that ensure the alignment of IT strategic plan with BSIs' business strategy, optimization of resources management, IT value delivery, performance measurement and the effective and efficient use of IT to achieve business objectives and effective IT risk management implementation. BSIs must establish an effective IT governance framework covering the following:

a. *Oversight and organization of IT functions.* Accountability is a key concern of IT governance and this can be obtained with an organizational structure that has well-defined roles for the responsibility of information, business processes, applications, IT infrastructure, etc.

The board of directors is ultimately responsible for understanding the IT risks confronted by a BSI and ensuring that they are properly managed, whereas the Senior Management is accountable for designing and implementing the ITRMS approved by the Board. For Complex BSIs, the Board may delegate to an IT Steering Committee (ITSC) or its equivalent IT oversight function to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. The ITSC, at a minimum, should have as members a non-executive Board director who oversees the institution's IT function, the head of IT group/department, and the highest rank

□ X177.7
14.12.31

officer who oversees the business user groups. The head of control groups should participate in ITSC meetings in advisory capacity only.

A charter should be ratified by the Board to clearly define the roles and responsibilities of the ITSC. Formal minutes of meeting should be maintained to document its discussions and decisions. The ITSC should regularly provide adequate information to the Board regarding IT performance, status of major IT projects or other significant issues to enable the Board to make well-informed decisions about the BSIs IT operations.

BSIs should develop an IT strategic plan that is aligned with the institution s business strategy. This should be undertaken to manage and direct all IT resources in line with the business strategy and priorities. IT strategic plan should focus on long term goals covering three (3) to five (5) year horizon and should be sufficiently supplemented by tactical IT plans which specify concise objectives, action plans and tasks that are understood and accepted by both business and IT. The IT strategic plan should be formally documented, endorsed by the Board and communicated to all stakeholders. It should be reviewed and updated regularly for new risks or opportunities to maximize the value of IT to the institution.

BSIs should also create an organization of IT functions that will effectively deliver IT services to business units. For Complex BSIs, a full-time IT Head or equivalent rank should be designated to take the lead in key IT initiatives and oversee the effectiveness of the IT organization. In addition to managing the delivery of day-to-day IT services, the IT Head should also oversee the IT budget and maintain responsibility for performance management, IT acquisition oversight, professional development and training. The IT Head should be a member

of executive management with direct involvement in key decisions for the BSI and usually reports directly to the President or Chief Executive Officer.

A clear description of roles and responsibilities for individual IT functions should be documented and approved by the Board. Proper segregation of duties within and among the various IT functions should be implemented to reduce the possibility for an individual to compromise a critical process. A mechanism should be in place to ensure that personnel are performing only the functions relevant to their respective jobs and positions. In the event that an institution finds it difficult to segregate certain IT control responsibilities, it should put in place adequate compensating controls (e.g. peer reviews) to mitigate the associated risks.

b. *IT policies, procedures and standards.* IT controls, policies, and procedures are the foundation of IT governance structure. It helps articulate the rules and procedures for making IT decisions, and helps to set, attain, and monitor IT objectives.

BSIs should adopt and enforce IT-related policies and procedures that are well-defined and frequently communicated to establish and delineate duties and responsibilities of personnel for better coordination, effective and consistent performance of tasks, and quicker training of new employees. Management should ensure that policies, procedures, and systems are current and well-documented. The ITSC should review IT policies, procedures, and standards at least on an annual basis. Any updates and changes should be clearly documented and properly approved. IT policies and procedures should include at least the following areas:

- IT Governance/ Management;
- Development and Acquisition;
- IT Operations;
- Communication networks;

- Information security;
- Electronic Banking/Electronic Products and Services; and
- IT Outsourcing/Vendor Management.

For simple BSIs, some of the above areas (i.e. development, electronic banking, etc.) may not be applicable, thus sound judgment should be employed to ensure that the BSI's IT policies and procedures have adequately covered all applicable areas.

c. *IT audit.* Audit plays a key role in assisting the Board in the discharge of its corporate governance responsibilities by performing an independent assessment of technology risk management process and IT controls.

Auditors provide an assurance that important control mechanisms are in place for detecting deficiencies and managing risks in the implementation of IT. They should be qualified to assess the specific risks that arise from specific uses of IT. BSIs should establish effective audit programs that cover IT risk exposures throughout the organization, risk-focused, promote sound IT controls, ensure the timely resolution of audit deficiencies and periodic reporting to the Board on the effectiveness of institution's IT risk management, internal controls, and IT governance. Regardless of size and complexity, the IT audit program should cover the following:

- Independence of the IT audit function and its reporting relationship to the Board or its Audit Committee;
- Expertise and size of the audit staff relative to the IT environment;
- Identification of the IT audit universe, risk assessment, scope, and frequency of IT audits;
- Processes in place to ensure timely tracking and resolution of reported weaknesses; and
- Documentation of IT audits, including work papers, audit reports, and follow-up.

In case in-house IT audit expertise is not available, such as for a simple BSI, the IT audit support may be performed by external specialists and auditors of other institutions consistent with existing Bangko Sentral rules and regulations on outsourcing. (Detailed guidelines/standards on IT Audit are shown in *Appendix 75a*)

d. *Staff competence and training.* The rapid development in technology demands appropriate, skilled personnel to remain competent and meet the required level of expertise on an ongoing basis.

BSIs should have an effective IT human resources management plan that meets the requirements for IT and the business lines it supports. Management should allocate sufficient resources to hire and train employees to ensure that they have the expertise necessary to perform their job and achieve organizational goals and objectives.

Management needs to ensure that staffing levels are sufficient to handle present and expected work demands, and to cater reasonably for staff turnover. Appropriate succession and transition strategies for key officers and personnel should be in place to provide for a smooth transition in the event of turnover in vital IT management or operations functions.

e. *Management Information Systems (MIS).* The BSIs' IT organization often provides an important support role for their MIS. Accurate and timely MIS reports are an essential component of prudent and reasonable business decisions. At the most senior levels, MIS provides the data and information to help the Board and management make strategic decisions. At other levels, MIS allows management to monitor the institution's activities and distribute information to other employees, customers, and members of management.

Advances in technology have increased the volume of information available to management and directors for planning and decision-making. However, if technology

is not properly managed, the potential for inaccurate reporting and flawed decision making increases. Because report generation systems can rely on manual data entry or extract data from many different financial and transaction systems, management should establish appropriate control procedures to ensure information is correct, relevant, and adequately protected. Since MIS can originate from multiple equipment platforms and systems, the controls should ensure all information systems have sufficient and appropriate controls to maintain the integrity of the information and the processing environment. Sound fundamental principles for MIS review include proper internal controls, operating procedures, safeguards, and audit coverage.

f. *IT risk management function.* Management of risk is a cornerstone of IT Governance. BSIs should have a policy requiring the conduct of identification, measurement, monitoring and controlling of IT risks for each business function/service on a periodic basis. BSIs should define and assign these critical roles to a risk management unit or to a group of persons from different units collectively performing the tasks defined for this function.

The function should have a formal technology risk acknowledgement and acceptance process by the owner of risk to help facilitate the process of reviewing, evaluating and approving any major incidents of non-compliance with IT control policies. The process can be supported by the following:

- a description of risk being considered for acknowledgement by owner of risk and an assessment of the risk that is being accepted;
- identification of mitigating controls;
- formulation of a remedial plan to reduce risk; and
- approval of risk acknowledgement from the owner of the risk and senior management.

ITRM processes should be integrated into the enterprise-wide risk management processes to allow BSIs to make well-informed decisions involving business plans and strategies, risk responses, risk tolerance levels and capital management, among others.

2. *Risk identification and assessment.* BSIs should maintain a risk assessment process that drives response selection and controls implementation. An effective IT assessment process begins with the identification of the current and prospective IT risk exposures arising from the institution's IT environment and related processes. The assessments should identify all information assets, any foreseeable internal and external threats to these assets, the likelihood of the threats, and the adequacy of existing controls to mitigate the identified risks. Management should continually compare its risk exposure to the value of its business activities to determine acceptable risk levels.

Once management understands the institution's IT environment and analyzes the risk, it should rank the risks and prioritize its response. The probability of occurrence and the magnitude of impact provide the foundation for reducing risk exposures or establishing mitigating controls for safe, sound, and efficient IT operations appropriate to the complexity of the organization. Periodic risk assessment process should be done at the enterprise-wide level and an effective monitoring program for the risk mitigation activities should be manifested through mitigation or corrective action plans, assignment of responsibilities and accountability and management reporting.

3. *IT controls implementation.* Controls comprise of policies, procedures, practices and organizational structures designed to provide reasonable assurance that business objectives will be achieved and undesired events will be mitigated. Management should establish an adequate and effective

system of internal controls based on the degree of exposure and the potential risk of loss arising from the use of IT. Controls for IT environment generally should address the overall integrity of the environment and 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. BSI Management should implement satisfactory control practices that address the following as part of its overall IT risk mitigation strategy: 1) Information security; 2) Project management/development and acquisition and change management; 3) IT operations; 4) IT outsourcing/Vendor management; and 5) Electronic banking, Electronic payments, Electronic money and other Electronic products and services.

a. *Information security.* Information is a vital asset that must be managed to support BSI management in making decisions. BSIs should have a comprehensive information security program, approved by the Board, to maintain the confidentiality, integrity, and availability of computer systems for reliable and timely information. Unauthorized access, destruction, or disclosure of confidential information can adversely affect earnings and capital. The program should monitor information security function throughout the organization's business processes and establish clear accountability for carrying out security responsibilities.

The Board or Senior Management should appoint an independent information security officer (ISO) who will be responsible and accountable for the organization-wide IS program. The duly appointed ISO should have sufficient knowledge, background, and training, as well as organizational position, to enable him to perform assigned tasks. To ensure appropriate segregation of duties, the ISO should report directly to the Board or senior

management and have sufficient independence to perform his mandate. The ISO should perform the tasks of a risk manager and not a production resource assigned to the IT department. In the case of simple BSIs, hiring a personnel to specifically perform the function of an ISO may not be necessary. The ISO function may be assigned to an existing independent officer who meets the requirements mentioned in this Subsection. (Detailed guidelines/standards on Information Security are shown in *Appendix 75b*)

b. *Project management/development and acquisition and change management.* BSIs should establish a framework for management of IT-related projects. The framework should clearly specify the appropriate project management methodology that will govern the process of developing, implementing and maintaining major IT systems. The methodology, on the other hand, should cover allocation of responsibilities, activity breakdown, budgeting of time and resources, milestones, checkpoints, key dependencies, quality assurance, risk assessment and approvals, among others. In the acquisition and/or development of IT solutions, BSIs should ensure that business and regulatory requirements are satisfied. (Detailed guidelines/standards on Project Management/Development and Acquisition and Change Management are shown in *Appendix 75c*)

c. *IT operations.* IT has become an integral part of the day-to-day business operation, automating and providing support to nearly all of the business processes and functions within the institution. Therefore, the IT systems should be reliable, secure and available when needed which translates to high levels of service and dependency on IT to operate.

One of the primary responsibilities of IT operations management is to ensure the institution's current and planned

□ X177.7
14.12.31

infrastructure is sufficient to accomplish its strategic plans. BSI management should ensure that IT operates in a safe, sound, and efficient manner throughout the institution. Given that most IT systems are interconnected and interdependent, failure to adequately supervise any part of the IT environment can heighten potential risks for all elements of IT operations and the performance of the critical business lines of the BSIs. Such scenario necessitates the coordination of IT controls throughout the institution's operating environment. (Detailed guidelines/standards on IT Operations are shown in *Appendix 75d*)

d. *IT outsourcing/vendor management program.* IT outsourcing refers to any contractual agreement between a BSI and a service provider or vendor for the latter to create, maintain, or reengineer the institution's IT architecture, systems and related processes on a continuing basis. A BSI may outsource IT systems and processes except those functions expressly prohibited by existing regulations. The decision to outsource should fit into the institution's overall strategic plan and corporate objectives and said arrangement should comply with the provisions of existing Bangko Sentral rules and regulations on outsourcing. Although the technology needed to support business objectives is often a critical factor in deciding to outsource, managing such relationships should be viewed as an enterprise-wide corporate management issue, rather than a mere IT issue.

While IT outsourcing transfers operational responsibility to the service provider, the BSIs retain ultimate responsibility for the outsourced activity. Moreover, the risks associated with the outsourced activity may be realized in a different manner than if the functions were inside the institution resulting in the need for controls designed to monitor such risks.

BSI management should implement an effective outsourcing oversight program that provides the framework for management to understand, monitor, measure, and control the risks associated with outsourcing. BSIs outsourcing IT services should have a comprehensive outsourcing risk management process which provides guidance on the following areas: 1) risk assessment; 2) selection of service providers; 3) contract review; and 4) monitoring of service providers. Detailed guidelines/standards on IT Outsourcing/Vendor Management and on the adoption of outsourced cloud computing model are shown in *Appendix 75e*.

e. *Electronic products and services.* The evolution in technology revolutionized the way banking and financial products and services are delivered. Physical barriers were brought down enabling clients to access their accounts, make transactions or gather information on financial products and services anywhere they are, at any time of the day and at their own convenience. As development in technology continues to accelerate, innovative electronic products and services are foreseen to bring more accessibility and efficiency. However, BSIs may be confronted with challenges relating to capacity, availability and reliability of the electronic services. Likewise, fraudulent activities via electronic channels are also rising in number.

BSIs should protect customers from fraudulent schemes done electronically. Otherwise, consumer confidence to use electronic channels as safe and reliable method of making transactions will be eroded. To mitigate the impact of cyber fraud, BSIs should adopt aggressive security posture such as the following:

i. The entire ATM system shall be upgraded/converted to allow adoption of end-to-end Triple DES (3DES) encryption standards by 01 January 2015. The 3DES

encryption standards shall cover the whole ATM network which consists of the host processors, switches, host security module (HSM), automated teller machines (ATMs), point-of-sale (POS) terminals and all communication links connected to the network;

ii. ATMs to be installed after 04 September 2014 should be 3DES compliant; and

iii. ATMs, POS terminals and payment cards are also vulnerable to skimming attacks due to the lack of deployment of globally recognized EMV enabled technology by BSIs. Magnetic stripe only ATMs, POS Terminals and cards are largely defenseless against modern fraud techniques. Therefore, all concerned BSIs should shift from magnetic stripe technology to EMV chip-enabled cards, POS Terminals and ATMs. The entire payment card network should be migrated to EMV by 01 January 2017. This requirement shall cover both issuing and acquiring programs of concerned BSIs. A written and Board-approved EMV migration plan should be submitted to the Bangko Sentral within six (6) months from 22 August 2013. The guidelines on Europay, Mastercard and Visa (EMV) Implementation¹ are shown in *Appendix 108*.

Detailed guidelines/standards on Electronic Products and Services are shown in *Appendix 75f*.

4. *Risk measurement and monitoring.* BSI Management should monitor IT risks and the effectiveness of established controls through periodic measurement of IT activities based on internally established standards and industry benchmarks to assess the effectiveness and efficiency of existing operations. Timely, accurate, and complete risk monitoring and assessment reports

should be submitted to management to provide assurance that established controls are functioning effectively, resources are operating properly and used efficiently and IT operations are performing within established parameters. Any deviation noted in the process should be evaluated and management should initiate remedial action to address underlying causes. The scope and frequency of these performance measurement activities will depend on the complexity of the BSI's IT risk profile and should cover, among others, the following:

a. *Performance vis-à-vis approved IT strategic plan.* As part of both planning and monitoring mechanisms, BSI management should periodically assess its uses of IT as part of overall business planning. Such an enterprise-wide and ongoing approach helps to ensure that all major IT projects are consistent with the BSI's overall strategic goals. Periodic monitoring of IT performance against established plans shall confirm whether IT strategic plans remain in alignment with the business strategy and the IT performance supports the planned strategy.

b. *Performance benchmarks/service levels.* BSIs should establish performance benchmarks or standards for IT functions and monitor them on a regular basis. Such monitoring can identify potential problem areas and provide assurance that IT functions are meeting the objectives. Areas to consider include system and network availability, data center availability, system reruns, out of balance conditions, response time, error rates, data entry volumes, special requests, and problem reports.

Management should properly define services and service level agreements (SLA) that must be monitored and measured in terms understandable to the business units.

¹All BSIs shall support migration to EMV standards. Consequently, all cards issued and card-accepting devices should be EMV-compliant by 1 January 2017.

¶¶ X177.7 - X177.9
14.12.31

SLA with business units and IT department should be established to provide a baseline to measure IT performance.

c. *Quality assurance/quality control.* BSI should establish quality assurance (QA) and quality control (QC) procedures for all significant activities, both internal and external, to ensure that IT is delivering value to business in a cost effective manner and promotes continuous improvement through ongoing monitoring. QA activities ensure that product conforms to specification and is fit for use while QC procedures identify weaknesses in work products and to avoid the resource drain and expense of redoing a task. The personnel performing QA and QC reviews should be independent of the product/process being reviewed and use quantifiable indicators to ensure objective assessment of the effectiveness of IT activities in delivering IT capabilities and services.

d. *Policy compliance.* BSIs should develop, implement, and monitor processes to measure IT compliance with their established policies and standards as well as regulatory requirements. In addition to the traditional reliance on internal and third party audit functions, BSIs should perform self-assessments on a periodic basis to gauge performance which often lead to early identification of emerging or changing risks requiring policy changes and updates.

e. *External assessment program.* Complex BSIs may also seek regular assurance that IT assets are appropriately secured and that their IT security risk management framework is effective. This may be executed through a formal external assessment program that facilitates a systematic assessment of the IT security risk and control environment over time.

(Circular No. 808 dated 22 August 2013, as amended by Circular Nos. 859 dated 24 November 2014 and 833 dated 28 May 2014)

¶ **X177.8 Reports.** To enable the Bangko Sentral to regularly monitor IT risk profile and electronic products, services, delivery

channels, processes and other relevant information regarding the use of technology, BSIs are required to submit the following:

a. Annual IT Profile, electronically to the Bangko Sentral Supervisory Data Center (SDC) within twenty five (25) days from the end of reference year (Guidelines to be observed in the preparation and submission of this report was issued under Bangko Sentral Memorandum to All Banks No. M-2012-011 dated 17 February 2012);

b. Report on breach in information security, especially incidents involving the use of electronic channels, pursuant to the provisions of Items ¶a¶ or ¶b¶ of Subsec. X192.4 following the guidelines provided in Item ¶d¶ of the same Subsection Depending on the nature and seriousness of the incident, Bangko Sentral may require the BSI to provide further information or updates on the reported incident until the matter is finally resolved; and

c. Notification letter to the Core Information Technology Specialist Group (CITSG) of the Bangko Sentral of disruption of IT services/operations that resulted to the activation of disaster recovery and business continuity plan immediately upon activation of the plan.

(Circular No. 808 dated 22 August 2013)

¶ **X177.9 Sanctions and penalties.** BSIs should make available IT policies and procedures on the foregoing and other related documents during the on-site examination as well as provide a copy thereof when written request was made to determine their compliance with this Section.

Any violation of the provisions of this Section, its appendices and annexes, shall be subject to the monetary and non-monetary sanctions provided under Section 37 of R.A. No. 7653. Enforcement actions shall be imposed on the basis of the overall assessment of BSIs ITRMS. Whenever a BSI s ITRMS is rated 1 pursuant to Subsec. X177.4, the following additional sanctions may be imposed:

- a. Suspension/revocation of authority to provide electronic products and services; and
 - b. Prohibition against offering/provision of new electronic products and services.
- (Circular No. 808 dated 22 August 2013)

Sec. X178 Credit Risk Management; Statement of Policy¹. It is the policy of the Bangko Sentral to ensure that FIs under its supervision have adequate and effective credit risk management systems commensurate to their credit risk-taking activities. Towards this end, the following guidelines on credit risk management set forth the expectations of the Bangko Sentral with respect to the comprehensive management of credit risk. The guidelines further articulate sound principles and practices that shall be embedded in the credit risk management framework of FIs and shall cover the following areas: a) establishing an appropriate credit risk environment; b) operating under a sound credit granting process; and c) maintaining appropriate credit administration, measurement, monitoring and control processes over credit risk. While FIs may employ different approaches in the management of their credit risk, the Bangko Sentral expects that all these areas are effectively addressed.

For purposes of these guidelines, FIs refer to UBs, KBs, TBs RB and Coop Banks and their respective credit-granting financial subsidiaries (if any) as well as stand-alone QBs.

(Circular No. 855 dated 29 October 2014)

¶ **X178.1 Evaluation of credit risk management system.** The Bangko Sentral shall evaluate the FI s credit risk management system not only at the level of

individual legal entities but also across the subsidiaries within the consolidated banking organization. It will not restrict the scope of the credit risk-taking activities of an FI, so long as the FI is authorized to engage in such activities and:

- a. Understands, measures, monitors and controls the risk assumed;
- b. Adopts risk management practices whose sophistication and effectiveness are commensurate to the risk being taken; and
- c. 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 to 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 credit risk exposures.

The principles set forth in the credit risk management guidelines shall be used in determining the adequacy and effectiveness of an FI s credit risk management process and adequacy of capital relative to exposure. The Bangko Sentral shall consider the following factors:

- (1) The FI s business strategies, operating environment, and the competencies of its officers and personnel; and
- (2) The major sources of credit risk exposure and the complexity and level of risk posed by the assets, liabilities, and off-balance sheet activities.

(Circular No. 855 dated 29 October 2014)

¹ FIs shall be given six (6) months from 19 November 2014 to: (1) perform a gap analysis of their current practices vis- -vis this Section and (2) propose an action plan duly approved by the board of directors to achieve full compliance within a reasonable period of time but in no case longer than two (2) years from 19 November 2014.

All action plans shall be subject to acceptance by the Bangko Sentral through the Deputy Governor, Supervision and Examination Sector. All requests for regulatory relief shall be subject to prior Monetary Board approval.

Any FI that fails to comply with the obligations prescribed during this transition period shall be subject to the imposition of appropriate monetary and/or non-monetary sanctions.

A. Establishing an Appropriate Credit Risk Environment

□ **X178.2 *Role of the board and senior management***

a. *Board of directors.* The board of directors shall be responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of an FI. The board shall ensure that the system provides for adequate policies, procedures and processes to identify, measure, monitor and control all credit risks inherent in an FI's products and activities, both at the individual and portfolio levels on a consistent and continuing basis; and that an independent assessment of the system is periodically performed, the results of which shall be reported to it or to a board-level committee for appropriate action.

b. *Senior management.* Senior management shall be responsible for ensuring that the credit risk-taking activities of an FI are aligned with the credit risk strategy approved by the board of directors. It shall also be responsible for developing and implementing an FI's credit policies and procedures that lay down the conditions and guidelines for an effective credit risk management process, as well as proper channels of communication to ensure that these policies are clearly communicated and adhered to by all levels of the organization.
(Circular No. 855 dated 29 October 2014)

□ **X178.3 *Credit risk management structure***

a. Senior management or an appropriate level of management shall implement a board-approved credit risk management structure that clearly delineates lines of authority, establish accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

b. Depending on the size, complexity and scope of credit activities, and in addition to the roles and responsibilities of the board and senior management, an FI's credit risk management organization may be broadly classified into three functional lines of activities: the front, back and middle offices, to properly segregate accountabilities, ensure that no individual is assigned conflicting responsibilities, and effectively monitor and control the risks being taken.

c. The front office function performs credit originating; recommends internal credit ratings, classifications and allowances for losses including changes thereon, when necessary; and the on-going monitoring of credit exposures of borrowers on a day-to-day basis.

d. The back office provides support in the overall credit administration, including, among others: ensuring complete documentation, credit disbursement and recording of payments received; maintenance of credit and collateral files; and compilation of management information reports.

e. The middle office performs risk management and control functions that are independent from the credit originating and administration functions. The risk management function provides meaningful inputs in policy formulation and limits setting; designs and implements the FI's internal credit risk rating system; and performs periodic exposure and exception monitoring. The risk management function shall report directly to the Risk Management Committee (RMC) or appropriate board-level committee or the board.

f. An independent credit review is a function within the middle office that performs an unbiased assessment of the quality of individual credits and the aggregate credit portfolio, including appropriateness of credit risk rating, classification and adequacy of allowance

for loan losses. In the case of simple FIs, such independent credit review function may be concurrently performed by qualified personnel fulfilling other independent control oversight functions (e.g. compliance, internal audit).

g. The workout or problem loan management is another function within the middle office that is independent from the credit originating function to ensure that problem loans are managed effectively to minimize potential losses. For simple FIs, however, the function may still be performed by the credit originating function and/or unit responsible for monitoring the quality of such credit.

h. The structure shall likewise provide for independent audits, i.e., internal audit and compliance, to conduct independent credit and compliance audits of the credit risk management system of the FI. The scope of internal audit shall include the evaluation of the independence and overall effectiveness of the credit review function.

i. Regardless of the organizational structure that an FI adopts, the board shall ensure that the aforementioned key functions are considered and independence and control oversight functions are effective to avoid or address any potential conflict of interest.

j. Personnel or staff involved in all phases of the credit risk management process shall be qualified, competent and have the necessary training and experience to exercise prudent judgment in assessing, managing and/or controlling credit risk, and a solid understanding of an FI's strategic direction, policies, procedures, risk tolerance and limits. Their qualification standards, roles and responsibilities shall be clearly defined in the credit operating policies and procedures manual of the FI. The board and senior management shall ensure that adequate resources and appropriate level of staffing are allocated to execute all kinds of credit activities.

(Circular No. 855 dated 29 October 2014)

¶ **X178.4 Credit risk strategy.** The credit risk strategy must reflect the FI's profitability and portfolio growth targets, and must be consistent with the credit risk tolerance and overall corporate strategy and business goals of the FI.

a. In formulating the credit risk strategy, the FI shall articulate the desired market segments and types of credit exposures (e.g., commercial credits, retail credits, real estate, investments, trading products, credit commitments and/or guarantees); specific characteristics of clients, economic sector, geographical location; the portfolio mix that reflects the acceptable level of diversification and concentration; and consider the risk/reward trade-off by factoring in, to the greatest extent possible, price and non-price (e.g. collateral, restrictive covenants, etc.) terms as well as likely downside scenarios and their possible impact on the obligors.

The FI shall likewise define acceptable and unacceptable types of credits, clients, activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the FI, or unethical conduct.

b. The credit risk strategy shall consider the cyclical aspects of the economy and the varying effects of the economic cycle on the credit portfolio of the FI.

(Circular No. 855 dated 29 October 2014)

¶ **X178.5 Credit policies, processes and procedures.** FIs shall have in place a sound, comprehensive and clearly defined credit policies, processes and procedures consistent with prudent standards, practices, and relevant regulatory requirements adequate for the size, complexity and scope of an FI's operations. The board-approved policies, processes and procedures shall cover all phases of the credit risk management system.

a. FIs shall establish appropriate processes and procedures to implement the credit policy and strategy. These processes and procedures, as well as the credit policy,

¶¶ X178.5 - X178.7
14.12.31

shall be documented in sufficient detail, effectively communicated throughout the organization to provide guidance to staff, and periodically reviewed and updated to take into account new activities and products, as well as new lending approaches. Subsequent major changes must be approved by the board.

b. The credit policy shall likewise provide for the maintenance of an audit trail documenting that the credit risk management process was properly observed and identifying the unit, individual(s) and/or committee(s) providing input into the process.

c. The credit culture, which reflects the FI's credit values, beliefs and behaviors, shall likewise be articulated in the credit policy and communicated to credit officers and staff at all levels through the strategic plan. The credit practices shall be assessed periodically to ensure that the officers and staff conform to the desired standard and value.

(Circular No. 855 dated 29 October 2014)

B. Operating Under a Sound Credit Granting Process

¶ **X178.6 Credit approval process.** The approval process for new credits as well as the amendment, renewal and refinancing of existing credit exposures shall be aligned with the credit risk management structure and clearly articulated in an FI's written credit policy. The process shall include the different levels of appropriate approving authority and the corresponding approving authority limits, which shall be commensurate with the risks of the credit exposures, as well as expertise of the approving individuals involved. It shall also include an escalation process where approval for restructuring of credits, policy exceptions or excesses in internal limits is escalated to units/officer with higher authorities. Further, there shall be proper coordination of relevant units

and individuals and sufficient controls to ensure acceptable credit quality at origination.

(Circular No. 855 dated 29 October 2014)

¶ **X178.7 Credit granting and loan evaluation/analysis process and underwriting standards.** Consistent with safe and sound banking practice, an FI shall grant credits only in amounts and for the periods of time essential for the effective completion of the activity to be financed and after ascertaining that the obligor¹ is capable of fulfilling his commitments to the FI. Towards this end, an FI shall establish well-defined credit-granting criteria and underwriting standards, which shall include a clear indication of the FI's target market and a thorough understanding of the obligor or counterparty, as well as the purpose and structure of the credit and its source of repayment.

a. FIs shall conduct comprehensive assessments of the creditworthiness of their obligors, and shall not put undue reliance on external credit assessments. Credit shall be granted on the basis of the primary source of loan repayment or cash flow, integrity and reputation of the obligor or counterparty as well as their legal capacity to assume the liability.

b. Depending on the type of credit exposure and the nature of the credit relationship, the factors to be considered and documented in approving credits shall include, but are not limited to, the following:

(1) The purpose of the credit which shall be clearly stated in the credit application and in the contract between the FI and the obligor;

(2) The current risk profile (including the nature and aggregate amounts of risks, risk rating or credit score, pricing information) of the borrower, collateral, other credit enhancements and its sensitivity to economic and market developments;

¹ *Obligor* refers to an individual or entity that owes another person or entity a certain debt or duty. For purposes of these guidelines, obligor can also be used interchangeably with borrower or debtor.

(3) The sources of repayment, repayment history and current capacity to repay based on financial analysis from historical financial trends and indicators such as equity, profitability, turnover, leverage, and debt servicing ability via cash flow projections, under various scenarios;

(4) For commercial credits, the borrower's business expertise, its credit relationships including its shareholders and company directors, as applicable, and the status of the borrower's economic sector and its track record vis-à-vis industry peers;

(5) The proposed terms and conditions of the credit (i.e., type of financing, tenor, repayment structure, acceptable collateral) including covenants designed to limit changes in the future risk profile of the obligor;

(6) Use of credit reports; and

(7) Where applicable, the adequacy, valuation and enforceability of collateral or guarantees.

c. In performing the financial analysis, FIs shall use, to the extent available, credible audited financial statements and other relevant documents and sources. FIs may opt to use financial information/data from other sources provided that the process for arriving at such disposition and an evaluation of how much reliance or value was attached into the financial information used is clearly articulated and documented.

d. When participating in loan syndications, an FI shall not place undue reliance on the credit analysis done by the lead underwriter and shall perform its own analysis and review of syndicate terms. It shall analyze the risk and return on syndicated loans in the same manner as directly sourced loans and ensure that the loan is consistent with its credit risk strategy.

e. When an FI purchases securities issued by an obligor that is different from the counterparty (e.g. asset swaps), it shall also analyze issuer risk. For treasury and capital market activities, the structure of products and transactions shall be analyzed

to determine the source and volatility of credit exposure.

f. When granting consumer credits, an FI shall conduct its credit assessment in a holistic and prudent manner, taking into account all relevant factors that could influence the prospect for the loan to be repaid according to its terms and conditions. This shall include an appropriate consideration of the potential obligor's other debt obligations and repayment history and an assessment of whether the loan can be expected to be repaid from the potential obligor's own resources without causing undue hardship and over-indebtedness. Adequate checkings, including with relevant credit bureaus, shall be made to verify the obligor's credit applications and repayment records.

g. FIs shall factor into their credit-granting decisions the likelihood of providing allowance for identified and expected losses and holding adequate capital to absorb unexpected losses for credits with apparent weaknesses.

h. FIs may utilize physical collateral (like real estate), financial guarantees and other instruments to help mitigate risk in credit exposures. However, these shall not substitute for a comprehensive assessment of the obligor or fully compensate for insufficient information.

i. FIs shall establish adequate policies in determining the acceptability of various forms of credit mitigants and appropriate collateral value limits; procedures for regularly assessing the value of physical collaterals and availability of financial guarantees; and a process to ensure that these are, and continue to be, enforceable, realizable and marketable. Finally, FIs need to consider that the realizable value of the physical collateral or the quality of financial guarantees and other credit mitigants may be impaired by the same factors that have led to the diminished recoverability of the credit.

□ □ **X178.7 - X178.9**
14.12.31

In the case of guarantees, the level of coverage being provided in relation to the credit quality, financial and legal capacity of the guarantor shall be evaluated.

For credit exposures secured by deposits, FIs shall likewise require obligors to provide a written waiver of his rights under existing laws to the confidentiality of his deposits, and make this available for inspection and/or examination by the appropriate department of the SES.

j. Netting arrangements also mitigate risks, especially in interbank and off-balance sheet transactions. In order to actually reduce risk, such agreements need to be sound and legally enforceable in all relevant jurisdictions.

k. For more complex credit risk exposures, (e.g., asset securitization, credit derivatives, credit-linked notes, credit granted internationally, etc.), a more sophisticated tool shall be used for identifying, measuring, monitoring and controlling credit, country and transfer risks. Each complex credit risk product or activity, especially those that are new to banking, shall be subject to a thorough analysis in addition to the regular assessment that is done with traditional credit-granting activities.

l. For new products and activities, the credit risk shall be appropriately identified and managed through a formal risk assessment program. FIs shall ensure that they fully understand the risk involved in new products and activities and put in place adequate policies, procedures and controls before being introduced or undertaken.

(Circular No. 855 dated 29 October 2014)

□ **X178.8 *Renewal or extension of maturity date of credits.*** FIs shall adopt and adhere to the following explicit standards that control the use of renewals and extensions of maturity date of credits:

a. Credits and other accommodations shall only be renewed or its maturity date extended:

(1) Upon re-establishment of the creditworthiness of the obligor using the same credit-granting criteria for the evaluation and approval of new loans; and

(2) When the corresponding accrued interest receivable has been paid.

b. A policy on clean-up of principal, either partial or full, shall be established and appropriate controls put in place to prevent continuous renewal or extension over a long period of time without reduction in principal; otherwise, such credits and other accommodations shall be subject to classification and allowance for credit losses.

c. Specific and reasonable standards shall be provided for renewals or extensions of certain types of credit exposures that take into consideration the following factors:

(1) Borrower's normal operating, trade or production cycle, in the case of credit exposures for working capital, trade financing, production, and/or other similar purposes to ensure a realistic repayment schedule;

(2) Transaction history such as frequency of renewal or extension, rate of utilization of facilities granted, and business requirements;

(3) Status of collateral and other guarantees in the case of secured credit exposures, including requiring the FI to re-appraise the property especially when there is a material change in market conditions or in the physical aspects of the property that threatens the collateral protection; and

(4) Age of the account, utilization rate, average balance carried, delinquency status, payment history, and account profitability (if available) in the case of retail credits.

(Circular No. 855 dated 29 October 2014)

□ **X178.9 *Credit limits, large exposures, and credit risk concentrations.*** An FI is exposed to various forms of credit risk concentration which if not properly managed, monitored and controlled may cause significant losses that could threaten

its financial strength and undermine public confidence in the FI. Concentration risk can arise from excessive exposures to individual obligors, groups of connected counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sectors) or entities in a foreign country or a group of countries with strongly interrelated economies.

While concentration of credit risks is inherent in banking and cannot be totally eliminated, this can be mitigated by adopting policies and processes that would limit and control credit exposures and employing portfolio diversification strategies. Policies and procedures may include, but are not limited to the following:

a. Policies and procedures for identifying, reviewing, managing and reporting large exposures and concentration risks of the FI.

b. Segmenting its portfolio into the following diverse categories or such other segmentations consistent with the FI's credit strategy.

(1) Various types of borrowers/ counterparties or loan category (e.g., government, banks and other FIs, corporate and individual borrowers, including exchanges, electronic communication networks or ECNs and clearing houses);

(2) A group of connected borrowers/ counterparties (includes aggregating exposures to groups of accounts exhibiting financial or economic interdependence, including corporate or non-corporate, where they are under common ownership or control or with strong connecting links, e.g. common management, familial ties);

(3) Individual industry sectors;

(4) Geographic regions or countries;

(5) Loan structure, collateral, and tenor; and

(6) Various types of investments, including other credit instruments in the

trading books and off-balance sheet transactions.

c. Defining limit structure on each of the foregoing categories. Limits shall meaningfully aggregate credit exposures, both in the banking, trading book and on and off the balance sheet and shall be reasonable in relation to the FI's level of risk tolerance, historical loss experience, capital and resources. Such limits can be based in part on the internal risk rating assigned to the obligor or counterparty.

d. Procedures shall ensure that limits are not exceeded and are clearly communicated, periodically reviewed and modified, as appropriate. Should exceptions to policy be allowed, the circumstances under which limits may be exceeded and the party authorized to approve such excesses shall be clearly articulated in the credit policy.

(Circular No. 855 dated 29 October 2014)

□ X178.10 **Country and transfer risks**

Country risk refers to uncertainties arising from economic, social and political conditions of a country which may cause obligors in that country to be unable or unwilling to fulfill their obligations. Transfer risk exists when an obligor is unable to secure foreign exchange to service external obligations due to restrictions imposed by the country on foreign exchange remittance or repayment on foreign-currency denominated assets to a foreign lender. FIs that have cross-border credit risk exposures shall have adequate internal capacity for identifying, measuring, monitoring and controlling country and transfer risks in its international lending and investment activities, and shall not place undue reliance on external ratings. An FI shall consider the following:

a. Establishing credit-granting criteria taking into consideration country risk factors that shall include the potential for default of foreign private sector obligors arising from

(Next page is Part I - Page 115)

¶¶ X178.10 - X178.12
14.12.31

country-specific economic, social and political factors, the enforceability of loan agreements, and the timing and ability to realize collateral under the national legal framework. The results of the country risk analysis shall be integrated into the internal credit risk rating of the obligor. These country risk factors shall be regularly monitored. An FI shall also assess an obligor's ability to obtain foreign exchange to service cross-currency debt and honor contracts across jurisdictions.

b. Country risk limits shall be put in place and regularly reviewed to determine that approved limits still reflect the FI's business strategy in line with the changing market conditions. FIs shall ensure that country exposures are reported and monitored against these limits. Significant country risks shall be assessed and highlighted in credit proposals submitted to management for approval.

c. Credit policy shall clearly articulate appropriate countermeasures that an FI shall take in the event of an adverse development in a particular country where it has exposures. These measures shall include closer analysis of the obligor's capacity to repay, provisioning and preparation of contingency plans if country risk continues to deteriorate. It shall consider in its monitoring and evaluation of country and transfer risks, the internal and external country risk rating transitions and economic social and political developments of the relevant countries. Any significant changes to the conditions of a country shall also be elevated to the BOD promptly particularly if the FI has substantial exposure to that country.

(Circular No. 855 dated 29 October 2014)

¶ **X178.11 Credits granted to related parties.** Consistent with sound corporate governance practices, the board and senior management shall articulate and implement clear policies in handling transactions with directors, officers, stockholders, their related interests (DOSRI), the FI's subsidiaries and

affiliates, and other related parties, ensuring that there is effective compliance with existing laws, rules, and regulations at all times and that no stakeholder is unduly disadvantaged.

a. All extensions of credit must be made on an arm's-length basis, in accordance with the FI's credit-granting criteria and in the regular course of business, and upon terms not less favorable to the FI than those offered to non-related borrowers.

b. FI policies shall cover standards that require directors and/or officers to avoid placing themselves in a position that creates conflict of interest or the appearance of conflict of interest. The board and management shall likewise establish and implement policies that require full disclosure of personal interests that they may have in credit transactions. Directors and officers with personal interest in a transaction shall not participate in any deliberation, approval, or voting on the matter.

(Circular No. 855 dated 29 October 2014)

C. Maintaining an Appropriate Credit Administration, Measurement, and Monitoring Process

¶ **X178.12 Credit administration.** FIs shall have in place a system for the ongoing administration of their various credit portfolios. Credit administration refers to the back office activities that support and control extension and maintenance of credit. FIs shall ensure the efficiency and effectiveness of the following credit administration functions:

a. *Credit documentation.* Procedures shall be put in place to ensure completeness of documentation in accordance with policy including a file documentation tickler system;

b. *Disbursement.* Proper approval shall be obtained and complete documentation ensured prior to disbursement. Exceptions, if any, shall be duly approved;

c. *Billing and repayment.* Payments received shall be properly recorded. Measures shall be in place to ensure that late payments are tracked and collected; and

d. *Maintenance of credit files.* Credit files shall include sufficient and updated information necessary to ascertain the financial condition of the obligor or counterparty and include documents covering the history of an FI's relationship with the obligor. All loan and collateral documents shall be kept in a secured area under joint custody.

(Circular No. 855 dated 29 October 2014)

□ **X178.13 Credit risk measurement, validation and stress testing.** FIs shall adopt sound and appropriate risk measurement methodologies which shall provide a framework to control and monitor the quality of credit as well as total loan portfolio.

a. *Internal credit risk rating system.* FIs shall develop and utilize an internal risk rating system appropriate to the nature, size and complexity of the FI's activities in order to help the board and senior management differentiate risks across the individual credits and groups and to facilitate informed decision making.

FIs shall have sophisticated rating systems involving sufficiently granular rating grades. Simple FIs may adopt simpler systems. In all cases, however, FIs shall demonstrate the influence of the internal risk rating system in the following important functions: i) credit approval and underwriting; ii) loan pricing; iii) relationship management and credit administration; iv) allowance for credit losses and capital adequacy; and v) portfolio management and board reporting.

Internal risk rating systems shall generally observe the following standards:

(1) It must be operationally integrated into the FI's internal credit risk management process. Its output shall accordingly be an

integral part of the process of evaluation and review of prospective and existing exposures. Credit underwriting criteria shall become progressively more stringent as credit rating declines;

(2) It must be fully documented and shall address topics such as coverage, rating criteria, responsibilities of parties involved in the ratings process, definition of what constitutes a rating exception, parties that have authority to approve exceptions, frequency of rating reviews, and management oversight of the rating process. In addition, FIs must document the rationale for its choice of rating criteria and must be able to provide analyses demonstrating that the rating criteria and procedures are likely to result in ratings that meaningfully differentiate risk;

(3) All credit exposures shall be rated for risk. Where individual credit risk ratings are not assigned, e.g., small-denomination performing loans, FIs shall assign the portfolio of such exposures a composite credit risk rating that adequately defines its risk, i.e., repayment capacity and/or loss potential;

(4) The board shall receive sufficient information to oversee management's implementation of the process. Migration analysis/transition matrix of ratings shall be regularly reported to show the actual performance of the rating system over time;

(5) The risk rating system shall encompass an adequate number of ratings. FIs shall ensure that pass credits are sufficiently differentiated and more precisely defined. There shall be a proper process to map the internal rating system to regulatory classification. The FI shall readjust the mapping after every review of its internal risk rating methodology. For FIs whose internal rating systems have several pass grades, special mention loans may pertain to several risk ratings while substandard, doubtful and loss generally correspond to the lowest three risk ratings;

□ **X178.13**
14.12.31

(6) Risk ratings must be reasonable, timely and dynamic. Ratings shall be reviewed at least annually and shall be modified whenever the borrower's creditworthiness changes;

(7) The rating criteria shall reflect an established blend of qualitative (e.g., the quality of management, willingness to repay, etc.) and quantitative (e.g., cash flow, profitability, and leverage) factors. The criteria for assigning each rating shall be clearly defined;

(8) The rating policy shall indicate a time horizon for the risk rating. Generally, the time horizon used for probability of default estimation is one year. However, FIs may use a different time horizon to cover one business cycle;

(9) Ratings shall reflect the risks posed by both the borrower's expected performance and the transaction's structure. The ratings output of internal credit risk rating systems must contain both a borrower and a facility dimension. The borrower dimension shall focus on factors that affect the inherent credit quality of each borrower. The facility dimension, on the other hand, shall focus on security/collateral arrangements and other similar risk influencing factors of each transaction;

(10) The rating assigned to a credit shall be well supported and documented in the credit file; and

(11) Rating histories on individual accounts shall be maintained, which shall include the ratings of the account, the dates the ratings were assigned, the methodology and key data used to derive the ratings and the analyst who gave the ratings. The identity of borrowers and facilities that default, and the timing and circumstances of such defaults, must be retained. FIs must also retain data on the realized default rates associated with rating grades and ratings

migration in order to eventually track the predictive power of the risk rating system.

As used in these standards, 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;

(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 loss¹, i.e., excluding gains and losses due to interest rate movements. Banks' board-approved internal policies that govern the use of their internal rating systems must specifically define when a material credit-related loss¹ 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.

b. Credit scoring model. FIs may use a credit scoring model in measuring credit risk for pools of loans that are similar in purpose, risk characteristics and/or general exposure to groups, industries or geographical locations granted in small denomination; *Provided*, That the FI ensures that the credit scoring model sufficiently captures the credit behavior and other characteristics of the targeted borrowers. These loans include retail loans, loans to micro and small enterprises, microfinance loans and unsecured small business loans, and consumer loans (i.e., housing loans, car or auto loans, loans for the purchase of appliance and furniture and fixtures, loans for payment of educational and hospital bills, salary loans and loans for personal consumption, including credit card loans).

¹ This refers to economic loss, thus shall include discount effects, as well as direct and indirect costs associated with collecting on the credit obligation. The FIs' board-approved internal policies that govern the use of their internal rating systems must include specific policies and procedures that shall be followed in the determination of economic loss.

Risks for these types of portfolio are generally measured at portfolio level.

c. *Other credit risk measurement/ methodologies.* FIs may likewise adopt other appropriate credit risk measurement methodologies/models to estimate expected losses from credit portfolio.

d. *Validation of internal rating systems.* Validation is a process to assess the performance of risk component measurement systems consistently and meaningfully, to ensure that the realized risk measures are within an expected range. It not only increases the reliability of a model, but also promotes improvements and a clearer understanding of a model's strengths and weaknesses among management and user groups.

FIs shall establish comprehensive policies and procedures on effective validation of the rating system (e.g. review of model design/developmental evidence, backtesting, benchmarking and assessment of the discriminatory power of the ratings) and rating process (e.g. review of data quality, internal reporting, problem handling and how the rating system is used by the credit officers). This shall be adequately documented and results reported to appropriate levels of the FI. The process shall likewise be subject to periodic review by qualified, independent individuals.

Moreover, FIs shall periodically conduct back-testing in evaluating the quality of their credit risk assessment models and establish internal tolerance limits for differences between expected and actual outcomes and processes for updating limits as conditions warrant. The policy shall also include remedial actions to be taken when risk tolerances are exceeded.

e. *Stress testing.* When appropriate, an FI shall conduct stress testing and scenario analysis of its credit portfolio including off-balance sheet exposures, both at an individual and group levels to assess the

impact of market dislocations and changes in economic conditions or key risk factors on its profile and earnings.

(1) Whether stress tests are performed manually, or through automated modeling techniques, FIs shall ensure that:

(a) Policies and processes –

(i) Are adequate and clearly documented, rational, easily understood and approved by the board and senior management; and

(ii) Includes methodology for constructing appropriate and plausible single and multi-factor stress tests, and possible events, scenarios, or future changes in economic conditions that could have adverse impact on credit exposures, and assess the FI's ability to withstand such changes;

(b) The inputs are reliable and relate directly to the subject portfolios;

(c) The process includes frequency of test and procedures for convening periodic meetings to identify the principal risk factors affecting the portfolio, setting loss limits and the authority for setting these limits, and monitoring stress loss limits;

(d) Assumptions are well documented and conservative;

(e) Models (if any) are subject to a comprehensive validation process;

(f) Exceptions to limits and stress testing results are reported to the senior management and board of directors for appropriate remedial actions; and

(g) Results are discussed and actions and resolutions are made arising from the discussion.

(2) The linkages between different categories of risk that are likely to emerge in times of crisis shall be fully identified. In case of adverse circumstances, there may be a substantial correlation of various risks, especially credit, liquidity, and market risk.

f. FIs shall develop a contingency plan for scenarios and outcomes that involve

¶¶ X178.13 - X178.15
14.12.31

credit risk in excess of the FI's established risk tolerances. This plan may include increasing monitoring, limiting portfolio growth, and hedging or exit strategies for both significant individual transactions and key portfolio segments.

(Circular No. 855 dated 29 October 2014)

¶ **X178.14 Credit risk management information and reporting systems.** FIs shall render accurate, reliable and timely information and reports. Thus, adequate management information and reporting systems shall be in place to identify and measure credit risk inherent in all on- and off-balance sheet activities and ensure the overall effectiveness of the risk management process. The information generated from such systems shall enable the board and all levels of management to fulfill their respective oversight roles, including determining the level of capital commensurate to the credit risk exposure of the FI.

a. At a minimum, an effective management information system (MIS) shall enable FIs to:

(1) Provide adequate information on the quality and composition of the credit portfolio (including off-balance sheet accounts);

(2) Determine accurately the level of credit risk exposures of an FI through its various activities (e.g. renewal and extension of loans, collection process, status of delinquent accounts, write-offs, provisioning, among others);

(3) Timely identify and monitor credit risk concentrations, exposures approaching risk limits, exceptions to credit risk limits and overrides to ensure that policy and underwriting deviations as well as breaches and other potential problems are promptly reported to the board and management for appropriate corrective action;

(4) Aggregate credit exposures to individual borrowers and counterparties as well as to a group of accounts under common ownership or control;

(5) Permit additional analysis of the credit portfolio, including stress testing; and

(6) Maintain a database for research and use of analytical techniques, report exposures, track quality and account performances, and maintain limits.

b. The credit policy shall clearly define the types of information and reports to be generated, frequency of reporting, deadline of submission, and the users/ recipients of and personnel responsible for the preparation of such information and reports.

c. FIs shall provide sufficient controls to ensure integrity of the MIS. Reports shall be periodically reviewed to ensure adequacy of scope and reliability and accuracy of the information generated. Internal audit shall also periodically assess the controls over MIS.

(Circular No. 855 dated 29 October 2014)

¶ **X178.15 Credit monitoring.** FIs shall develop and implement comprehensive processes, procedures and information systems to effectively monitor the condition and quality of individual credits and group of credits across the FI's various portfolios. These shall include criteria that identify and report problem credits to reasonably assure that they are appropriately monitored as well as administered and provided for.

a. The system shall be able to, among others, provide measures to ensure that the board and management are kept informed of the current financial condition of the borrower and the various credit portfolios; loan covenants are consistently adhered to; cash flow projections meet repayment requirements; prudential and internal limits are not exceeded; portfolios are stress-tested; and potential problem credits and

other transactions are identified. Exceptions, breaches and potential problems noted shall be promptly reported to management for corrective action, possible classification and/or provisioning and more frequent monitoring.

b. Personnel or unit assigned to monitor, on an ongoing basis, credit quality and underlying physical collateral and financial guarantees shall ensure that relevant information is communicated to those personnel or unit assigned to provide internal credit risk ratings.

c. FIs shall perform post-validation of the actual use of funds to determine that credits were drawn down for their intended purposes. Should funds be diverted for purposes other than what has been applied for and approved, the FI shall immediately re-evaluate its approval or if necessary terminate the credit accommodation and demand immediate repayment of the obligation.

d. FIs shall monitor individual and aggregate exposures against prudential and internal limits on a regular basis. Large exposures shall be subject to more intensive monitoring.

e. FIs shall develop a system that allows monitoring of asset quality indicators (e.g. non-performing loans, collateral values, etc.) and trends in loan growth to identify potential weaknesses in the portfolio.

(Circular No. 855 dated 29 October 2014)

D. Maintaining an Appropriate Credit Control Process

□ **X178.16 Credit review process**

a. FIs shall implement an independent and objective credit review process to determine that credits are granted in accordance with the FI's policies; assess the overall asset quality, including appropriateness of classification and

adequacy of loan-loss provisioning; determine trends; and identify problems (e.g., risk concentration, risk migration, deficiencies in credit administration and monitoring processes).

b. FIs may employ an appropriate sampling methodology to determine the scope of credit review. At a minimum, credit review shall be conducted on all individual obligors with substantial exposures, and on a consolidated group basis to factor in the business connections among related entities in a borrowing group. Credit review for credits that are similar in purpose or risk characteristics may be performed on a portfolio basis. The portfolio sample selected for review shall provide reasonable assurance that all major credit risk issues have been assessed and valid conclusions can be drawn. Moreover, sampling methodology shall be documented and periodically reviewed to ensure its quality and minimize bias.

c. Credit review shall also evaluate credit administration function and ensure that credit files are complete and updated, and all loan approvals and other necessary documents have been obtained.

d. Credit reviews shall be performed at least annually, and more frequently for substantial exposures, new accounts and classified accounts. Assessments shall be promptly discussed with the officers responsible for the credit activities and escalated to senior management.

e. Results of the credit review shall be promptly reported to the board of directors or the appropriate board-level committee for their appropriate action. The board shall mandate and track the implementation of corrective action in instances of unresolved deficiencies and breaches in policies and procedures. Deficiencies shall be addressed in a timely manner and monitored until resolved/corrected.

(Circular No. 855 dated 29 October 2014)

□ X178.17
14.12.31

□ X178.17 **Credit classification and Provisioning**

a. *Classification of loans and other credit accommodations*¹. FIs shall have in place a reliable credit classification system to promptly identify deteriorating credit exposures and determine appropriate allowance for credit losses. Classification can be done on the basis of internal credit risk rating system, including payment delinquency status. All credit classifications, not only those reflecting severe credit deterioration, shall be considered in determining the appropriate allowance for credit losses.

(1) All FIs shall map their classification of loans and other credit accommodations against the regulatory classification criteria provided below. However, FIs are encouraged and not precluded from using additional criteria appropriate to their internal credit risk rating system provided they are consistent with the regulatory classification as follows:

(a) *Pass*. These are loans and other credit accommodations that do not have a greater-than-normal credit risk. The borrower has the apparent ability and willingness to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.

(b) *Especially Mentioned (EM)*. These are loans and other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may affect the repayment of the loan. Some degree of structural weakness may be found in virtually any aspect of the loan arrangement or type of loan, and the presence of one (or more) need not be indicative of an overall credit weakness deserving criticism. Instead, the FI must evaluate the relative importance of such factors in the context of the borrower's overall financial strength, the condition of the borrower's industry or market, and the borrower's total

relationship with the FI. Basic characteristics include, but are not limited to, any of the following:

(i) Deficiencies in underwriting, documentation, structure and/or credit administration that can compromise an FI's ability to control credit relationship if economic or other events adversely affect the borrower;

(ii) Continuous renewal/extension without reduction in principal, except when the capacity to pay of the borrower has been clearly re-established;

(iii) Adverse economic or market conditions, that in the future may affect the borrower's ability to meet scheduled repayments. Loans and other credit accommodations affected by these characteristics may retain the EM classification in the next examination should the same adverse conditions persist, provided that the loans remain current; or

(iv) Intermittent delays or inadequate repayment of principal, interest or periodic amortizations of loans and other credit accommodations granted by the FI or by other FIs, where such information is available.

(c) *Substandard*. These are loans and other credit accommodations that have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower. Basic characteristics include any of the following:

(i) Weak financial condition and results of operation that leads to the borrower's inability to generate sufficient cash flow for debt servicing, except for start-up firms which shall be evaluated on a case-to-case basis;

(ii) Past due secured loans and other credit accommodations where properties

¹ Other credit accommodations include other credits such as accounts receivables, sales contract receivables, accrued interest receivables and advances.

offered as collateral have been found with defects as to ownership or with other adverse information;

(iii) Breach of any key financial covenants/agreements that will adversely affect the capacity to pay of the borrower; or

(iv) Classified Especially Mentioned as of the last credit review without adequate corrective action.

(d) *Doubtful*. These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as Substandard, whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as Loss is deferred because of specific pending factors which may strengthen the assets. Some basic characteristics include any of the following:

(i) Secured loans and other credit accommodations where properties offered as collateral are either subject to an adverse claim rendering settlement of the loan through foreclosure doubtful or whose values have materially declined without the borrower offering additional collateral for the loan/s to cover the deficiency; or

(ii) Loans and other credit accommodations wherein the possibility of loss is extremely high but because of certain important and reasonable pending factors (i.e., merger, acquisition, or liquidation procedures, capital infusion, perfecting liens on additional collateral, and refinancing plans) that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until the next credit review.

(e) *Loss*. These are loans and other credit accommodations 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. This shall be viewed as a transitional

category for loans and other credit accommodations which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future. Their basic characteristics include any of the following:

(i) When the borrower s and co-makers / guarantors whereabouts are unknown, or they are insolvent, or their earning power is permanently impaired; or

(ii) Where the collaterals securing the loans are without recoverable values.

(2) Split classification may apply for non-performing secured loans and other credit accommodations, depending on the recoverability and liquidity of the collateral. The secured portion may be classified as substandard or doubtful, as appropriate, while the unsecured portion shall be classified loss if there is no other source of payment other than the collateral.

(3) In the case of syndicated loans, each participating FI shall maintain credit information on the borrower, and grade and make provision for its portion of the syndicated loan in accordance with the requirements of these guidelines. The lead FI shall provide participating FIs with the credit information on the borrower upon request by the participating FI and inform the latter if the loan will be classified so as to achieve uniform classification of the syndicated loan.

(4) FIs may upgrade a classified loan or restore it to a pass rating provided that it does so on the basis of a written policy on the upgrading of classification or rating and the credit review function is reliable and effective. Such policy shall include a comprehensive analysis of the repayment capability/financial strength of the borrower and the corrective actions made on the weaknesses noted to support the upgrade in classification. Upgrading may be supported by the following developments:

X178.17
14.12.31

(a) When all arrears or missed payments on principal and interests including penalties have been cleared rendering the account to be fully compliant with the original terms of the loan;

(b) Upon establishing that the weaknesses were substantially addressed and that the borrower has exhibited a sustained trend of improvement and willingness and capability to fully pay its loans and advances in a timely manner to justify the upgrade;

(c)Offering of new or additional collateral security; or

(d) In the case of restructured loans, the classification shall only be upgraded after establishing a satisfactory track record of at least six (6) consecutive payments of the required amortization of principal and interest, or until the borrower has sufficiently exhibited that the loan will be fully repaid (continued collection in accordance with the terms of the loans is expected) and the loan meets the criteria of lower loan classification.

b. *Loan Loss Estimation Methodology, Provisioning and Allowance for Credit Losses*

(1) All FIs shall develop and document a sound loan loss methodology that can reasonably estimate provisions for loans and other credit accommodations and risk assets in a timely manner, using their experience and research and this guidance to ensure that the specific and collective allowance for credit losses¹ (ACL) are adequate and approximates the expected losses in their credit portfolio.

An FI s loan loss methodology shall consider the following:

(a) Written policies and procedures for the credit risk systems and controls inherent in the methodology, including roles and responsibilities of the FI s board of directors and senior management;

(b) A detailed analysis of the entire loan portfolio, including off-balance sheet facilities, performed on a regular basis;

(c) A realistic view of its lending activities and adequately consider uncertainty and risks inherent in those activities in preparing accounting information. Loan accounting policies and practices shall be selected and applied in a consistent way that reasonably assures that loan and loan loss provision information is reliable and verifiable;

(d) Identification of loans to be evaluated individually and segmentation of the remaining portfolio into groups of loans with similar credit risk characteristics for collective assessment.

(i) *Individually assessed loans.* FIs shall establish a materiality threshold for significant credit exposures that will warrant an individual assessment, which threshold shall be regularly reviewed.

The loan loss estimates shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of the evaluation date. The following factors are relevant in estimating loan losses for individually assessed loans:

(aa) Significant financial difficulty of the borrower;

(bb) Probable bankruptcy or other financial reorganization of the borrower;

(cc) Breach of contract, such as a default or delinquency in interest or principal payments; or

(dd) Concession granted by the FI, for economic or legal reasons relating to the

¹ ACL represents the aggregate amount of individual and collectively assessed probable credit losses.

borrower's financial difficulty, which would not otherwise be considered.

The methodology shall include procedures describing the determination and measurement of the amount of any impairment, the impairment measurement techniques available and steps performed to determine which technique is most appropriate in a given situation.

(ii) *Collectively assessed loans.* FIs may use different methods to group loans for the purpose of assessing credit risk and valuation. More sophisticated credit risk assessment models or methodologies for estimating expected future cash flows, including credit risk grading processes, may combine several of the following characteristics: loan type, product type, market segment, estimated default probabilities or credit risk grading and classification, collateral type, geographical location and past-due status.

Estimated credit losses shall reflect consideration of the FI's historical net charge-off rate¹ of the groups, adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans in these groups as of the evaluation date, and applied consistently over time;

(e) Methods used to determine whether and how loans individually evaluated, but not considered to be individually impaired, shall be grouped with other loan (excluding individually assessed loans that are impaired) that share similar credit risk characteristics for collective impairment evaluation;

(f) The quality and net realizable values of physical collateral and other financial guarantees and credit risk mitigants incorporated in the loan agreement, where applicable;

(g) Address the methods used to validate models for credit risk assessment;

(h) The analyses, estimates, reviews and other provisioning methodology functions shall be performed by competent and well-trained personnel and be well documented, with clear explanations of the supporting analyses and rationale; and

(i) *Use experienced credit judgment.* Assessment of expected losses shall not be based solely on prescriptive rules or formula but must be enhanced with experienced credit judgment by the appropriate levels of management² in as much as historical loss experience or observable data may be limited or not fully relevant to current circumstances. However, the scope for actual discretion shall be prudently within the following constraints:

(i) Experienced credit judgments shall be subject to established policies and procedures;

(ii) With approved and documented analytical framework for assessing loan quality applied consistently over time;

(iii) Estimates shall be based on reasonable and verifiable assumptions and supported by adequate documentation; and

(iv) Assumptions concerning the impact on borrowers of changes in general economic activity, both favorable and unfavorable, shall be made with sufficient prudence.

The method of determining loan loss provisions shall reasonably assure the timely recognition of loan losses. While historical loss experience and recent economic conditions are a reasonable starting point for the institution's analysis, these factors are not, by themselves, sufficient basis to determine the appropriate level of aggregate loan loss provisions. Management shall also consider any current factors that are likely to cause loan losses to differ from historical loss experience, including changes in the following:

¹ The historical net charge-off rate is generally based on the annualized historical gross loan charge-offs, less recoveries, recorded by the FI.

² There may be instances when no adjustments are needed to the data in the recognition and measurement of loan losses because the data are consistent with current conditions.

¶¶ X178.17 - X178.18
14.12.31

Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;

International, national and local economic and business conditions and developments, including the condition of various market segments;

Trend, volume and severity of past due loans and loans graded as low quality, as well as trends in the volume of impaired loans, troubled debt restructurings and other loan modifications;

The experience, ability, and depth of lending management and staff;

Changes related to new market segments and products;

Quality of the FI's loan review system and the degree of oversight by senior management and board of directors;

The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and

Credit risk profile of the loan portfolio as a whole as well as the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the FI's current portfolio.

Experienced credit judgment shall also be used to determine an acceptable period that will yield reliable historical loss rates as loss rate periods shall not be restricted to a fixed time period to determine the average historical loss experience for any group of loans with similar credit risk characteristics. An FI shall maintain sufficient historical loss data over a full credit cycle to provide robust and meaningful statistical loan loss estimates for establishing the level of collective impairment losses for each group of loans with similar credit risk characteristics. When applying experienced credit judgment, an FI shall provide a sound rationale for excluding any historical loss data that is deemed not representative of the performance of the portfolio.

(2) FIs with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or whose practices fell short of expected standards shall, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed in *Appendix 18: Provided, That* the FIs notify the Bangko Sentral, through their respective Central Points of Contact, of this preference. Nevertheless, such FIs shall still use experienced credit judgment, subject to the criteria prescribed in this Subsection, in determining the ACL.

(3) FIs shall set up general loan loss provision equivalent to one percent (1%) of the outstanding balance of individually and collectively assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one percent (<1%), less loans which are considered non-risk under existing laws, rules and regulations.

(4) FIs shall ensure the adequacy of the individual and collective ACL for the entire loan portfolio. They shall have a policy for the regular review of the ACL, which shall be conducted at least semi-annually after considering results of the credit review, level of classified loans, delinquency reports, historical losses and market conditions. Failure to make adequate provisions for estimated future losses results in material misrepresentation of an FI's financial condition.

(Circular No. 855 dated 29 October 2014)

¶ **X178.18 Credit workout and remedial management of problem credits.** FIs shall develop and maintain a disciplined and vigorous process for the early identification and intervention for potential or existing problem credits. The process shall ensure that timely and adequate management action is taken to maintain the quality of the credit portfolio, prevent further deterioration, and minimize the likelihood

of future losses.

a. *Problem credits* refer to credits that display signs of potential problems and/or well-defined weaknesses such as those not performing according to the terms of the contract, or with credit quality impairment, or deficiencies relating to their approval and/or conduct that are not in keeping with sound and prudent credit policies. These shall include past due loans, non-performing loans and restructured loans.

b. FIs shall adopt appropriate and cost effective workout, restructuring or remedial management policies, processes and strategies to revive and recover problem credits. The strategies shall take into account the specific condition of the obligor and the FI's interest, and shall be approved by the board of directors or management, in accordance with internal policy.

c. At a minimum, the policies and strategies shall cover the following areas:

(1) authority and responsibilities of officers and staff in managing problem credits;

(2) collection strategy to be adopted for different types of loans;

(3) restructuring and handling of restructured accounts and/or loans for workout;

(4) supervision and monitoring of loan recovery performance;

(5) management and disposal of real and other properties acquired (ROPA), including appraisal process;

(6) management information system to support the reporting, monitoring and decision making processes;

(7) defined timelines and provision for regular monitoring; and

(8) other strategies, such as the use of collection agencies, and criteria for hiring a consultant on problem credits.

d. Restructuring strategies

(1) Restructuring may be resorted to for the purpose of lessening the financial difficulty of the obligor towards full

settlement of his obligation, and restructuring agreements shall always take into account the borrower's capacity to pay his obligation and available credit enhancements such as financial guarantees and physical collateral. Thus, except in special cases which also require approval by the Monetary Board, such as loans funded by foreign currency obligations, FIs shall have full discretion on whether to restructure loans in order to provide flexibility in arranging the repayment of such loans without impairing or endangering the FI's interest.

(2) Accounts shall not be restructured unless the financial capacity of the obligor to repay has been re-established, the events or crises that triggered the financial stress had been identified, and the nature and extent of protection of the FI's exposure had been determined, to justify the need for restructuring.

(3) At a minimum, the classification and provisioning of a loan, prior to the execution of the restructuring agreement shall be retained until the borrower has sufficiently exhibited that the loan will be fully repaid.

(4) A second restructuring of a loan shall be allowed only if there are reasonable justifications: *Provided*, That it shall be considered a non-performing loan and classified, at least, ¶ *Substandard*¶. The restoration to a performing loan status and/or upgrading of loan classification, e.g., from ¶ *Substandard*¶ to ¶ *Especially Mentioned*¶, may be allowed if circumstances warrant an upgrading in accordance with this Subsection.

(5) When restructuring of exposures to DOSRI and other related parties is pursued, this shall be upon terms not less favorable to the FI than those offered to others and shall be approved by the board, excluding the concerned director.

(6) Physical collaterals offered, such as real estate, shall be appraised by an independent appraisal company (not a

¶¶ **X178.18 - X178.20**
14.12.31

subsidiary or an affiliate of the FI) acceptable to the Bangko Sentral at the time of restructuring and every year thereafter to ensure that current market values are being used. A credit exposure benchmark of P1.0 million for simple FIs and P5.0 million for all other FIs shall be observed, such that physical collaterals for credit exposures beyond this amount will require an independent appraisal.

e. Problem credits, including restructured accounts, shall be subjected to more frequent review and monitoring. Regular reports on the status of loan accounts and progress of any remedial plan shall be submitted to senior management to facilitate an informed decision whether escalated remedial actions are called for.

(Circular No. 855 dated 29 October 2014)

¶ **X178.19 Writing off problem credits**
Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies, and shall incorporate, at a minimum, well-defined criteria (i.e., circumstances, conditions and historical write-off experience) under which credit exposures may be written off. Procedures shall explicitly narrate and document the necessary operational steps and processes to execute the policies.

Policies and procedures shall be periodically reviewed and if necessary, revised in a timely manner to address material internal changes (e.g., change in business focus) or external circumstances (e.g., changes in economic conditions).

FIs shall write off problem credits, regardless of amount, against ACL or current operations within a reasonable period as soon as such problem credits are determined to be worthless as defined in the FIs' written policies. However, problem credits to DOSRI shall be written off only upon prior approval of the Monetary Board.

Policies shall define and establish the

reasonable period of time within which to write off loans already classified as Loss. There shall be no undue delay in implementing write-offs. Notice of write-off of problem credits shall be submitted in the prescribed form to the Bangko Sentral through the appropriate Central Point of Contact within thirty (30) business days after every write-off with a sworn statement signed by the President of the FI or officer of equivalent rank that write-off did not include transactions with DOSRI and was undertaken in accordance with board-approved internal credit policy.

An effective monitoring and reporting system shall be in place to monitor debts written off and future recoveries. Progress on recovery shall be periodically reported to the board and senior management. A database of loan accounts written off shall be maintained and must be periodically reviewed for updates on individual loan obligor's information.

(Circular No. 855 dated 29 October 2014)

¶ **X178.20 Enforcement actions.** The Bangko Sentral reserves the right to deploy its range of supervisory tools to promote adherence to standards and principles set forth in these guidelines, bring about timely corrective actions and compliance with Bangko Sentral directives and ensure that FIs continuously observe the said standards. Persistent non-observance of the provisions of Sec. X178 and its subsections, which may lead to material misstatement of the financial condition or illiquidity of the FI, may be a ground for declaration of unsafe or unsound practices under Section 56 of R. A. No. 8791 and subject the FI to appropriate sanctions.

Enforcement actions shall be based on a holistic assessment to determine if FIs adopt appropriate risk management practices and maintain capital commensurate with the risk assumed based

on existing rules and regulations. These may include, but are not limited to, the following:

a. *Corrective actions.* These are measures intended to primarily require FIs to rectify any deviations from the standards and principles expected in the conduct of its credit risk-taking activities to address the negative impact of such deviation. Corrective actions generally include issuance of specific directives to address supervisory concerns within a reasonable timeframe.

b. *Sanctions.* The Monetary Board may impose sanctions on an FI and/or its Board, directors and officers, as provided under existing laws, Bangko Sentral rules and regulations proportionate to the gravity/seriousness of offense.

c. *Other enforcement actions.* Subject to prior Monetary Board approval, the Bangko Sentral, when warranted, may deploy other enforcement actions such as:

(1) Initiation into the prompt corrective action (PCA) framework whenever grounds for PCA exist;

(2) Issuance of cease and desist order (CDO) in case of persistence of unsafe/unsound banking practices and/or violation of any banking law or any order, instruction or regulation issued by the Monetary Board or any order, instruction or ruling issued by the Governor;

(3) Additional capital infusion in case hazardous lending practices resulted in excessive provisions for credit losses leading to capital deficiency;

(4) Requiring the FI to gross up the amount of required allowance for credit losses based on the examination of a representative sample of loans, if in the course of the Bangko Sentral examination, a high incidence of non-reporting/concealment of past due and/or problem loans is noted; or

(5) Other appropriate non-monetary enforcement actions that the Monetary Board may impose.

(Circular No. 855 dated 29 October 2014)

Sec. X179 (Reserved)

Sec. X180 (2008 - X170) Compliance System; Compliance Officer.¹ The Bangko Sentral actively promotes the safety and soundness of the Philippine banking system through an enabling policy and oversight environment. Such an environment is governed by the high standards and accepted practices of good corporate governance as collectively defined by the Bangko Sentral and its supervised institutions. Towards this end, a robust, dynamically-responsive and distinctly-appropriate compliance system shall be put in place as an integral component of an institution s internal controls.

Subject to the provisions of Subsec. X180.4, a full-time Chief Compliance Officer (CCO) shall be appointed to oversee the design of compliance system and promote its effective implementation.

(As amended by Circular No. 747 dated 06 February 2012)

X180.1 **Definition of business risk.** A compliance system shall be designed to specifically identify and mitigate business risks which may erode the franchise value of the bank. Business risk refers to conditions which may be detrimental to a bank s business model and its ability to generate returns from operations, which in turn erodes its franchise value. Combining business risk with the financial risks arising from the use of borrowed funds generates total corporate risk of the bank. Business risks shall include, but not be limited to, the following:

a. Risks to reputation that arise from internal decisions that may damage a bank s market standing;

¹ Except for Subsec. X180.6 on cross border compliance issues, all provisions of this Section shall be complied with on or before 01 July 2012.

□ □ **X180.1 - X180.3**
12.12.31

b. Risks to reputation that arise from internal decisions and practices that ultimately impinge on the public's trust of a bank;

c. Risks from the actions of a bank that are contrary to existing regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standards of good practice; and

d. Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect a bank's business model.

(As amended by Circular No. 747 dated 06 February 2012)

□ **X180.2 (2011 - X180.5) Status of the compliance function.** The compliance function shall have a formal status within the organization. It shall be established by a charter or other formal document approved by the board of directors that defines the compliance function's standing, authority and independence, and addresses the following issues:

a. measures to ensure the independence of the compliance function from the business activities of the bank;

b. the organizational structure and responsibilities of the unit or department administering the compliance program;

c. the relationship of the compliance unit/department with other functions or units of the organization, including the delineation of responsibilities and lines of cooperation;

d. its right to obtain access to information necessary to carry out its responsibilities;

e. its right to conduct investigations of possible breaches of the compliance policy;

f. its formal reporting relationships to senior management, the board of directors, and the appropriate board-level committee; and

g. its right of direct access to the board of directors and to the appropriate board-level committee.

The charter or other formal document defining the status of the compliance function shall be communicated throughout the organization.

(As amended by Circular No. 747 dated 06 February 2012)

□ **X180.3 (2011 - X180.1) Compliance system.** The compliance system shall have the following basic elements.

a. A formal written document (i.e., compliance manual) that reflects the compliance program approved by the board of directors:

1. The compliance program shall be distinguished from the risk program and the internal audit program. While compliance mitigates business risks as defined in Subsec. X180.1, the risk program covers financial risks that arise from the balance sheet exposures of the institution. The internal audit program, on the other hand, shall review on an ex-post basis whether prescribed guidelines of the bank were followed in administering transactions, handling procedures, making decisions and undertaking related activities.

2. The compliance program shall take into account the size and complexity of operations of the banks. It must clearly identify the avenues through which business risks may occur for the bank. Correspondingly, compliance measures effectively suited to the operations of the bank in order to mitigate said business risks shall be institutionalized in the bank through the compliance program.

3. An appropriate organizational structure must be in place to manage the compliance function and execute the approved compliance program. The compliance function shall be manned by full-time officers/staff either embedded in operating departments, or in a department operating on its own. Coordination with the respective department heads shall be the responsibility of the CCO.

4. In addition to the organizational structure, the duties and responsibilities of the CCO and other personnel involved in the compliance function must be defined explicitly.

5. A compliance system which does not consistently ensure the integrity and the accuracy of documentary submissions shall be deemed as a basis to assess a bank as involved in unsafe and unsound practices.

The President and the CCO shall execute an affidavit, under oath, that the compliance system has been approved by the board of directors and that the compliance manual reflects said approved system.

The program shall be updated at least annually to incorporate changing responses to evolving internal and external conditions.

b. A constructive working relationship between the bank and Bangko Sentral.

The bank, through its CCO and/or other authorized compliance officers, may consult the Bangko Sentral for clarification on specific provisions of related laws and regulations. Similarly, Bangko Sentral may initiate a dialogue with a bank to discuss the compliance program of a bank and its record of implementation of the same.

The bank is enjoined to discuss clarifications of pertinent laws and regulations with other appropriate agencies that issue market regulations and/or tax guidelines.

c. Clear and open communication lines within the bank to educate and address compliance matters.

Officers and staff shall be trained in the normal course of bank operation with respect to the compliance program of the bank and the identified business risks. The processes for imparting to bank personnel and its affiliated parties the necessary appreciation of the bank's compliance culture shall form part of the compliance manual.

(As amended by Circular No. 747 dated 06 February 2012)

□ X180.4 (2011 - X180.2) **Chief Compliance Officer (CCO)**

a. The CCO is the lead senior officer for purposes of administering the compliance program and interacting with the Bangko Sentral on compliance-related issues. The principal function of the CCO is to oversee the design of an appropriate compliance system, promote its effective implementation and address breaches that may arise. The CCO shall also be responsible for ensuring the integrity and accuracy of all documentary submissions to the Bangko Sentral.

b. Banks shall appoint a full-time CCO to manage the compliance program. Given the importance of the compliance function, the CCO is a senior officer functionally reporting to the bank's board of directors. Such appointment/designation shall require prior approval of the Monetary Board. The bio-data with ID picture of the proposed CCO, together with the documentary requirements prescribed in *Appendix 98* shall be submitted to the appropriate department of the SES. The CCO's qualifications shall be subject to the provisions of Subsec. X142.2 enumerating the qualifications of bank officers, particularly considering fit and proper criteria such as integrity/probity, competence, education, diligence and experience/training.

c. The CCO shall have commensurate skills and expertise to provide appropriate guidance and direction to the bank on the development, implementation and maintenance of the compliance program.

d. Banks with wholly-owned subsidiary banks may appoint a CCO for the banking group: *Provided*, That the parent bank can show to the Bangko Sentral that the compliance function is conducted on a group-wide basis.

e. Subject to prior Monetary Board approval, banks operating on a business

□ □ **X180.4 - X181**
12.12.31

model deemed simple by the Bangko Sentral by virtue of its scale and complexity of activities may designate a non-executive director to serve as the CCO in a concurrent capacity. A non-executive director is a member of the board of directors who is not part of the executive committee or day-to-day management of banking operations.

For this purpose, a bank's business model is deemed simple if a bank is primarily engaged in the business of deposit-taking and lending: *Provided*, That a UB or KB shall be deemed a complex bank while a TB, RB or Coop Bank shall be deemed a simple bank. Nonetheless, a UB or KB may apply with the Bangko Sentral for a reclassification as a simple bank. The Bangko Sentral may likewise declare a TB, RB or Coop Bank as complex.

(As amended by Circular Nos. 758 dated 11 May 2012, 747 dated 06 February 2012, CL-2011-045 dated 01 July 2011 and Circular No. 598 dated 11 January 2008)

□ **X180.5 (2011 - X180.4)**
Responsibilities of the board of directors and senior management on compliance

Aside from the duties and responsibilities of the board of directors mentioned under Subsec. X141.3, the board shall ensure that a compliance program is defined for the bank and that compliance issues are resolved expeditiously. For this purpose, a board-level committee, chaired by a non-executive director, shall oversee the compliance program.

Ensuring that bank personnel and affiliated parties adhere to the pre-defined compliance standards of the banks rests collectively with senior management, of which the CCO is the lead operating officer on compliance. Senior management, through the CCO, should periodically report to the board of directors or its designated committee matters that affect the design and implementation of the compliance program. Any changes, updates and amendments to the compliance program must be approved

by the board of directors. However, any material breaches of the compliance program shall be reported to and promptly addressed by the CCO within the mechanisms defined by the compliance manual.

A compliance system found to be materially inadequate shall be construed as unsafe and unsound banking practice.

(As amended by Circular No. 747 dated 06 February 2012)

□ **X180.6 (2008 - X 170.8; 2011 - X180.8) Cross-border compliance issues**

The compliance function for institutions that conduct business in other jurisdictions should be structured to ensure that local compliance concerns are satisfactorily addressed within the framework of the compliance policy for the organization as a whole. As there are significant differences in legislative and regulatory frameworks across countries or from jurisdiction to jurisdiction, compliance issues specific to each jurisdiction should be coordinated within the structure of the institution's group-wide compliance policy. The organization and structure of the compliance function and its responsibilities should be in accordance with local legal and regulatory requirements.

(As amended by Circular No. 747 dated 06 February 2012)

□ **X180.7 (2011 - X180.9) Outsourcing of compliance risk assessment and testing**

The review, assessment and testing of the compliance program may be outsourced to qualified third parties. The handling and management of this outsourcing arrangement shall be governed by Sec. X162.

(As amended by Circular No. 747 dated 06 February 2012)

Sec. X181 (2008 - X171) Bank Protection

Each bank shall adopt an adequate security program commensurate to its operations, taking into consideration its size, location, number of offices and business operations.

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

□ **X181.1 (2008 - X171.1) Objectives**
These regulations are designed to:

- a. Promote maximum protection of life and property against crimes (e.g. robbery, hold-up, theft, etc.) and other destructive causes;
- b. Prevent and discourage perpetration of crimes against bank; and
- c. Assist law enforcement agencies in the identification, apprehension and prosecution of the perpetrators of crimes committed against banks.

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

□ **X181.2 (2008 - X171.2) Designation of a chief security officer¹**. The board of directors of each bank, or the country head in the case of a foreign bank branch, shall designate a chief security officer (CSO).

A full-time CSO shall be designated whenever the bank operates an extensive physical network of branches and other offices that regularly handle cash. For purposes of this section, extensive branch network means a bank has at least ten (10) branches and/or other cash handling banking offices.

A bank that falls outside the preceding criteria is considered to have reduced security risk exposure and may designate a senior officer to act as concurrent CSO provided that such designation shall not result to a conflict of interest situation.

In banking group or conglomerate structure, the parent bank or the primary bank may establish a group-wide security management system to facilitate a consolidated approach in handling security risks. This, however, does not relieve each bank from appointing its own CSO.

(As amended by Circular Nos. 823 dated 10 January 2014 and 620 dated 03 September 2008)

□ **X181.3 Qualification and responsibilities of the CSO**

a. Before appointing its CSO, the board of directors must ensure that its security officer-designate meets the following minimum qualifications:

- (1) Be at least 30 years of age;
- (2) Be a college graduate;
- (3) Have at least five (5) years experience in the field of law enforcement and/or security operations, two (2) years of which is in a managerial position; and
- (4) Possess all the qualifications and none of the disqualifications provided for under Secs. X142 and X143.

In the event that the senior officer, acting concurrently as the bank's CSO, does not meet the minimum experience defined under Item "c", said officer shall be supported by a competent consultant/adviser who may be a person or a firm independent of the bank with special knowledge, skill and experience on security management matters. The hiring of said consultant/adviser shall be approved by the board of directors of the bank or the country head in the case of a foreign bank branch.

When assessing competency, the board of directors of the bank should consider the reputation and integrity, the extent of relevant education/training and the knowledge and experience of the consultant/adviser on security management matters.

b. All CSOs, including those acting in concurrent capacity shall be responsible for:

- (1) Developing and administering a security program appropriate to the risk profile of the bank;
- (2) Constituting a security management team, as appropriate;
- (3) Conducting a security awareness program among bank employees on a continuing basis;

¹ Banks were given three (3) months from 03 February 2014 to submit a certification to the appropriate department of the SES whether or not they are compliant with subsections X181.2 and X183.3. Within the same period, non-compliant banks were required to submit an acceptable plan of action to achieve compliance within six (6) months from 03 February 2014.

¶¶ **X181.3 - X181.5**
14.12.31

(4) Investigating bank robberies/ hold-ups, recommending the filing of appropriate charges in court as the evidence may warrant and assisting in the prosecution of the perpetrator(s) thereof;

(5) Establishing an effective working relationship with the Bangko Sentral, PNP and other law enforcement agencies in the prevention of bank crimes and other natural and man-made hazards;

(6) Implementing new techniques, methods and equipment to enhance bank protection measures in a cost effective manner.

(As amended by Circular Nos. 823 dated 10 January 2014 and 620 dated 03 September 2008)

¶ **X181.4 (2008 - X171.3) Security program.** The security program of each bank shall be in writing, duly approved by its board of directors or the country head in the case of a foreign bank branch. In addition, the security program shall define measures and procedures to detect and prevent the commission of bank crimes, as well as provide contingency plans in case of calamities, terrorist attacks and other emergency situations. The security program shall include the following:

- i. Installation of the prescribed minimum security devices;
- ii. A schedule for the periodic inspection, testing and servicing of all security devices installed in each of the bank's offices, designation of an officer or employee responsible for ensuring that such devices are inspected, tested, serviced and kept in good working order, and requiring record of such inspections, testing and servicing;
- iii. Standard operating procedures for the safekeeping of all currencies, negotiable securities and similar valuables in vaults or safes;
- iv. Provision for other security measures and procedures aimed at giving added protection to the bank, e.g., procedures for the transport of funds and other cash items,

and defining responsibility for their implementation;

v. Provision for the training and periodic re-training of employees in their respective areas of responsibility under the security program, including the proper use of security devices and proper employee conduct during and after an emergency situation;

vi. Contingency measures for security and rescue operations in emergency situations;

vii. Provision for the posting of adequate number of security personnel in all vital and/ or critical areas in the bank's premises, and the minimum number of hours when each personnel shall be on duty; and

viii. Such other provisions/measures as the president of the bank or country head in the case of a foreign bank branch may, in consultation with its security officer, deem appropriate.

(As renumbered by Circular No. 823 dated 10 January 2014, amended by Circular No. 620 dated 03 September 2008)

¶ **X181.5 (2008 - X171.4) Minimum security measures**

a. *Guard system.* All banking offices shall be manned by an adequate number of security personnel to be determined by the bank, taking into consideration its size, location, costs and overall bank protection requirement: *Provided*, That cash centers shall be manned by an adequate number of security guards as may be necessary during banking hours. For this purpose, *cash centers* shall refer to branches which also handle the cash requirements of other branches of the same bank.

b. *Security devices.* Within 120 calendar days from 23 September 2008 in the case of existing offices and before opening for business in the case of offices to be opened after 23 September 2008, banks shall effect the installation, operation and maintenance, as individually appropriate, of the following security devices in each banking office;

- (1) A time delay device in the cash vault/

(Next page is Part I - Page 116)

safe;

(2) A lighting system for illuminating the area around the vault, if the vault is visible from outside the banking office;

(3) Tamper-resistant locks on exterior doors and windows;

(4) A robbery alarm system or other appropriate device for promptly notifying the nearest law enforcement office either directly or through an intermediary of an attempted, ongoing or perpetrated robbery;

(5) Anti-burglary or intrusion system capable of detecting promptly an attack on the outer doors, walls, floor or ceiling of the bank premises, including the vault(s); and

(6) Such other devices like the closed circuit television (CCTV) and video recording system appropriate to deter the commission of bank crimes and assist in the identification and apprehension of the culprit/s:

Provided, That the bank security officer shall consider, among other things, the following:

(i) The incidence of crimes against the particular banking office and other business establishments in the area where the banking office is located;

(ii) The amount of currency or other valuables exposed to robbery and other man-made hazards;

(iii) The distance of the banking office from the nearest law enforcement office and the time ordinarily required for law-enforcement officers to arrive at the banking office;

(iv) The cost of the security devices;

(v) Other existing security measures in effect at the banking office; and

(vi) The physical characteristics of the banking office structure and its surroundings.

Each bank shall install, operate and maintain security devices which are expected to give a general level of bank protection equivalent, at least, to the

standards prescribed herein.

c. *Vaults and safes*. Vault walls, ceilings and floors, shall be made of steel-reinforced concrete or such other equally safe materials/specifications. Vault doors shall be made of steel or other drill and torch resistant material, equipped with a dual combination lock and time-delay device, and provided with inner and outer grill doors: *Provided*, That all vaults constructed after 23 September 2008 shall be equipped with a breathing/ventilation device and emergency button capable of giving audible and visible signal in case of accidental lock-up.

A vault record book shall be maintained to record all activities relative to the opening and closing of the vault.

Safes should be sufficiently heavy or be securely anchored to the premises where located. The door shall be equipped with a combination lock with a time-delay device if used for safekeeping cash and other valuables. The body shall consist of steel with an ultimate tensile strength of 50,000 pounds per square inch or the equivalent in metric system.

Safe and vault combinations must be changed whenever the custodian is terminated or transferred to another place of assignment. A record of the names of the holder of the keys and combinations shall be maintained for each lock, safe, vault and compartment. Changing of combinations shall be documented to pinpoint responsibility and to ensure confidentiality and proper observance of this requirement.

d. *Security of the premises*. For emergency purposes and where applicable, each banking office shall be provided with a back door with a steel or grill door which shall be used as an alternative exit door for evacuation in case of fire, flood, bomb threats, wind damage, explosion, civil disturbance, earthquake, or other emergency.

¶¶ **X181.5 - X181.7**
14.12.31

Steel grills, where applicable, shall support exterior glass doors and windows of all banking offices for protection against any forcible entry. Access to the back door shall be limited to authorized bank personnel. Opening and closing thereof before and after banking hours shall be recorded in a registry.

Firearms and other deadly weapons shall not be allowed inside bank premises except when so authorized by the bank. A signage for this purpose shall be conspicuously placed near the main entrance door of the bank. Specific guidelines as to when to allow firearms and other deadly weapons inside bank premises should be incorporated in the security program.

A bank shall maintain within its premises a record of the addresses and telephone numbers of the nearest law enforcement agencies, hospitals, rescue agencies and fire departments.

The security officer of each bank shall conduct, at least annually, a security survey of bank premises and make available the inspection report to Bangko Sentral examiners during regular examination.

The bank shall conduct fire, earthquake and bomb threat drill at least once a year.

e. *ATM.* ATM sites shall be provided with adequate security. Where there are no security personnel assigned to secure the ATM, an anti-tampering device shall be installed or the ATM and its immediate surroundings shall be regularly inspected to promptly detect any attempt to rob or destroy the same.

f. *Armored Car Operation.* To ensure the protection of crew members and valuables, all armored vehicles shall be built with bullet-resistant materials capable of withstanding the firepower of high-powered firearms, e.g., M16 and M14 rifles. Moreover, armored vehicles shall be equipped with a vault or safe or a partition wall with a combination lock designed to prevent retrieval of the cargo while in transit. When in use the armored vehicles shall be

provided with at least two (2) armed guards and its operations must be supervised by at least two (2) officers of the bank.

All canvass bags that contain cash and other items of value shall be provided with padlocks for security and control purposes. Armored cars shall not be operated a mobile bank.

(As renumbered by Circular No. 823 dated 10 January 2014, amended by Circular No. 620 dated 03 September 2008)

¶ **X181.6 (2008 - X171.5) Reports**
Banks shall conduct a review and self-assessment of their security program to ensure their compliance with prescribed security requirements. Any substantive amendment thereto shall be approved by the bank's board of directors or country head in the case of branches of foreign banks. The self-assessment of compliance with prescribed security requirements together with the updated security program (if amended during the year) shall be submitted annually to the appropriate department of the SES on or before 30 January of the following year in accordance with the format shown in *Appendix 10*. The self-assessment together with the updated security program shall be considered Category A-2 reports.

(As renumbered by Circular No. 823 dated 10 January 2014, amended by Circular No. 620 dated 03 September 2008)

¶ **X181.7 (2008 - X171.6) Bangko Sentral inspection.** During regular examination, the Bangko Sentral reserves the right to perform a compliance assessment of the adequacy of a bank's security arrangements. The Bangko Sentral, with approval of the Governor, may also conduct at any time a targeted inspection of the bank's implementation of its security program to determine compliance with regulations. For this purpose, the Bangko Sentral may avail of the services of experts as resource persons.

(As renumbered by Circular No. 823 dated 10 January 2014, amended by Circular No. 620 dated 03 September 2008)

□ **X181.8 (2008 - X171.8) Sanctions**
Any violation of the provisions of this Section, as well as non-compliance with the minimum standards set forth or any directive of the Monetary Board issued pursuant hereof, shall be subject to the administrative sanctions provided under Section 37 of R.A. No. 7653 and may, depending on the materiality or seriousness of the violation, constitute a ground for considering the same as an unsafe and unsound banking practice.
(As amended by Circular No. 620 dated 03 September 2008)

Secs. X182 - X184 (Reserved)

Sec. X185 (2008 - X163) Internal Control System. The following provisions are the minimum internal control standards for banks to help promote effective control system.
For this purpose, the following records/ data shall be compiled and made available for the inspection of Bangko Sentral examiners:
a. Records showing compliance with independent balancing procedures. These records should indicate the accounts and the periodic balancing procedures performed.
b. Statements of actual duties of persons assigned to handle cash and securities.
c. All internal control audit reports or their equivalent.
d. Information/data on the direct and/ or indirect equity holdings and/or connection with any firm, partnership or corporation organized for profits, of all the bank directors, officers and major

stockholders as defined under Subsec. X326.1 should be maintained.
e. Information/data pertaining to the electronic data processing (EDP) department or EDP servicer of the bank particularly on organization, input controls, processing controls, output controls, software controls, program and documentation standards, logs on the operation of mainframes and peripherals, hardware controls and such other EDP internal control standards prescribed by the Bangko Sentral in separate rules and regulations.

□ **X185.1 (2008 - X163.1) Proper accounting records**
a. All banks shall maintain proper and adequate accounting records.
b. These records should be kept up-to-date and shall contain sufficient detail so that an audit trail is established.
c. All tickets shall bear official approval and should be initiated by the person originating and another person by checking them.

□ **X185.2 (2008 - X163.2) Independent balancing**
a. *Independent balancing* shall mean that records posted by a person or cash held by a teller or cashier shall be balanced or counted by another person.
b. The following minimum independent balancing procedures shall be adopted:
(1) Monthly reconciliation of general ledger balances against respective subsidiary and supporting records and documentation by someone other than the bookkeeper or the person handling the records;

(2) Irregular and unannounced count of teller's cash and checks and other cash items at least twice a month and vault cash including Automated Telling Machine's (ATM) cash dispensers at least once a month by the auditor/control officer or by an officer not connected with cash department;

(3) Monthly reconciliation of *due from banks, cash in bank* accounts (domestic and foreign) and *due from/to head office/branches* by someone other than the person handling the records or posting the general ledger entries;

(4) Periodic verification of securities and collaterals by someone other than their custodian; and

(5) Periodic verification of the accuracy of the interest credits to deposit liabilities accounts.

§ X185.3 (2008 - X163.3) Division of duties and responsibilities

a. The duties of all the officers and employees shall be segregated, clearly defined, understood, documented and manualized. No individual shall have complete authority and responsibility for handling all phases of any transaction from beginning to end, without some check or balance from some other part of the organization.

b. The physical handling of a transaction shall be separated from its recording and supervision as follows:

(1) A person handling cash shall not be permitted to post the ledger records nor should posting the general ledger be performed by an employee who posts the depositor's subsidiary ledgers;

(2) A lending officer shall never be allowed to disburse proceeds of notes, accept note payment nor post loan ledgers;

(3) The functions of issuing, recording and signing of drafts/checks shall be separated;

(4) Checks and other cash items shall be maintained either by an employee not handling cash or by the Rack/Distributing Department provided that adequate control as to custody and disposition of funds are properly maintained;

(5) The receipt of statements from depository bank shall be assigned to an employee other than the one connected with the preparation, recording and signing of bank drafts;

(6) Custodians of securities shall not be allowed to handle security transactions;

(7) Collateral appraisal shall be done by an employee/officer who does not approve loans;

(8) Incoming checks and other cash items shall be recorded chronologically in a register by an employee other than the bookkeeper before they are forwarded for posting purposes;

(9) Credit reports shall be obtained by someone other than lending officers;

(10) Mailing of customers' statements and delinquent notices shall be done by an employee other than the one who granted the loan or the one handling the records; and

(11) Dispatching and delivery of current account statements shall be done by someone who is not involved in current account operations.

c. Extensive background checking of persons intended to be assigned to handle cash and securities shall be conducted. Frequent follow-up checking after their employment shall also be made.

§ X185.4 (2008 - X163.4) Joint custody

a. Joint custody shall mean the processing of transactions in the presence of and under the direct observation of a second person. Both persons shall be equally accountable for the physical protection of the items and records involved.

§§ X185.4 - X185.6
08.12.31

b. Physical protection shall be deemed established through the use of two (2) locks or combinations on a file chest or vault compartment.

c. Two (2) or more persons shall be assigned to each half of the control so that operating efficiency is not impaired if one (1) person is not immediately available.

d. Persons who are related to each other within the third degree of consanguinity or affinity shall not be made joint custodians.

e. The following shall be under joint custody:

- (1) Cash in vault and in ATM cash dispensers;
- (2) All accountable forms;
- (3) Collaterals;
- (4) Securities;
- (5) Documents of title and/or ownership of properties or fixed assets;
- (6) Dormant or inactive deposit ledgers/EDP print-outs and corresponding signature cards including on-line posting of dormant/inactive accounts;
- (7) Import documents;
- (8) Trust receipts;
- (9) Collection items;
- (10) Duplicate keys, safe deposit spare locks and keys, and keys to unrented safe deposit boxes;
- (11) Safekeeping items;
- (12) Vault door and safe combinations;
- (13) Unissued specimen signature books;
- (14) Correspondent's and bank's own telegraphic and/or electronic fund transfer system or cable test keys currently in use;
- (15) Test key fixed numbers unissued;
- (16) Unissued and captured ATM cards and similar devices;
- (17) Access locks and keys to on-line EDP terminals and similar devices; and
- (18) Access locks and keys to EDP mainframes and peripherals.

§ X185.5 (2008 - X163.5) *Signing authorities.* Signing authorities for the different levels of officers to sign for and in behalf of the banks shall be approved by the board of directors and the extent of each level of authority shall be clearly defined. These signing authorities shall include but need not be limited to the following:

- a. Lending;
- b. Investment;
- c. Approval of expense;
- d. Various supervisory reports; and
- e. Bank drafts, manager's/cashier's checks, bank money orders and certificates of time deposit.

§ X185.6 (2008 - X163.6) *Dual control*

a. Dual control shall mean the work of one (1) person is to be verified by a second person to ensure that the transaction is properly authorized, recorded and settled.

b. The routine and completion of each transaction shall involve at least two (2) or more individuals.

c. Except as herein provided, the following accounts/transactions shall be under dual control:

(1) *Cashier's/manager's checks, telegraphic transfers (TTs) and electronic fund transfer system (EFTS)* - The signature of at least two (2) officers should be required in the issuance of cashier's/manager's checks and payment orders (incoming and outgoing) of TTs and EFTS. The board of directors may, however, prescribe a predetermined amount by which one (1) senior officer can sign checks or payment orders, subject to appropriate control measures.

(2) *Certificates of Time Deposit* - The board of directors of a bank is given the discretion to determine the number of signatories for the issuance of certificates of time deposit (CTDs).

For this purpose, all banks shall submit to the appropriate department of the SES

their respective internal control measures for the issuance of CTDs, the minimum of which shall include the following activities:

- (a) Joint custody of unissued CTD forms;
- (b) Accounting for all issued/ cancelled CTDs;
- (c) Signature requirement for the issuance of CTDs;
- (d) Counterchecking of issued CTDs against the tellers' proofsheets/validated slips; and
- (e) Recording of CTD transactions.

Any change in the internal control measures shall be submitted to the appropriate department of the SES not later than thirty (30) days prior to the implementation. For newly established banks, the requirement shall be submitted not later than a month from the start of banking operations.

(3) *Bank Drafts* - The signature of two (2) authorized officers should be required in the issuance of bank draft.

(4) *Borrowings* - The signature of at least two (2) authorized officers should be required.

(5) All transactions giving rise to *Due to* or *Due from* accounts and all instruments of remittances evidencing these transactions particularly those involving substantial amounts should be approved by two (2) authorized officers.

§ X185.7 (2008 - X163.7) Number control

a. Sequence number controls shall be incorporated in the accounting system and should be used in registering notes, in issuing official checks and in other similar situations. Bank management shall designate a person who is detached from the banking operations involved to monitor said sequence number controls.

b. The following are the forms, instruments and accounts that shall be number-controlled:

- (1) Bank drafts;
- (2) Manager's and cashier's checks;
- (3) Promissory notes;
- (4) Savings deposit accounts;
- (5) Demand deposit accounts;
- (6) CTDs;
- (7) Letters of credit;
- (8) Collection items;
- (9) Official and provisional receipts;
- (10) Certificates of stocks;
- (11) Loan accounts;
- (12) Expense vouchers;
- (13) Payment orders (incoming and outgoing) of TTs and EFTS;
- (14) Transfer requests through EFTS involving bank's accounts abroad;
- (15) EDP batch transmittal slips of documents; and
- (16) Due to/from head office/branches tickets.

§ X185.8 (2008 - X163.8) Rotation of duties

a. The duties of personnel handling cash, securities and bookkeeping records shall be rotated.

b. Rotation assignment shall be irregular, unannounced and long enough to permit disclosure of any irregularities or manipulations.

c. Tellers/cashiers shall be temporarily relieved of their duties during the actual count of their cash accountabilities by BSP examiners or by internal/external auditors.

§ X185.9 (2008- X163.9) Independence of the internal auditor

a. The by-laws shall provide for the position of internal auditor together with the duties and responsibilities, scope and objectives of internal auditing.

b. The internal auditor shall report directly to the board of directors or to an audit committee composed of directors who do not hold executive positions in the bank.

c. The internal auditor shall not install nor develop procedures, prepare records

§§ X185.9 - X185.11
08.12.31

or engage in other activities which he normally reviews or appraises.

§ X185.10 (2008 - X163.10) Confirmation of accounts. At least once a year, the internal auditing staff shall confirm by direct verification with bank clients, the following:

- a. Balances of loans and credit accommodations of borrowers;
- b. Deposit account balances particularly new deposit accounts, inactive or dormant accounts and closed accounts;
- c. Outstanding balances of borrowings and other liabilities; and
- d. Outstanding balances of receivables/payables.

§ X185.11 (2008 - X163.11) Other internal control standards

a. *Deposit accounts*

(1) Entries to dormant account ledgers shall be verified and approved by a designated officer. His initials shall be placed next to the entry on the ledger sheet.

(2) Dormant accounts shall be segregated from active account ledgers with a separate subsidiary control.

(3) Signature cards for dormant accounts shall be removed from active files.

(4) All new current accounts shall be approved by a designated officer.

(5) Signature cards and deposit ledger sheets shall be authenticated by some form of validation. Subsequent changes shall also be validated.

(6) Signature cards and deposit ledger sheets shall be accessible only to authorized persons.

(7) Deposit tickets shall be occasionally examined at irregular intervals to determine that postings are made on the actual date deposits are received.

(8) Checks shall be cancelled as soon as they have been paid and posted.

(9) Reports on closed accounts and returned checks shall be prepared daily.

(10) All current account statements shall be mailed or sent electronically via electronic mail (e-mail), or such other electronic means direct to depositors: *Provided*, That banks using the electronic means of sending the current account statements shall have prior BSP-approved internet banking service and shall strictly observe the required retention of electronic data messages or electronic documents under Section 13 of R.A. No. 8792, otherwise known as the "Electronic Commerce Act".

Undelivered statements shall be retained by an organizational unit not responsible for demand deposit account processing.

(11) An officer shall be designated to attend to customers who report differences on their statements.

(12) Checkbooks shall be issued only against requisition forms signed by an authorized signatory to the account.

(13) Banks shall adopt a system to establish the identity of their depositors.

b. *Miscellaneous*

(1) Loan applications and related documents shall be verified to ensure their authenticity particularly the name, residence, employment and current reputation of the borrower.

(2) Tellers paying checks to strangers shall obtain positive identification of the person and the account on which the checks are drawn should be verified.

(3) No employee shall be permitted to process transaction affecting his own account.

(4) Tellers and other employees having contact with customers shall be prohibited from preparing deposit ticket, withdrawal slip or other forms for the customer.

(5) All banks shall have a sound recruitment policy.

(6) In the case of TBs, all accountable officers and employees shall be bonded.

§ X185.12 (2008 - X163.12) Internal control procedures for dormant/inactive accounts

a. *Definition of dormant or inactive accounts*

(1) Current or checking accounts showing no activity (deposit or withdrawals) for a period of one (1) year.

(2) Savings account showing no activity (deposit or withdrawals) for a period of two (2) years.

b. *Procedures for classification.* Banks shall review and segregate dormant accounts as herein defined at least once in every semester.

c. *Internal control measures*

(1) As a matter of policy, banks shall exert all efforts to prevent checking and savings accounts from becoming dormant. When it becomes apparent that an account is inactive, a short letter should be sent to the depositor encouraging him to use his account.

In case of checking accounts, the banks shall ensure that the monthly statement of accounts reach the depositors. If the depositors cannot be located, the following steps should be undertaken:

(a) Check any significant changes or fluctuations in the depositors' account balances over a period of time with emphasis on accounts with decreasing balances;

(b) Verify apparent reactivation entries, represented either by deposit or withdrawal, that appears to have prevented the account from being classified as dormant; and

(c) Investigate any obvious alteration of the ledger records.

(2) Segregated dormant accounts shall be placed under joint custody of two (2) responsible officers/employees.

(3) A separate ledger control for dormant accounts shall be maintained.

(4) Signature cards for dormant accounts shall also be segregated from active files and held under joint custody.

(5) Entries to dormant account ledgers shall be verified and approved by a designated officer. His initials shall be placed next to the entry on the ledger sheet.

(6) All inquiries on dormant accounts shall be coursed to one officer who should obtain sufficient identification from the inquirer to assure that he is entitled to the information.

(7) A trial balance of dormant account ledgers shall be taken periodically and balances with the general control account by an employee other than the bookkeeper.

(8) Dormant or inactive accounts shall be verified directly with depositors.

(9) All transactions affecting dormant accounts shall be subject to audit by the internal auditor.

(10) A semestral report on deposit accounts transferred to dormant shall be rendered to bank management.

Sec. X186 (2008 - X164) Internal Audit Function. Internal audit is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of risk management, internal control, and governance processes of an organization.

§ X186.1 (2008 - X164.1) Independence of internal audit function. The internal audit function must be independent of the activities audited and from day-to-day internal control process. It must be free to report audit results, findings, opinions, appraisals and other information to the appropriate level of management. It shall have authority to directly access and communicate with any officer or employee, to examine any activity or entity of the institution, as well as to access any records, files or data whenever relevant to the exercise of its assignment.

§§ X186.1 - X186.4
08.12.31

The Audit Committee or senior management should take all necessary measures to provide the appropriate resources and staffing that would enable internal audit to achieve its objectives.

§ X186.2 (2008 - X164.2) Scope. The scope of internal audit shall include:

- a. Examination and evaluation of the adequacy and effectiveness of the internal control systems;
- b. Review of the application and effectiveness of risk management procedures and risk assessment methodologies;
- c. Review of the management and financial information systems, including the electronic information system and electronic banking services;
- d. Assessment of the accuracy and reliability of the accounting system and of the resulting financial reports;
- e. Review of the systems and procedures of safeguarding assets;
- f. Review of the system of assessing capital in relation to the estimate of organizational risk;
- g. Transaction testing and assessment of specific internal control procedures; and
- h. Review of the compliance system and the implementation of established policies and procedures.

§ X186.3 (2008 - X164.3) Qualification standards of the internal auditor. The internal auditor of a UB or a KB must be a Certified Public Accountant (CPA) and must have at least five (5) years experience in the regular audit (internal or external) of a UB or KB as auditor-in-charge, senior auditor or audit manager. He must possess the knowledge, skills, and other competencies to examine all areas in which the institution operates. Professional competence as well as continuing training and education shall be required to face up to the increasing complexity and diversity of the institution's operations.

The internal auditor of a TB, QB, trust entity or national Coop Bank must be a CPA with at least five (5) years experience in the regular audit (internal or external) of a TB, QB, trust entity or national Coop Bank as auditor-in-charge, senior auditor or audit manager or, in lieu thereof, at least three (3) years experience in the regular audit (internal or external) of a UB or KB as auditor-in-charge, senior auditor or audit manager.

The internal auditor of an RB, NSSLA or local Coop Bank must be at least an accounting graduate with two (2) years experience in external audit or in the regular audit of an RB, NSSLA or local Coop Bank or, in lieu thereof, at least one (1) year experience in the regular audit (internal or external) of a UB, KB, TB, QB, trust entity or national Coop Bank as auditor-in-charge, senior auditor or audit manager.

A qualified internal auditor of a UB or a KB shall be qualified to audit TBs, QBs, trust entities, national Coop Banks, RBs, NSSLAs, local Coop Banks, subsidiaries and affiliates engaged in allied activities, and other FIs under BSP supervision.

A qualified internal auditor of a TB or national Coop Bank shall likewise be qualified to audit QBs, trust entities, RBs, NSSLAs, local Coop Banks, subsidiaries and affiliates engaged in allied activities, and other FIs under BSP supervision.

§ X186.4 (2008 - X164.4) Code of Ethics and Internal Auditing Standards. The internal auditor should conform with the Code of Professional Ethics for CPAs and ensure compliance with sound internal auditing standards, such as the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (e-mail: standards@theiia.org; Web: <http://www.theiia.org>.) and other supplemental standards issued by regulatory authorities/government

agencies. The Standards address independence and objectivity, professional proficiency, scope of work, performance of audit work, management of internal audit, quality assurance reviews, communication and monitoring of results.

Secs. X187 - X188 (Reserved)

Sec. X189 (2008 - X165) Selection, Appointment, Reporting Requirements and Delisting of External Auditors and/or Auditing Firm; Sanctions; Effectivity Pursuant to Section 58, R.A. No. 8791, and the existing provisions of the executed Memorandum of Agreement (MOA) dated 12 August 2009, binding the BSP, SEC, Professional Regulation Commission (PRC) – Board of Accountancy (BOA) and the Insurance Commission (IC) for a simplified and synchronized accreditation requirements for external auditor and/or auditing firm, following are the revised rules and regulations that shall govern the selection and delisting by the BSP of covered institutions which under special laws are subject to BSP supervision.

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 that 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 provisions of and implementing regulations issued pursuant to the aforesaid MOA.

a. *Rules and regulations.* The revised rules and regulations that shall govern the selection and delisting by the BSP of covered institutions which under special laws are

subject to BSP supervision are shown in *Appendix 43*.

b. *Sanctions.* The applicable sanctions/penalties prescribed under Sections 36 and 37 of R.A. No. 7653 to the extent applicable shall be imposed on the covered institution, its audit committee and the directors approving the hiring of external auditors/auditing firm who/which are not in the BSP list of selected auditors for covered institutions for hiring, and/or retaining the services of the external auditor/auditing firm in violation of any of the provisions of this Section and for non-compliance with the Monetary Board directive under Item “K” in *Appendix 43*. Erring external auditors/auditing firms may also be reported by the BSP to the PRC for appropriate disciplinary action.

(As amended by Circular Nos. 660 dated 25 August 2009 and 529 dated 11 May 2006)

Sec. X190 (2008 - X166) Audited Financial Statements of Banks. The following rules shall govern the utilization and submission of AFS of banks.

For purposes of this Section, AFS shall include the balance sheets, income statements, statements of changes in equity, statements of cash flows and notes to financial statements which shall include among other information, disclosure of the volume of past due loans as well as loan-loss provisions. On the other hand, financial audit report shall refer to the AFS and the opinion of the auditor. The AFS of banks with subsidiaries shall be presented side by side on a solo basis (parent) and on a consolidated basis (parent and subsidiaries).

(As amended by Circular No. 540 dated 09 August 2006)

§ X190.1 (2008 - X166.1) Financial audit. Banks shall cause an annual financial audit by an external auditor acceptable to the BSP not later than thirty (30) calendar days after the close of the calendar year or

§ X190.1
08.12.31

the fiscal year adopted by the bank. Report of such audit shall be submitted to the board of directors or country head, in the case of foreign bank branches, and the appropriate department of the SES not later than 120 calendar days after the close of the calendar year or the fiscal year adopted by the bank. The report to the BSP shall be accompanied by the: (1) certification by the external auditor on the: (a) dates of start and termination of audit; (b) date of submission of the financial audit report 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 to the board of directors or country head; and (c) the absence of any direct or indirect financial interest and other circumstances that may impair the independence of the external auditor; (2) Reconciliation Statement between the AFS and the balance sheet and income statement for bank proper (regular and FCDU) and trust department submitted to the BSP including copies of adjusting entries on the reconciling items; and (3) other information that may be required by the BSP.

In addition, the external auditor shall be required by the bank to submit to the board of directors or country head, a LOC indicating any material weakness or breach in the institution’s internal control and risk management systems within thirty (30) calendar days after submission of the

financial audit report. If no material weakness or breach 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 in its stead, together with the financial audit report.

Material weakness shall be defined as a significant control deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be detected or prevented by the entity’s internal control. A material weakness does not mean that a material misstatement has occurred or will occur, but that it could occur. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. The phrase *more than remote likelihood* shall mean that future events are likely to occur or are reasonably possible to occur.

The board of directors, in a regular or special meeting, shall consider and act on the financial audit report and the certification under oath submitted in lieu of the LOC and shall submit, within thirty (30) banking days after receipt of the reports, a copy of its resolution to the appropriate department of the SES. The resolution shall show, among other things, the actions(s) taken on the reports and the names of the directors present and absent.

The board shall likewise consider and act on the LOC and shall submit, within thirty (30) banking days after receipt thereof, a copy of its resolution together with said LOC to the appropriate department of the SES. The resolution shall show the action(s) taken on the findings and recommendations and, the names of the directors present and absent, among other things.

The country head of foreign banks with branches in the Philippines shall submit a report on the action taken by management (head office, regional, or country, as the case may be) on the financial audit report and the certification under oath submitted in lieu of the LOC within thirty (30) banking days after receipt thereof.

The country head shall likewise submit a report on the action taken by management on the LOC within thirty (30) banking days after receipt thereof.

The LOC shall be accompanied by the certification of the external auditor of the date of its submission to the board of directors or country head, as the case may be.

Government-owned or-controlled banks, including their subsidiaries and affiliates, as well as other FIs under Bangko Sentral supervision which are under the concurrent jurisdiction of the Commission on Audit (COA) shall be exempt from the aforementioned annual financial audit by an acceptable external auditor: *Provided*, That when warranted by supervisory

concern such as material weakness/breach in internal control and/or risk management systems, the Monetary Board may, upon recommendation of the appropriate department of the SES, require the financial audit to be conducted by an external auditor acceptable to the Bangko Sentral, at the expense of the institution concerned: *Provided, further*, That when circumstances such as, but not limited to loans from multilateral FIs, privatization, or public listing warrant, the financial audit of the institution concerned by an acceptable external auditor may also be allowed.

Banks and other FIs under the concurrent jurisdiction of the Bangko Sentral and COA shall, however, submit a copy of the annual audit report (AAR) of the COA to the appropriate department of the SES within thirty (30) banking days after receipt of the report by the board of directors. The AAR shall be accompanied by the: (1) certification by the institution concerned on the date of receipt of the AAR by the board of directors; (2) 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 Bangko Sentral, including copies of adjusting entries on the reconciling items; and (3) other information that may be required by the Bangko Sentral.

The board of directors of said institutions, in a regular or special meeting, shall consider and act on the AAR, as well as on the comments and observations and shall submit, within thirty (30) banking days after receipt of the report, a copy of its resolution to the appropriate department of the SES. The resolution shall show the action(s) taken on the report, including on the comments and observations and the names of the directors present and absent, among other things.

The financial audit report required to be submitted shall in all respect be PFRS/PAS compliant: *Provided*, That banks shall

X190.1 - X190.4
14.12.31

submit to the Bangko Sentral adjusting entries reconciling the balances in the financial statements for prudential reporting with that in the audited annual financial statements.

Banks as well as external auditors shall strictly observe the requirements in the submission of the financial audit report and reports required to be submitted under Appendix 61.

The reports and certifications of institutions concerned, schedules and attachments required under this Subsec. shall be considered Category B reports, delayed submission of which shall be subject to the penalties under Subsec. X192.2b(1)b.

(As amended by Circular Nos. 554 dated 22 December 2006 and 540 dated 09 August 2006)

X190.2 (2008 - X166.2) Posting of audited financial statements.
Local banks shall post in conspicuous places in their head offices, all their branches and other banking offices, as well as in their respective websites, their latest financial audit report.

The abovementioned documents shall also be posted by foreign bank branches in all their banking offices in the Philippines.
(As amended by Circular No. 540 dated 9 August 2006)

X190.3 (2008 - X166.3) Disclosure of external auditor’s adverse findings to the Bangko Sentral; sanction

a. Findings to be disclosed. Banks shall require their external auditors to report to the Bangko Sentral any matter adversely affecting the condition or soundness of the bank, such as, but not limited to:

- (1) Any serious irregularity, including those involving fraud or dishonesty, that may jeopardize the interest of depositors and creditors;
- (2) Losses incurred which substantially reduce the capital funds of the bank; and
- (3) Inability of the auditor to confirm that the claims of creditors are still covered

by the bank’s assets.

The disclosure of information by the external auditor to the Bangko Sentral shall not be a ground for civil, criminal or disciplinary proceedings against the former.

Bank management shall be present during discussions or at least be informed of the adverse findings in order to preserve the concerns of the supervisory authority and external auditors regarding the confidentiality of information.

b. Sanction. The auditing firm(s) shall be blacklisted by the Monetary Board for a period as the Board may deem appropriate for their failure to perform their duty of reporting to the Bangko Sentral any matter adversely affecting the condition or soundness of the bank. Banks shall not be allowed to engage the services of the blacklisted auditing firm.

X190.4 (2008 - X166.4) Disclosure requirement in the notes to the audited financial statements.
Banks shall require their external auditors to include the following additional information in the notes to financial statements:

a. Basic quantitative indicators of financial performance such as return on average equity, return on average assets and net interest margin;

For purposes of computing the indicators, the following formulas shall be used:

(1) Return on Average Equity (%) =
Net Income (or Loss) after Income Tax x 100
Average Total Capital Accounts

Where:
Average Total Capital Accounts =
Sum of Total Capital Accounts as of the 12 month-ends in the calendar/fiscal year adopted by the Bank
12

(2) Return on Average Assets (%) =
Net Income (or Loss) after Income Tax x 100
Average Total Assets

Where:
Average Total Assets =
Sum of Total Assets as of the 12 month-ends in the calendar/fiscal year adopted by the Bank
12

(3) **Net Interest Margin (%)** =
$$\frac{\text{Net Interest Income} \times 100}{\text{Average Interest Earning Assets}}$$

Where:
Net Interest Income = Total Interest Income – Total Interest Expense
Average Interest Earning Assets =
$$\frac{\text{Sum of Total Interest Earning Assets as of the 12 month-ends in the calendar/fiscal year adopted by the Bank}}{12}$$

- b. Risk-based capital adequacy ratio under Section 34 of R.A. No. 8791 and applicable and existing capital adequacy framework;
- c. Concentration of credit as to industry/economic sector where concentration is said to exist when total loan exposures to a particular industry/economic sector exceeds thirty percent (30%) of total loan portfolio;
- d. Breakdown of total loans as to secured and unsecured and breakdown of secured loans as to type of security;
- e. Total outstanding loans to bank s DOSRI, percent of DOSRI loans to total loan portfolio, percent of unsecured DOSRI loans to total DOSRI loans, percent of past due DOSRI loans to total DOSRI loans and percent of non-performing DOSRI loans to total DOSRI loans;
- f. Nature and amount of contingencies and commitments arising from off-balance sheet items [include direct credit substitutes (e.g., export LCs confirmed, underwritten accounts unsold), transaction-related contingencies (e.g., performance bonds, bid bonds, standby LCs), short-term self-liquidating trade-related contingencies arising from the movement of goods (e.g., sight/usance domestic LCs, sight/usance import LCs), sale and repurchase agreements not recognized in the balance sheet; interest and foreign exchange rate related items; and other commitments];
- g. Provisions and allowances for losses and how these are determined;
- h. Aggregate amount of secured liabilities and assets pledged as security; and

- i. Accounting policies which shall include, but shall not be limited to, general accounting principles, changes in accounting policies/practices, principles of consolidation, policies and methods for determining when assets are impaired, recognizing income on impaired assets and losses on non-performing credits, income recognition, valuation policies and accounting policies on securitizations, foreign currency translations, loan fees, premiums and discounts, repurchase agreements, premises/fixed assets, income taxes and derivatives.
- (As amended by Circular No. 827 dated 28 February 2014)

- X190.5 (2008 - X166.5) Disclosure requirements in the annual report.** UBs, KBs, and TBs with at least P1.0 billion resources shall prepare an annual report which shall include, in addition to the audited financial statements and other usual information contained therein, a discussion and/or analysis of the following information:
- a. Financial performance;
 - b. Financial position and changes therein;
 - c. Overall risk management philosophy (i.e., a general statement of the risk management policy adopted by the bank's board of directors which serves as the basis for the establishment of its risk management system), risk management system and structure;
 - d. Qualitative and quantitative information on risk exposures (credit, market, liquidity, operational, legal and other risks); and
 - e. Basic business management and corporate governance information such as the bank s organizational structure, incentive structure including its remuneration policies, nature and extent of transactions with affiliates and related parties.

Additional disclosure requirements are found under Parts IX and V of Appendices 63b and 63c, respectively.

(Circular No. 781 dated 15 January 2013)

X190.6 - X191.2
14.12.31

X190.6 (2008 - X166.6) Posting and submission of annual report. A copy of the latest annual report shall be posted by the bank in a conspicuous place in its head office, all its branches and other offices.

Covered banks shall submit the Annual Report Assessment Checklist (ARAC)¹ together with the Annual Report. The ARAC identifies the pages and sections of the Annual Report corresponding to the disclosures.

The deadline for the submission of the annual report and ARAC to the appropriate department of the SES is 180 calendar days after the close of the calendar or fiscal year adopted by the bank.

(As amended by M-2014-007 dated 04 March 2014)

Sec. X191 (2008 - X161) Records. Banks shall have a true and accurate account, record or statement of their daily transactions, particularly those referring to their deposit liabilities. The making of any false entry or the willful omission of entries relevant to any transaction, is a ground for the imposition of administrative sanctions under Section 37 of R.A. No. 7653 and the disqualification from office of any director or officer responsible therefor under Section 9-A of R.A. No. 337, as amended. This is without prejudice to their criminal liability under Sections 35 and 36 of R.A. No. 7653 and/or the applicable provisions of the Revised Penal Code.

X191.1 (2008 - X161.1) Adoption of the Manual of Accounts. Banks shall strictly adopt the Manual of Accounts prescribed by the Bangko Sentral for recording daily transactions including reportorial and publication requirements.

Local branches of foreign banks may continue using their parent bank s general ledger accounts: Provided, That published statements and reports submitted to the

Bangko Sentral follow the account definitions in the Bangko Sentral-prescribed Manual of Accounts: Provided, further, That the mathematical formulas for reconciling such published statements and submitted reports with the general ledger accounts of the bank are submitted to the appropriate department of the SES: Provided, finally, That said banks prepare for Bangko Sentral use, reconciliations of their ledger accounts with the Bangko Sentral prescribed Manual of Accounts during regular or special bank examinations.

Any bank which fails or refuses to adopt the prescribed Manual of Accounts, or any of the applicable accounts contained therein, or adopts any general ledger account not specified in the said Manual of Accounts without prior written approval of the Governor of the Bangko Sentral, shall be penalized by revocation or suspension of its authority to engage in quasi-banking function.

X191.2 (2008 - X162.16) Financial Reporting Package. In line with the adoption of the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) effective the annual financial reporting period beginning 01 January 2005, the Manual of Accounts and the Bangko Sentral reportorial requirements consisting of the Consolidated Statement of Condition (CSOC), Consolidated Statement of Income and Expense (CSIE) and their supporting schedules are amended through the issuance of the new Financial Reporting Package (FRP) for banks.

The general features as well as the implementing guidelines of the FRP is provided in Appendix 77.

(Circular No. 512 dated 03 February 2006, as amended by Circular No. 837 dated 18 June 2014, M-2014-009 dated 17 March 2014, Circular No. 691 dated 23 June 2010, M-2010-016 dated 16 June 2010 and Circular No. 568 dated 08 May 2007)

¹ Effective 01 January 2014.

□ X191.3 (2008 - X161.2) **Philippine Financial Reporting Standards/Philippine Accounting Standards**

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 Bangko Sentral aims to adopt all Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) issued by the Accounting Standards Council (ASC) to the greatest extent possible.

Banks shall adopt the PFRS and PAS which are in accordance with generally accepted accounting principles in recording transactions and in the preparation of financial statements and reports to Bangko Sentral. However, in cases where there are differences between Bangko Sentral regulations and PFRS/PAS as when more than one (1) option are allowed or certain maximum or minimum limits are prescribed by the PFRS/PAS, the option or limit prescribed by Bangko Sentral regulations shall be adopted by banks.

For purposes hereof, the PFRS/PAS shall refer to issuances of the ASC and approved by the Professional Regulation Commission (PRC).

Accounting treatment for prudential reporting. For prudential reporting, banks shall adopt in all respect the PFRS and PAS except as follows:

a. In preparing *consolidated financial statements*, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated on a line-by-line basis; 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 .

b. For purposes of preparing *separate financial statements*, financial/non-financial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall also be accounted for using the equity method; and

c. Banks shall be required to meet the Bangko Sentral recommended valuation reserves.

Government grants extended in the form of loans bearing nil or low interest rates shall be measured upon initial recognition at its fair value (i.e., the present value of the future cash flows of the financial instrument discounted using the market interest rate). The difference between the fair value and the net proceeds of the loan shall be recorded under *Unearned Income-Others* , which shall be amortized over the term of the loan using the effective interest method.

The provisions on government grants shall be applied retroactively to all outstanding government grants received. FIs that adopted an accounting treatment other than the foregoing shall consider the adjustment as a change in accounting policy, which shall be accounted for in accordance with PAS 8.

Notwithstanding the exceptions in Items □a□, □b□ and □c□, the audited annual financial statements required to be submitted to the Bangko Sentral in accordance with the provision of Subsec. X190.1 shall in all respect be PFRS/PAS compliant: *Provided*, That FIs shall submit to the Bangko Sentral adjusting entries reconciling the balances in the financial statements for prudential reporting with that in the audited annual financial statements.

Guidelines on the adoption of PFRS 9. The guidelines governing the implementation/early adoption of the

X191.3 - X192.1
12.12.31

Philippine Financial Reporting Standards (PFRS 9) Financial Instrument are shown in Appendix 97.

Penalties and sanctions. The following penalties and sanctions shall be imposed on FIs and concerned officers found to violate the provisions of Appendix 97:

(1) Fines to be imposed on FIs for each violation, reckoned from the date the violation was committed up to the date it was corrected:

- (i) P20,000/day for UBs;
- (ii) P10,000/day for KBs;
- (iii) P2,000/day for TBs; and
- (iv) P1,000/day for RBs/Coop Banks.

(2) Sanctions to be imposed on concerned officers:

- (i) First offense – reprimand the officers responsible for the violation; and
- (ii) Subsequent offenses - suspension of ninety (90) days without pay for officers responsible for the violation.

(As amended by Circular Nos. 761 dated 20 July 2012, 733 dated 05 August 2011 and 708 dated 10 January 2011 and 572 dated 22 June 2007)

X191.4 - X191.9 (Reserved)

1191.9 (Reserved)

2191.9 (Reserved)

3191.9 (2008 - 3161.9) Retention and disposal of records of rural/cooperative banks. To guide RBs/Coop Banks in the disposition of their records and documents which no longer need to be retained and in determining which of the records are of permanent value and therefore should be preserved, RBs/Coop Banks shall follow the guidelines on retention and disposal of records in Appendix 50.

(As amended by Circular No. 720 dated 06 May 2011)

Sec. X192 (2008 - X162) Reports. Banks shall submit to the appropriate department of the SES all their statements and/or periodic

reports listed in Appendix 6 in such frequency and deadlines indicated therein. In the preparation of said statements/ reports, banks shall use and strictly follow the forms prescribed by the Bangko Sentral.

In line with the policy direction of R.A No. 8792 (E-Commerce Act), the Bangko Sentral is strongly encouraging banks to submit their regular reports to the Bangko Sentral in electronic form.

However, the Bangko Sentral cannot presently guarantee the security/ confidentiality of data in the course of electronically transmitting reports to Bangko Sentral. Bangko Sentral recommends that sensitive or confidential information be provided by ordinary post or courier. The Bangko Sentral will accept no responsibility for electronic messages/ reports/information that may be hacked or cracked, intercepted, copied or disclosed outside Bangko Sentral s information system.

X192.1 (2008 - X162.1) Categories and signatories of bank reports

a. Categories of reports. Reports required to be submitted to the Bangko Sentral by banks are grouped into Category A-1, Category A-2, Category A-3 and Category B reports as indicated in Appendix 6.

b. Authorized signatories

(1) Category A-1 reports shall be signed by the bank s chief executive officer or, in his absence, by the executive vice president, and by the comptroller or, in his absence, by the chief accountant, or officers holding equivalent positions.

(2) Category A-2 reports shall be signed by the president, executive vice president, vice president or by an officer holding equivalent position.

(3) Category A-3 and Category B reports shall be signed by officers or their alternates,

duly designated by the board of directors.

The designated signatories of *Categories A-1, A-2, A-3 and B* reports including their specimen signatures shall be contained in a resolution approved by the board of directors. A copy of the board resolution covering the initial designation and subsequent change(s) in signatories as well as specimen signatures of the signatories and alternates, shall be submitted to the appropriate department of the SES in such frequency and within the deadline indicated in *Appendix 6*.

(4) Reports in computer media that are submitted by banks shall be subject to the same requirements regarding authorized signatories.

(5) Any report submitted to the Bangko Sentral that is signed by an officer who is not listed or included in any of the resolutions mentioned above, shall be considered as not having been submitted at all.

(6) All authorized agent banks shall submit to the Director, Branch Operations, Bangko Sentral, the updated specimen signatures of Senior Bank Officers in their respective Head Offices who are authorized to authenticate the signatures of their provincial branch officers transacting business with the Bangko Sentral Regional Offices/Branches.

The Bangko Sentral Branch Operations shall be advised of any changes in authorized branch signatories, as well as authenticating Head Office Senior Officers.

c. Deadline for submission of reports

(1) *Regular reports*. Unless otherwise specified, the deadlines for submission of reports enumerated in *Appendix 6*, shall be reckoned on the basis of banking days. For this purpose, *banking days* shall be understood to mean Monday through Friday or banking days of the Bangko Sentral.

(2) *Call Reports*. The deadline of submission of call reports shall be specified in the letter calling for the report.

¶ **X192.2 (2008 - X162.2) Sanctions in case of willful delay in the submission of reports/refusal to permit examination**

For willful delay in the submission of reports, specific sanctions shall be imposed in accordance with the following rules:

a. *Definitions*. For purposes of this Subsection, the following definitions shall apply.

(1) *Report* shall refer to any report or statement required to be submitted by a bank to the Bangko Sentral.

(2) *Willful delay in the submission of reports* shall refer to the failure of any bank to submit on time the report defined in Item ¶a(1) above. Failure to submit a report on time due to fortuitous events, such as fire and other natural calamities, and public disorders including strike or lockout affecting a bank as defined in the Labor Code, or of a national emergency affecting operations of banks, shall not be considered as willful delay¹.

(3) *Examination* shall include, but need not be limited to, the verification, review, audit, investigation and inspection of the books and records, business affairs, administration and financial condition of any bank including the reproduction of banking records, as well as the taking possession of the books and records and keeping them under Bangko Sentral's custody after giving proper receipts therefor.

It shall also include the interview of the directors and personnel of any bank including its Electronic Data Processing (EDP) servicer. Books and records shall include, but not limited to, data and information stored in magnetic tapes, discs, diskettes, printouts, logbooks and manuals kept and maintained by the bank or by the EDP servicer, that are necessary and incidental to the use of EDP systems by the bank.

(4) *Refusal to permit examination* shall mean any act or omission which impedes, delays or obstructs the duly authorized

¹ See Appendix 89

X192.2
14.12.31

Bangko Sentral officer/examiner/employee from conducting an examination, including the act of refusing to accept or honor a letter of authority to examine presented by any officer/examiner/employee of the Bangko Sentral.

b. *Fines for willful delay in the submission of reports.*

(1) *Amount of fine.* Any bank which shall incur willful delay in the submission of required reports shall pay a fine in accordance with the following schedule:

- (a) *For Category A-1, A-2 and A-3 reports*
- | | |
|----------------------|--------|
| (1) UBs/KBs - | P1,200 |
| (2) TBs - | 600 |
| (3) RBs/Coop Banks - | 180 |
- per day of default until the report is filed with the Bangko Sentral: and

- (b) *For Category B reports*
- | | |
|------------------------|-------|
| (i) UBs/KBs - | P 240 |
| (ii) TBs - | 120 |
| (iii) RBs/Coop Banks - | 60 |
- per day of default until report is filed with the Bangko Sentral.

In the implementation of the foregoing rules, delay or default shall start to run on the day following the last day required for the submission of reports. However, should the last day of filing fall on a non-working day in the locality where the reporting bank is situated, delay or default shall start on the day following the next banking day. The due date/deadline for submission of reports to Bangko Sentral as prescribed under Sec. X192 governing the frequency and deadlines indicated in *Appendix 6* shall be automatically moved to the next banking day whenever a halfday suspension of business operations in government offices is declared due to an emergency such as typhoon, floods, etc.

Delayed schedules/attachments and amendments shall be considered late reporting subject to the above penalties.

(2) *Manner of filing.* For the purpose of establishing delay or default, the submission of reports shall be effected by filing them

with the appropriate department of the SES or with the Bangko Sentral Regional Offices, or by sending them by registered mail or by special delivery through a private courier, unless otherwise specified in the circular or memorandum of the Bangko Sentral.

In the first case, the date of acknowledgment by the appropriate department of the SES or the Bangko Sentral Regional Office appearing on the copies of such reports filed or submitted, and in the second case, the date of mailing postmarked on the envelope or the date of the registry receipt or the date of special delivery receipt, shall be considered as the date of filing.

c. *Fines for refusal to permit examination.*

(1) *Amount of fine* - A bank which shall willfully refuse to permit examination shall pay a fine of P3,000 daily from the day of refusal and for as long as such refusal lasts.

(2) *Basis and effectivity of the imposition of fine.*

(a) The Bangko Sentral officer/examiner/employee shall report the refusal of the bank to permit examination to the head of the appropriate department of the SES, who shall forthwith make a written demand upon the bank concerned for such examination. If the bank continues to refuse said examination without any satisfactory explanation thereof, the Bangko Sentral officer/examiner/employee concerned shall submit a report to that effect to the said department head.

(b) The fine shall be imposed starting on the day following the receipt by the said department of the written report submitted by the Bangko Sentral officer/examiner/ employee concerned regarding the continued refusal of the bank to permit the desired examination.

d. *Manner of payment or collection of fines.* Subsec. X902.1 shall be observed in the collection of fines from banks for willful delay in the submission of reports or for refusal to permit examination.

e. *Other penalties.* The imposition of the

foregoing penalties shall be without prejudice to imposition of the other administrative sanctions and to the filing of a criminal case as provided for in other provisions of law.

f. *Appeal to the Monetary Board.* An aggrieved bank may appeal to the Monetary Board any fine imposed by the Bangko Sentral.

(Circular No. 850 dated 8 September 2014, M-2014-039 dated 01 October 2014, M-2014-031 dated 08 August 2014, M-2014-006 dated 12 February 2014, M-2013-050 dated 15 November 2013, M-2013-046 dated 30 October 2013, M-2013-045 dated 23 October 2013, M-2013-042 dated 25 September 2013, M-2013-040 dated 03 September 2013, M-2013-001 dated 14 January 2013, 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-2011-056 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-2010-39 dated 03 November 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 07 October 2009 and Circular 585 dated 15 October 2007)

¶ **X192.3 (2008 - X162.3) Submission of certain required information.** Banks shall submit to the appropriate department of the SES the information on bank s profile required in *Appendix 7*. Any change in any of the required information submitted, after the initial submission, shall be reported to the said department immediately.

Banks shall likewise submit to the said department any or all of the documents/ information on bank s organizational structure and operational policies enumerated in *Appendix 8*. Any subsequent change/issuance should be furnished the department within fifteen (15) banking days from such change/issuance.

¶ **X192.4 (2008 - X162.4) Report on crimes/losses.** Banks shall report on the following matters to the appropriate department of the SES.

(Next page is Part I - Page 135)

a. Crimes whether consummated, frustrated or attempted against property/facilities (such as robbery, theft, swindling or estafa, forgery and other deceits) and other crimes involving loss/destruction of bank property when the amount involved, in each crime is ₱20,000 or more.

Crimes involving bank personnel, regardless of whether or not such crimes involve the loss/destruction of bank property, even if the amount involved is less than ₱20,000, shall likewise be reported to the BSP.

b. Incidents involving material loss, destruction or damage to the bank's property/facilities, other than arising from a crime, when the amount involved per incident is ₱100,000 or more.

c. *Definition of terms.* For the purpose of this regulation, the following definitions shall apply:

(1) *Estafa* - a crime committed by a person who defrauds another causing the latter to suffer damage by means of any of the following:

- (a) unfaithfulness or abuse of confidence;
- (b) false pretense; or
- (c) fraudulent acts/means, under Articles 315 to 317 of the Revised Penal Code, as amended.

(2) *Theft* - a crime committed by a person who, with intent to gain but without violence against or intimidation of persons nor force upon things, shall take personal property of another without the latter's consent pursuant to Article 308 and other pertinent provisions of Chapter III, Title X of the Revised Penal Code, as amended.

(3) *Robbery* - a crime committed by a person who, with intent to gain, shall take any personal property belonging to another, by means of violence against or intimidation of any person, or using force upon anything pursuant to Article 295 and other pertinent provisions of Chapter 1, Title X of the Revised Penal Code, as amended.

(4) *Falsification* - a crime committed by a person who falsifies a document by

(a) Counterfeiting or imitating any handwriting, signature or rubric;

(b) Causing it to appear that persons have participated in any act or proceeding when they did not in fact so participate;

(c) Attributing to persons who have participated in an act or proceeding statements other than those in fact made by them;

(d) Making untruthful statements in a narration of facts;

(e) Altering true dates;

(f) Making any alteration or intercalation in a genuine document which changes its meaning;

(g) Issuing in an authenticated form a document purporting to be a copy of an original document when no such original exists, or including in such a copy a statement contrary to, or different from, that of the genuine original; or

(h) Intercalating any instrument or note relative to the issuance thereof in a protocol, registry, or official book and other acts falling under Articles 169, 171 and 172 of the Revised Penal Code, as amended.

(5) *Credit-card related crimes* - crimes arising through the use of credit cards.

(6) *Other crimes that may cause loss to the bank* - crimes committed that cannot be appropriately classified under any of the above classifications.

(7) *Negligence* - the failure to exercise the care which an ordinarily prudent person would use under the circumstances in the discharge of the duty then resting upon him (People v. Aguilar, 2899-R, 18 October 1949).

(8) *Non-crime related loss* - Incidents that may cause the bank to suffer a loss arising from fortuitous events.

(9) *Insider* - person involved include stockholders, directors, officers and employees of the bank.

§ X192.4 - X192.5
11.12.31

(10) *Outsider* - persons involved other than an insider.

(11) *Perpetrator* - a person, whether an insider or outsider, who is responsible for the commission of crime either by direct participation, inducement or cooperation, including accomplices and accessories as defined under Articles 18 and 19 of the Revised Penal Code, as amended.

(12) *Victim* - an insider or outsider other than the perpetrator, who is the aggrieved party to the crime and may as a result of the incident, suffered the loss.

(13) *Attempted crime* - a crime is attempted when the perpetrator commences the commission of the crime directly by overt acts but does not perform all of the acts of execution which constitute the crime by reason of some cause or act other than his own voluntary desistance under Article 6 of the Revised Penal Code, as amended.

(14) *Frustrated crime* - a crime is classified as frustrated, when the perpetrator performs all the acts of execution which should produce the crime as a consequence but which, nevertheless, do not produce it by reason of causes independent of the will of the perpetrator under Article 6 of the Revised Penal Code, as amended.

(15) *Consummated crime* - a crime is consummated when all the acts of execution which constitute the crime was performed. As a result, the bank may have suffered a loss, the recoverable portion of which should be deducted to arrive at the probable loss incurred by the bank.

(16) *Termination of the investigation* - an investigation is said to be terminated when all the material facts/information which are sufficient to support a conclusion relative to the matters involved have already been gathered and a finding/conclusion may be made based on the gathered information.

d. The following guidelines shall be observed in the preparation and submission of the report:

(1) The Branch or Head Office unit's Report on Crimes and Losses shall be submitted to the BSP through the bank's head office unit and shall be certified correct by the compliance officer. The report shall be assigned a prescribed reference number by the bank using the format *mm-yyyy-xxx* with *mm* and *yyyy* as numeric code for the month and year of reporting respectively and *xxx* as sequence no. (e.g. 01-2007-001) which shall be a continuing series until the end of the year.

The report shall be prepared using the new format in two (2) copies and shall be submitted to the SDC and to the BSP Security Coordinator, thru the Director, Security, Investigation and Transport Department (SITD) within ten (10) calendar days from knowledge of the crime/incident;

(2) Where a thorough investigation and evaluation of facts is necessary to complete the report, an initial report submitted within deadline may be accepted: *Provided*, That a complete report is submitted not later than twenty (20) calendar days from termination of investigation.

Moreover, final reports on crimes and losses with incomplete information as required under SES Form 6G shall be considered erroneous reports and the concerned bank shall be required to submit amended reports subject to penalties on late reporting for *Category B* reports under Subsec. X192.2; and

(3) Proof of submission of the report shall be determined by the date of postmark, if the report was sent by mail or by the date received, if handcarried to the SDC and SITD.

(As amended by Circular No. 587 dated 26 October 2007)

§ X192.5 (2008 - X162.5) Report on real estate/chattel transactions.

(Deleted by Circular No. 737 dated 19 September 2011)

¶ **X192.6 (2008-X162.6) Reconciliation of head office and branch transactions**

Banks shall prepare reconciliation statements covering transactions between the head office and all its branches within thirty (30) banking days after the end of each month.

All items which are unresponded or outstanding in the reconciliation statement for more than (6) months as of reconciliation statement date shall be reported, with explanations/reasons for their being outstanding, to the appropriate department of the SES in such frequency and within the deadline set in *Appendix 6*.

The reconciliation statement shall be made available to any authorized bank examiner for inspection/examination without need of advance notice.

A copy of the year-end reconciliation statement covering transactions between the bank's head office and all its branches shall be furnished the said department not later than the end of January of the following year.

¶ **X192.7 (2008 - X162.7) List of stockholders and their stockholdings**

a. Banks shall submit to the appropriate department of the SES annually a complete list of stockholders and their stockholdings in the prescribed form within the deadline indicated in *Appendix 6*.

b. Any change in the list shall also be reported to the said department in such frequency and within the deadline indicated in *Appendix 6*, indicating the name(s) and/or stockholdings involved which is/are to be cancelled or replaced, and the new name(s) and/or stockholdings which shall be included for that quarter. In case no change occurred during a particular quarter, the report shall provide a notation, viz *no change(s) since last report submitted for quarter ended, _____, 20____*.

¶ **X192.8 (2008 - X162.8) Bangko Sentral offices, where reports are submitted.**

Submission of Bangko Sentral periodic or call reports shall be as follows:

a. All banking offices shall submit the required reports in accordance with *Appendix 6* to the Bangko Sentral, Manila or to the nearest Bangko Sentral Regional Offices: *Provided*, That the head office of a bank may submit to the SDC in electronic form the batched copy of all its banking units *Quarterly Statement of Condition and Statement of Income and Expenses by Banking Unit* in behalf of its branches and other offices;

b. Where a particular report form calls for distribution of copies to other departments of the Bangko Sentral, the bank concerned shall furnish said copies of the report directly to the respective departments of the Bangko Sentral; and

c. As an exception to Item *a* above, the duplicate copy of the bio-data for directors/officers shall be submitted to the SDC of the Bangko Sentral.

¶ **X192.9 (2008 - X162.9) Publication/Posting of balance sheet**

a. *UBs/KBs, TBs, RBs and Coop Banks with resources of P1.0 billion and above*

(1) Banks belonging to this category shall accomplish the prescribed form and publish their quarterly Balance Sheet (BS) as of the cut-off date indicated in the call letter issued by the SES.

The Consolidated Balance Sheet (CBS) of a bank and its subsidiaries and affiliates shall be published side by side with the BS of its head office and its branches/other offices.

(2) The CBS of the bank and its subsidiaries and affiliates shall be prepared in accordance with the rules of consolidation provided under the Financial Reporting Package (FRP), in which case, only financial allied

X192.9
13.12.31

subsidiaries, except subsidiary insurance companies, shall be consolidated on a line-by-line basis, while non-financial allied subsidiaries including subsidiary insurance companies shall be accounted for using the equity method.

(3) Such BS, and CBS where applicable, shall be published in a newspaper of general circulation in the city/province where the principal office, in the case of a domestic bank, or the principal branch/office, in the case of a foreign bank, is located, but if no newspaper is published in the same province, then in a newspaper published in Metro Manila or in the nearest city/province.

(4) The names and position/designation of the members of the board of directors, president and executive vice presidents (senior vice presidents, if there are no executive vice presidents), shall be published and shown in the right side column of the published BS as of June of every year.

(5) (a) Before publication, a soft copy of the BS shall be submitted to the SDC within twelve (12) banking days from the date of the call letter.

Further, a hard copy of the control proof list for the said report shall likewise be submitted to the SDC within the said deadline.

(b) Banks that are incapable of submitting the BS in electronic form shall submit the same in hard copy to the SDC within the said deadline.

(c) The published BS with the publisher's certificate shall be submitted within twenty (20) banking days after the date of said call letter to the SDC.

b. *TBs/RBs/Coop Banks with resources of less than ₱1 billion*

(1) A TB, RB and Coop Bank belonging to this category shall either publish its quarterly BS as of the cut-off date indicated in the call letter issued by

the SES of the Bangko Sentral, in a newspaper of general circulation as in Item "a(3)" above or post the same in the most conspicuous area of its premises, in the municipal building, municipal public market, barangay hall and barangay public market where the head office and all its branches are located. The posting shall be printed on 12 x18 white paper, preferably white buff paper (cartolina) and shall be made within twenty (20) banking days from the end of the reference quarter and for a period of thirty (30) successive calendar days.

(2) (a) A TB, RB and Coop Bank that shall publish/post its quarterly BS shall submit a soft copy of the same to the SDC within twenty (20) banking days after the end of the reference quarter.

(b) Banks that are incapable of submitting the BS in electronic form shall submit the same in hard copy to the SDC within the said deadline.

(c) In either case, an affidavit executed by the president, or in his absence, the vice-president or manager, as the case may be, shall likewise be submitted to the SDC within the said deadline.

c. *Additional information required*
 Banks shall disclose the following information in the quarterly published/posted BS:

(1) Solo BS (Head Office and Branches/Other Offices)

(a) Gross total loan portfolio (TLP);
 (b) Specific allowance for credit losses on the TLP ;

(c) Non-performing loans (NPLs);
 (i) Gross NPLs;
 (ii) Ratio of gross NPLs to gross TLP (%);
 (iii) Net NPLs;
 (iv) Ratio of net NPLs to gross TLP (%);
 (d) Classified loans and other risk assets, gross of allowance for credit losses;

(e) DOSRI loans and receivables, gross of allowance for credit losses ;

(f) Ratio of DOSRI loans and receivables, gross of allowance for credit losses, to gross TLP (%);

- (g) Gross non-performing DOSRI loans and receivables;
 - (h) Ratio of gross non-performing DOSRI loans and receivables to gross TLP (%);
 - (i) Percent compliance with Magna Carta
 - 8% for micro and small enterprises;
 - 2% for medium enterprises;
 - (j) Return on equity (ROE) (%);
 - (k) CAR on solo basis, as prescribed under existing regulations:
 - (i) Total CAR
 - (ii) Tier 1 CAR
 - (iii) CET 1 CAR
 - (l) Deferred charges not yet written down; and
 - (m) Unbooked allowance for credit losses on financial instruments received.
- (2) Consolidated Balance Sheet (parent bank and financial allied subsidiaries excluding subsidiary insurance companies)
- (a) List of financial allied subsidiaries (excluding subsidiary insurance companies)
 - (b) List of subsidiary insurance companies
 - (c) CAR on consolidated basis, as prescribed under existing regulations:
 - (i) Total CAR
 - (ii) Tier 1 CAR
 - (iii) CET 1 CAR

For purposes of additional information, all amounts and ratios shall be as of the same call date. However, the basis for computing the ROE shall be the latest quarter immediately preceding the call date using the following formula:

Return on Average Equity (%) =
$$\frac{\text{Net Income (or Loss) after Income Tax}}{\text{Average Total Capital Accounts}} \times 100$$

Where net income/(loss) after tax and average total capital accounts shall be:

| | Net Income After Tax Quarter (loss) (NIAT) | Average Total Capital Accounts |
|-------|--|--|
| March | Quarter end NIAT multiplied by 4. | Sum of end-month capital accounts (December - March) divided by 4. |
| June | Semester end NIAT multiplied by 2. | Sum of end-month capital accounts (December - June) divided by 7. |
| Sept. | Nine (9) mos. | Sum of end-month capital |

¶ X192.9 - X192.11
13.12.31

| | | |
|------|-----------------------------------|--|
| | NIAT multiplied by 1.33333. | accounts (December - September) divided by10. |
| Dec. | Year end NIAT | Sum of end-month capital accounts (December - December) divided by 13. |

d. *Deferment of publication requirement.*

The abovementioned publication requirement may be deferred by the Monetary Board by at least five (5) affirmative votes upon application by the bank concerned during periods of national and/or local emergency or of imminent panic which directly threaten monetary and banking stability.

The amended prescribed form for the published BS shall be used starting with the quarter-end March 2013 reports.
(As amended by Circular Nos. 788 dated 26 February 2013, 781 dated 15 January 2013 and 576 dated 08 August 2007)

¶ X192.10 (2008-X162.10) *Consolidated financial statements of banks and their subsidiaries engaged in financial allied undertakings.* Banks shall submit after the end of the calendar year or the end of the fiscal year adopted by the bank their consolidated financial statements and supported by the individual annual financial statements of their subsidiaries engaged in financial allied undertakings.

For purposes of this Subsection, the consolidated financial statements shall conform to the guidelines of PAS 27 Consolidated and Separate Financial Statements except that for purposes of consolidated financial statements, the provisions of Subsec. X191.3a shall apply.

The consolidated financial statements and the supporting individual financial statements of their subsidiaries shall be submitted to the appropriate department of the SES within the deadline indicated in Appendix 6.

¶ X192.11 (2008 - X162.11) *Reports of other banking offices.* Extension offices of banks which maintain separate books of

¶¶ X192.11 - X192.12
08.12.31

accounts shall be subject to all reporting requirements of a regular branch.

An extension office whose record of transactions/accounts is consolidated daily with its mother unit shall submit only the Selected Financial Accounts form as listed in *Appendix 6*.

Convenience Banking Centers (CBCs) are not required by Bangko Sentral to submit Statement of Condition (SOC) and Statement of Income and Expenses (SIE). A CBC is not considered as a branch but as an extension office of a bank without separate books of accounts which directly reports its transactions to its mother branch.

¶ **X192.12 (2008 - X162.12) Reports required of foreign subsidiaries/affiliates/banking offices or non-bank entities of domestic banks.** The submission of periodic reports of a foreign subsidiary/affiliate/banking offices or non-bank entities of domestic banks shall be governed by the following rules:

a. For foreign subsidiaries/affiliates of domestic banks, the local investor-bank(s) concerned shall regularly submit to the appropriate department of the SES a quarterly statement of condition and quarterly/annual report of income and expenses concerning the operations of the foreign subsidiaries/affiliates, including such other periodic reports which may be required from time to time in the forms prescribed by the Bangko Sentral for domestic financial intermediaries to the extent that their operations are applicable;

b. For foreign subsidiaries/affiliates of domestic banks, the appropriate department of the SES shall be furnished by said domestic banks copies of the annual report prescribed by any of the supervisory/regulatory authorities in the country of operations;

c. When material changes noted in the annual financial statements warrant an interim comprehensive evaluation, the

foreign affiliate concerned shall be requested to submit to the appropriate department of the SES, through its domestic investor-bank, copies of its quarter/interim reports to stockholders or the call reports in the case of U.S. banks;

d. Audited financial statements (AFS) of the foreign banking offices and subsidiaries; and

e. Examination reports done by the foreign bank supervisory authority.

The submission of the documents in Items ¶d¶ and ¶e¶ to Bangko Sentral shall not be later than thirty (30) banking days from date of submission/release of said reports to the foreign banking offices and subsidiaries of Philippine banks. Material findings, if any, contained in said reports should be highlighted.

f. For purposes of this Subsection, *affiliate* shall refer to an entity linked directly or indirectly to a bank by means of:

(1) Ownership, control or power to vote, of ten percent (10%) or more of the outstanding voting stock of the entity, or vice-versa;

(2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations;

(3) Common stockholders owning ten percent (10%) or more of the outstanding voting stock of each financial intermediary and the entity;

(4) Management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity, or vice-versa; and

(5) Permanent proxy or voting trusts in favor of the bank constituting ten percent (10%) or more of the outstanding voting stock of the entity, or vice-versa.

For purposes of this Manual, the above definition of *affiliate* shall be adopted except where the provision of the regulation expressly states otherwise.

¶ **X192.13 Report on cross-border financial positions.** The Report on Cross-Border Financial Positions is designed to measure and monitor the cross-border financial claims and liabilities of UBs and KBs and their subsidiary TBs to provide the Bangko Sentral with a comprehensive view of potential financial risks and transmission channels emanating from foreign counterparties of Philippines banks.

All UBs/KBs and their subsidiary TBs shall submit the Report on Cross-Border Financial Positions on a solo basis in accordance with the Guidelines on the completion of the Report in *Appendix 106*.

This report shall be considered *Category B* report.

(Circular No. 850 dated 08 September 2014)

- ¶ **1192.13 (2008 - 1162.13) Additional reports from UBs/KBs**
- a. *Volume and weighted average interest rates of deposits and loans.* Data on the volume of transactions and weighted average interest rates of certificates of time deposits and secured/unsecured loans granted, classified by maturity, and outstanding savings deposits classified by interest rates, shall be prepared daily (except data on savings deposits which shall be prepared weekly) and submitted weekly by all head offices of UBs/KBs to the Department of Economic Research of the Bangko Sentral not later than 4:00 PM on Thursday after end of reference week.
 - b. *Short-term prime rates.* All UBs and KBs shall submit in the prescribed form a report on the volume and interest rates on credit line availments under short-term prime rates in such frequency and within the deadline indicated in *Appendix 6*.
 - c. *(Deleted by Cir. No. 405 dated 28 August 2003).*
 - d. *Foreign Exchange Position Report* Banks may be allowed to submit on a weekly basis the notarized certification signed by the bank's president/CEO/country manager and the treasurer to cover the daily hard copies of *Schedule 13, FX Form I* and *CFXPR* pertaining

to each day of the week. Delayed submission of the notarized certification shall be subject to monetary penalty, as follows:

| | Daily Penalty |
|--|---|
| 1 st banking day of delay | P6,000.00 (equivalent P1,200.00 per day for five (5) report dates covered by the certification on the assumption that the five (5) weekdays of the reference week are all banking days) |
| 2 nd banking day of delay and onwards | P1,200.00/day |

¶ **2192.13 (Reserved)**

¶ **3192.13 (Reserved)**

¶ **X192.14 (2008 - X162.14) Reports of strikes and lockouts.** Banks through their president or chief executive officer shall immediately apprise the Deputy Governor of the SES of the Bangko Sentral on the status of strikes/lockouts involving their banks, if unsettled after seven (7) calendar days. The bank shall disclose the following pertinent information on the strike/lockout:

- a. Cause of the strike/lockout and bank management's position on its legality; and
- b. Bank operations affected.

¶ **X192.15 (2008 - X162.15) Report on the Sworn Statement on Real Estate/ Chattel Transactions.**

(Deleted by Circular No. 737 dated 19 September 2011)

¶ **X192.16 Notarized contracts/ agreements between banks and their related microfinance (MF) non-governmental organizations (NGOs)/foundations.** Business relationships between banks and their related MF NGO s/ foundations shall be covered by notarized contracts/agreements specifying the nature of transactions and enumerating the terms and conditions thereof.

¶¶ **X192.16 - X196.2**
11.12.31

Banks shall submit said notarized contracts/agreements within fifteen (15) banking days from the date of meeting of the board of directors approving said contracts/agreements.

Said notarized contracts/agreements shall be considered Category A-3 reports. Submission of said reports shall become effective starting with the reporting period ended 30 September 2011.

(Circular No. 725 dated 16 June 2011)

**O. PROMPT CORRECTIVE ACTION
FRAMEWORK**

Sec. X193 (2008 - X106.4) Prompt Corrective Action Framework. A bank may be subject to PCA whenever any or all of the following conditions obtain:

(1) When either of the Total Risk-Based CAR, Tier 1 risk-based ratio, or leverage ratio (total capital/total assets) 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. X111.1;

(2) CAMELS composite rating is less than three 3 or a Management component rating of less than three 3 ; and

(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 continuing failure to comply with Monetary Board directives; and

(c) Significant reporting errors that materially misrepresent the bank s

financial condition.

The framework for the enforcement of PCA on banks and other FIs under BSP supervision is in *Appendix 69*.

(Circular No. 523 dated 23 March 2006, as amended by Circular Nos. 729 dated 08 July 2011, 664 dated 15 September 2009)

Secs. X194 - X195 (Reserved)

P. LIQUIDATION AND RECEIVERSHIP

Sec. X196 Voluntary Liquidation

The following guidelines shall be observed when a bank decides to undertake voluntary liquidation as a consequence of voluntary dissolution, such as (i) by vote of the board of directors and stockholders, where no creditors are affected; (ii) judgment of the SEC after hearing the petition for voluntary dissolution; (iii) amending the articles of incorporation to shorten the corporate term.

¶ **X196.1 Prior Monetary Board approval.** Upon voluntary dissolution of a bank pursuant to the provisions of the Corporation Code, voluntary liquidation may be undertaken by the bank itself through its board of directors, by a trustee appointed by the bank, or by a receiver appointed to the bank: *Provided, however,* That no voluntary dissolution shall be undertaken by a bank without prior approval of the Monetary Board: *Provided, further,* That requests for approval of a voluntary dissolution shall be accompanied by a liquidation plan which lays down the procedure to be adopted by the bank in the event of liquidation: *Provided, finally,* That written notice shall be sent to the Monetary Board before actual liquidation is undertaken in accordance with the liquidation plan previously approved by the Monetary Board.

¶ **X196.2 Liquidation plan**
The minimum requirements to be set forth in a liquidation plan are the following:

a. *Inventory/Appraisal of assets and liabilities.* Submission to the Monetary Board within thirty (30) days from written notice of liquidation, a schedule/inventory and status/appraisal reports on assets and liabilities of the bank.

b. *Notice to creditors requirement.* Notice by registered mail to all recorded claimants of the bank, and notice by publication in a newspaper of general circulation at least once a week for two (2) consecutive weeks, to be made within thirty (30) days from submission of aforesaid inventory of assets and liabilities.

c. *Conversion of assets into money.* Projected timetable in the conversion, manner of sale (public auction, sealed bidding, or on negotiated basis), notice by publication requirement, and report on liquidation to be submitted to the Monetary Board.

d. *Final notice to claimants/creditors.* Undertaking of the board of directors/trustee/receiver to cause, within thirty (30) days from conversion into money of all or substantially all of the assets of the bank, the publication in a newspaper of general circulation at least once a week for two (2) consecutive weeks of a notice giving claimants/creditors fifteen (15) days within which to file their claims.

e. *Inventory of remaining claims against the bank.* Submission to the Monetary Board of a complete list of all remaining claims against the bank, within thirty (30) days from the deadline given in the final notice to claimants/creditors.

f. *Plan for distribution of proceeds of sales and distribution of liquidating dividends.* Submission to the Monetary Board of a distribution plan of assets within thirty (30) days from conversion of all or substantially all of the assets of the bank.

§§ X196.3 - X196.7 (Reserved)

§ X196.8 Final liquidation report. The board of directors/trustee/receiver shall submit to the Monetary Board a final liquidation report after winding up the affairs of the bank.

Sec. X197 (Reserved)

Sec. X198 Insolvency or Receivership of Banks. The rules and regulations governing insolvency and receivership are as follows:

§ X198.1 Definition of term. A “bank declared insolvent or placed under receivership by the Monetary Board” shall refer to a banking institution that has been forbidden from doing business in the Philippines by the Monetary Board under the applicable grounds provided for under Section 30 of R.A. No. 7653 and placed under receivership of the PDIC.

§ X198.2 Prohibited acts. Any director or officer of a bank declared insolvent or placed under receivership by the Monetary Board shall not commit any of the following acts:

- a. refusing to turn over the bank’s records and assets to the designated receivers;
- b. tampering with bank records;
- c. appropriating for himself or another party, or destroying or causing misappropriation and destruction of the bank’s assets;
- d. receiving or permitting or causing to be received in said bank any deposit, collection of loans and/or receivables;
- e. paying out or permitting or causing to be paid out any funds of said bank; and
- f. transferring or permitting or causing to be transferred any securities or property of said bank.

§§ X198.3 - X199
08.12.31

§§ X198.3 - X198.8 (Reserved)

§ X198.9 *Penalties and sanctions.* Any director or officer of a bank declared insolvent or placed under receivership by the Monetary Board who commits any of the foregoing acts shall be subject to the sanctions under Sections 36 and 37 of R.A. No. 7653, in correlation with Section 66 of R.A. No. 8791. Moreover, any such director or officer thereby sanctioned shall be included in the watchlist files of directors/officers disqualified by the Monetary Board from holding any position in any bank or FI.

Q. GENERAL PROVISION ON
SANCTIONS

Sec. X199 General Provision on Sanctions. Except as otherwise provided, any violation of the provisions of this Part shall be subject to Sections 36 and 37 of R.A. No. 7653.

The guidelines for the imposition of monetary penalty for violations/offenses with sanctions falling under Section 37 of R.A. No. 7653 on banks, their directors and/or officers are shown in *Appendix 67*.

PART TWO

DEPOSIT AND BORROWING OPERATIONS

A. DEMAND DEPOSITS

Section X201 Authority to Accept or Create Demand Deposits. Banks may accept or create demand deposits subject to withdrawal by check.

A UB/KB may accept or create demand deposits subject to withdrawal by check, without prior authority from the Bangko Sentral.

A TB/RB/Coop Bank may accept or create demand deposits upon prior authority of the Bangko Sentral.

X201.1 *Prerequisites to accept or create demand deposits for thrift banks/rural banks/cooperative banks.* In addition to the *Standard Pre-qualification Requirements for the Grant of Banking Authorities* enumerated in *Appendix 5*, a TB/RB/Coop Bank applying for authority to accept or create demand deposits shall also comply with the following requirements:

a. The applicant TB/RB/Coop Bank must have complied with the minimum capital required under Subsec. X111.1.

The terms *capital* and *net assets* shall have the same meaning as in Sec. X111.

b. It has neither unpaid assessment due nor past due obligations with the PDIC; and

c. The applicant bank must have been examined by the Bangko Sentral within one (1) year prior to the date of submission of complete documentary requirements with the appropriate department of the SES.

(As amended by Circular Nos. 696 dated 29 October 2010, 674 dated 10 December 2009 and 667 dated 01 October 2009)

X201.2 *Requirements for accepting demand deposits.* After a TB s/RB s/Coop Bank s application to accept demand

deposits has been approved, it may actually accept such deposits, subject to the following conditions:

a. Submission of a certification signed by the President/Chairman of the Board of the bank stating that the requirements enumerated under Subsec. X201.1 have been complied with up to the day before the checking account services are actually offered/extended to the public;

b. That if it is not a member of the Philippine Clearing House Corporation (PCHC), it has appointed a commercial bank, or a normally operating thrift bank which is a direct participant in the clearing with the PCHC/Bangko Sentral and has complied with the minimum capital required for commercial banks, thru which it shall participate in the check clearing system; and

c. That it has complied with all other conditions that the Bangko Sentral may impose.

The applicant bank shall submit a written notice to the appropriate supervising and examining department of the Bangko Sentral of the actual date when the demand deposit service is offered to the public not later than ten (10) banking days from such offering of the service.

X201.3 *Sanctions.* If any part of the certification submitted by the bank as required in these guidelines is found to be false, the following sanctions shall be imposed, without prejudice to the sanctions under Section 35 of R.A. No. 7653.

a. *On the bank*
Suspension of its authority to accept or create demand deposits for one (1) year.

b. *On the certifying officer*

X201.3 - X203
10.12.31

A fine of P5,000 per day from the time the certification was made up to the time the certification was found to be false.

Sec. X202 Temporary Overdrawings; Drawings Against Uncollected Deposits
The following regulations shall govern temporary overdrawings and drawings against uncollected deposits (DAUDs).

a. *Temporary overdrawings.*
Temporary overdrawings against demand deposit account (DDA) shall not be allowed, unless caused by normal bank charges and other fees incidental to handling such accounts.

Banks which violate these regulations shall be subject to a fine of one-tenth of one percent (1/10 of 1%) per day of violation, computed on the basis of the amount of overdrawn or fines in amounts as may be determined by the Monetary Board, but not to exceed P30,000 a day for each violation.

Technical overdrawings arising from *force posting* in-clearing checks shall be debited by banks under *Returned Checks and Other Cash Items (RCOCI)* which is part of *Other Assets* in the Balance Sheet. Items to be lodged under this account shall consist only of in-clearing checks which may result in *technical overdrawn* accounts and shall be immediately reversed the following day, value dated on date of original presentation of Checks and Other Cash Item (COCI) to PCHC for Integrated Greater Manila local exchanges (Integrated GM LX) or to Regional Clearing Center (RCC) for regional local exchanges (RLX).¹

The checks lodged under *RCOCI* which were dishonored due to insufficiency

of funds shall be returned not later than 7:30 a.m. on the clearing day immediately following the original date of presentation of the COCI to PCHC or RCC.¹

Peso DDAs maintained by foreign correspondent banks with UBs/KBs shall not be subject to the above-mentioned regulations: *Provided, That:*

(a) The maintenance of non-resident correspondent bank s peso DDAs and overdrawings therefrom are covered by reciprocal arrangement;

(b) Temporary overdrawings are covered within fifteen (15) banking days from the date overdrawings are incurred; and

(c) Such accounts are credited only through foreign exchange inward remittance.

b. *DAUDs.* DAUDs shall be prohibited except when the drawings are made against uncollected deposits representing manager s/cashier s/treasurer s checks, treasury warrants, postal money orders and duly funded *on us* checks which may be permitted at the discretion of each bank.

(As amended by Circular Nos. 705 dated 29 December 2010 and 681 dated 08 February 2010)

Sec. X203 Returned Checks

a. *Checks without sufficient funds/with stop payment orders.* To complement the provisions of Batas Pambansa Blg. 22, (An Act Penalizing the Making or Drawing and Issuance of a Check Without Sufficient Funds or Credit), the following regulations shall govern checks drawn against insufficient funds and checks drawn against closed accounts:

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.

1. The drawee bank shall affix to the check a return stamp, indicating therein the date when the check is returned and the reason for the refusal to pay the same to the holder thereof.

2. For checks which shall be dishonored or returned by reason of insufficiency of funds or credit, the drawee bank shall indicate the remark or notation *Drawn Against Insufficient Funds* , *No Funds* or *Insufficient Funds* on the return stamp. For checks which shall be dishonored or returned for the reason that such is drawn against a closed account, the drawee bank shall indicate the remark or notation *Account Closed* .

3. Notwithstanding receipt of an order to stop payment, the drawee bank shall likewise indicate in the return stamp, the remarks or notations mentioned in Item □2□ hereof indicating that there were no sufficient funds in or credit with such bank for the payment in full of such check or the account is closed, if such be the fact. The bank shall also indicate receipt of a stop payment order.

For checks which shall be dishonored for the reason that payment has been stopped, the following shall be observed:

(a) The drawee bank shall affix to the check a return stamp indicating therein the date when the check is returned and the reason for the refusal to pay the same to the holder thereof.

(b) The drawee bank shall indicate the remark or notation *Payment Stopped* or *With Stop Payment Order* on the return stamp.

A COCI dishonored for the reason that such is drawn against insufficient funds or credit, or is drawn against a closed account, or payment thereof has been stopped shall be returned by the drawee bank to the negotiating bank not later than 7:30 AM on the clearing day immediately following the

original date of presentation of the COCI to PCHC or RCC.¹

(1) *For Local Exchanges*

There shall only be one (1) clearing windows for COCIs returned due to insufficient funds or credit, closed account and/or stop payment order in the Integrated GM LX and RLX.¹

The settlement of interbank transactions vis- -vis covering reserve requirement/ deficiency of banks DDA is shown in *Appendix 39*.

The AM returned COCI clearing window for COCIs dishonored due to insufficiency of funds or credit, closed account and/or stop payment order in the Integrated GM LX and in the RLX shall be conducted from 2:00 AM to 7:30 AM on the clearing¹ day immediately following the original date of presentation of the COCI to PCHC or RCC.

Returned COCI in the AM clearing windows shall be given value on the same date as the date of original presentation of the COCI to PCHC or RCC. The amount of debits and credits on the date of original presentation shall be reversed to the extent of the amount of credits and debits arising from the returned COCI. The process restores the balances of the demand deposits of banks with the Bangko Sentral to their position prior to the settlement of the clearing results affected by the COCI later returned due to insufficient funds or credit, closed account and/or stop payment order.

(2) *For Integrated GM Outward to Region, Integrated GM Inward From Region and Region to Region Clearing Operations*

A COCI dishonored by reason of insufficiency of funds or credit, drawn against a closed account and/or stop payment order shall continue to be covered by regulations issued by Bangko Sentral and relevant PCHC Clearing House Rules and Regulations.¹

¹ See schedule of revised clearing and settlement process shown as footnote of Section X202

X203 - X204
10.12.31

(3) COCI not coursed through the Clearing System

A COCI dishonored by reason of insufficiency of funds or credit, drawn against a closed account and/or stop payment order which was not coursed through the clearing system shall be returned by the drawee bank to the holder or the negotiating bank, as the case may be, not later than the banking day following the date the COCI is presented for payment with the drawee bank.

The negotiating bank shall, in turn, return a COCI dishonored by reason of insufficiency of funds or credit, drawn against a closed account and/or stop payment order to the holder not later than the banking day following its receipt of the dishonored COCI from the drawee bank.

b. Checks dishonored due to technical reasons. A COCI dishonored due to technical reasons shall be returned by the drawee bank to the negotiating bank not later than the afternoon regular clearing.

(1) For Local Exchanges

There shall be two (2) separate clearing windows for COCI's returned due to technical reasons in the Integrated GM LX and RLX.

The settlement of interbank transactions vis- vis covering reserve requirement/ deficiency of banks DDA is shown in Appendix 39.

(a) AM Returned COCI Clearing – The AM returned COCI clearing window for COCI's dishonored due to technical reasons in the Integrated GM LX and in the RLX shall be conducted from 2:00 AM to 7:30 AM on the clearing day immediately following the original date of presentation of the COCI to PCHC or RCC.¹

Returned COCI in the AM clearing window shall be given value on the same date as the date of original presentation of the COCI to PCHC or RCC. The amount of debits and credits on the date of original

presentation shall be reversed to the extent of the amount of credits and debits arising from the returned COCI. The process restores the balances of the demand deposits of banks with the Bangko Sentral to their position prior to the settlement of the clearing results affected by the COCI later returned due to technical reasons.

(b) PM Returned COCI Clearing – The PM returned COCI clearing window for COCI's dishonored due to technical reasons shall coincide with the afternoon regular clearing. Such returned COCI shall be given value on the date the returned COCI was presented to PCHC for the Integrated GM LX or to RCC for the RLX.

(2) For Integrated GM Outward to Region, Integrated GM Inward from Region and Region to Region Clearing Operations

A COCI dishonored due to technical reasons continues to be covered by circulars issued by Bangko Sentral and relevant PCHC Clearing House Rules and Regulations¹.

(3) COCI not Coursed Through the Clearing System

A COCI dishonored due to technical reasons which was not coursed through the clearing system shall be returned by the drawee bank to the holder or the negotiating bank, as the case may be, not later than the banking day following the date the COCI is presented for payment with the drawee bank.

The negotiating bank shall, in turn, return a COCI dishonored due to technical reasons to the holder not later than the banking day following its receipt of the dishonored COCI from the drawee bank.

(As amended by Circular Nos. 705 dated 29 December 2010 and 681 dated 08 February 2010)

Sec. X204 Current Accounts of Bank Officers and Employees. As a general rule, officers and employees of banks, their spouses and relatives within the second

¹ See schedule of revised clearing and settlement process shown as footnote of Section X202

degree of consanguinity and affinity, including partnerships, associations or corporations in which such officers and employees, their spouses and relatives within the second degree of consanguinity and affinity, individually or as a group, own or control at least a majority of the capital are prohibited from maintaining demand deposits or current accounts with the banking office in which they are assigned. However, officers and employees without direct access and involvement in the handling of transactions and/or records pertaining to demand deposit operations may be allowed to maintain demand deposits or current accounts in the banking office where they are assigned subject to the following conditions:

- a. It shall be the responsibility of the bank concerned to identify the officers, employees, departments or units with direct involvement in its demand deposit operations and/or deposit records;
- b. The opening of current accounts of officers and employees shall be subject to approval of the head of the branches department or any designated higher ranking officer; and
- c. The following minimum operating control measures shall be implemented to ensure systems integrity and mitigate technology-related risks:

(1) *Tagging of accounts.* Savings and demand deposits of officers and employees, their spouses and relatives within the second degree of consanguinity and affinity, including partnerships, associations or corporations in which such officers and employees, their spouses and relatives within the second degree of consanguinity and affinity, individually or as a group, own or control at least a majority of the capital shall be tagged in the bank's current accounts/savings accounts (CA/SA) system;

(2) *Monitoring of accounts.* All accounts maintained by officers, employees and said relatives including their business interests

shall be monitored by a designated officer who shall be responsible for ensuring that accounts of officers and staff are properly maintained. Any irregularity in the account activity shall be promptly investigated and reported to the appropriate management level;

(3) *Access controls.* Access to all data, application software, operating systems and utilities must be restricted to authorized persons through appropriate identification mechanisms and access codes and such authentication and authorization controls must be fully documented and auditable. No officer or employee, regardless of rank or position, shall be allowed to process any transaction from initiation to final authorization;

(4) *Data capture.* Operating procedures for data capture, update and retrieval must be strictly adhered to. The operating system shall maintain a permanent record of each authenticated user session including every user input; and

(5) *Audit trails.* Detailed records and audit trails shall be maintained to substantiate the processing of all transactions. Audit trails must be reviewed periodically by a designated officer commensurate with the risk level of the information system. The review process must ensure that the reviewer does not review his/her own activity.

(As amended by Circular No. 508 dated 24 January 2006)

Sec. X205 (2008 - X603) Check Clearing Rules for Banks Authorized to Accept Demand Deposits.¹ The following are the check clearing rules for banks authorized to accept demand deposits:

- a. Banks authorized to accept demand deposits may participate in the clearing process conducted by the PCHC, subject to the latter's accreditation rules, either through (i) direct participation in clearing operations; or (ii) indirect participation through conduit

¹ See schedule of revised clearing and settlement process shown as footnote of Section X202

¶ X205
10.12.31

arrangements with UBs/KBs. Other banks may indirectly participate through maintenance of DDAs with UBs/KBs as settlement account for demand deposit or NOW accounts of TBs/RBs.

b. Banks authorized to participate directly in the clearing in PCHC shall be subject to the following measures to manage the settlement risks:

(1) Settlement of both inward and outward items shall be value dated on the day the checks are originally presented to PCHC or RCC, net of AM returns. For this purpose, the *value date or settlement date* referred to herein shall be defined uniformly as the date of original presentation of the COCI to PCHC for the Integrated GM LX and to the RCC for the RLX. For the Integrated GM Outward to Region, Integrated GM Inward from Region and Region to Region clearing, the value date or settlement date shall be on the day the COCIs are received and processed at PCHC.

(2) 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 the Bangko Sentral. The *ceiling* is defined as the sum of clean Overdraft Credit Line (OCL) equivalent to fifteen percent (15%) of rediscounting line with the Bangko Sentral, and the collateralized OCL that will be extended by Bangko Sentral. 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 Bangko Sentral 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 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.

(3) Provided the overdraft does not exceed the ceiling as defined in Item ¶2¶ hereof, the bank may avail of the clean/collateralized OCL. The availments against the approved clean/collateralized OCL shall bear interest at a rate equivalent to one-tenth of one percent (1/10 of 1%) per day or the ninety-one (91)-day T-Bill rate of the last auction immediately preceding the availment, plus three percentage (3%) points, whichever is higher.

(4) 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.

(5) Should the overdraft exceed the ceiling, as defined in Item ¶2¶ hereof, no availment of the clean/collateralized OCL shall be allowed.

(i) In the case of end-of-day overdraft, the Payments and Settlements Office (PSO) shall advise the PCHC of the amount available for settlement of the drawee bank's net clearing loss, beyond which amount inward clearing items will be unwound in accordance with the PCHC Clearing House Rules and Regulations.

(ii) In the case of final overdraft, i.e., after AM returns, where unwinding is no longer possible, the bank shall be excluded from next clearing. The PSO shall advise the PCHC of such exclusion upon prior Monetary Board approval.

(6) 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.

The guidelines implementing Item *b* of this Section are in *Appendix 31*.

c. In indirect participation through conduit arrangement, where the clearing results of participating TBs/RBs are consolidated with those of the conduit UBs/KBs, caps shall be set on the net clearing losses to be passed on to the conduit UB/KB by the TB/RB.

The cap is defined as the combined value of the following amounts:

- (1) the TB/RB s DDA with the Bangko Sentral; and
- (2) the value of clean/collateralized overdraft credit line that may be extended by the conduit UB/KB to the TB/RB.

The conduit arrangement should include provisions setting aforementioned cap on the net clearing losses.

(As amended by Circular Nos. 705 dated 29 December 2010 and 681 dated 08 February 2010)

Secs. 1205 (Reserved)

Sec. 2205 Check Clearing Rules for Thrift Banks Authorized to Accept Demand Deposits

(Deleted by Circular No. 825 dated 07 February 2014)

Sec. 3205 Check Clearing Rules for Rural Banks Who Are Members of the Philippine Clearing House Corporation

(Deleted by Circular No. 825 dated 07 February 2014)

Sec. X206 (2008 - X603) Clearing Operations. Banks shall observe the clearing procedures in accordance with the PCHC Clearing House Rules and Regulations for the clearing of checks¹.

(As amended by Circular Nos. 705 dated 29 December 2010 and 681 dated 08 February 2010)

Sec. X207 Check Clearing Operations During Public Sector Holidays. The guidelines on check clearing operations during public sector holidays are shown in *Appendix 84*.

(M-2008-025 dated 13 August 2008)

Secs. X208 - X212 (Reserved)

B. SAVINGS DEPOSITS

Sec. X213 Servicing Deposits Outside Bank Premises. Banks may be authorized by the Bangko Sentral to solicit and accept deposits outside their bank premises, subject to the following conditions:

- a. Minimum capital requirement is met;
- b. No major supervisory concerns affecting safety and soundness;
- c. The area of operations shall be within one (1)-hour normal travel time by land/sea from any head office or branch, except in remote areas where more than one (1)- hour normal travel time may be allowed; and
- d. Applicant bank shall institute and maintain the following minimum safeguards:

(1) All deposit solicitors shall be initially bonded for at least P1,000 subject to the increase thereof to approximate their daily collections;

(2) Deposit solicitors shall be provided with proper identification cards with photograph and signature of each respective solicitor, certified to by the appropriate officer of the bank. Said identification cards shall be worn by each solicitor at all times at the upper breast of his outer garment when soliciting deposits; and

(Next Page is Part II - Page 7)

¹ See schedule of revised clearing and settlement process shown as footnote of Section X202

(3) Adequate insurance coverage for funds in transit (representing deposits collected outside banking premises) shall be secured by applicant bank from insurance companies not included in the list of companies blacklisted by the Insurance Commissioner;

(4) Deposit slips shall be in booklet form, prenumbered, in triplicate copies and in three (3) colors - the original to be issued to the depositor, the second copy to be used for posting reference, and the third copy to be retained in the booklet;

(5) All collections shall be turned over to the cashier at the end of each day accompanied by a *Collection Summary Report* to be accomplished in duplicate which shall contain the following minimum information:

- (a) Date of the report;
- (b) Names and addresses of the depositors;
- (c) Deposit slip numbers;
- (d) Amounts of deposit;
- (e) Savings account and passbook numbers; and
- (f) Name and signature of solicitor rendering the report;

(6) Depositors shall always be required to accomplish a *Signature Card* when opening an account, which card shall be used always as reference in checking the genuineness/authenticity of signatures affixed on withdrawal slips or authorizations for withdrawal;

(7) Deposits/withdrawals shall be recorded by the bookkeeper or any ledger clerk, except any bank solicitor, in the depositor's ledger cards and passbooks on the same day that such deposits/withdrawals are accepted. Passbooks shall be returned to the depositors not later than the following business day;

(8) At the end of each month, depositors shall be advised in writing of the balances of their deposits with the bank, the advise slips of which shall never be handcarried by the solicitors themselves;

(9) Places of assignments of bank solicitors shall be rotated at least quarterly.

Sec. X214 Withdrawals. Banks are prohibited from issuing/accepting withdrawal slips or any other similar instruments designed to effect withdrawals of savings deposits without requiring the depositors concerned to present their passbooks and accomplishing the necessary withdrawal slips, except for banks authorized by the Bangko Sentral to adopt the no passbook withdrawal system: *Provided, That* banks which are already adopting the no passbook withdrawal system shall be given six (6) months from 09 March 1999 to seek approval from the Bangko Sentral.

The provisions of Sec. X202b shall also apply to withdrawals from savings deposits.

Sec. X215 Rental Deposits of Lessees
The following guidelines shall govern the opening and handling by banks of deposits made by lessees under Section 5(b) of Batas Pambansa Blg. 25, otherwise known as the Rent Control Law:

a. The deposit made by the lessee shall only be accepted by the bank under a special savings account in the name of the lessor;

b. The bank shall require the lessee to submit a copy of the written notice sent to the lessor for the deposit made, stating among other things, the date and amount of the deposit and the name and address of the lessor;

c. The bank, at its option, may require the lessee to submit any supporting document, such as the lease contract or official receipts of previous rentals paid, which will show the specimen signature of the lessor, or other papers to identify the lessor;

d. The bank shall segregate from its regular savings deposit accounts and maintain a separate subsidiary control ledger for deposits made under Section 5(b)

X215 - X223.2
10.12.31

- of Batas Pambansa Blg. 25;
- e. Any withdrawal against these special savings deposit accounts may only be allowed in favor of the lessee concerned before the amount deposited under consignation has been accepted by the lessor, or when authorized by the lessor;
- f. The expenses which may be incurred by the bank with respect to such rental deposits shall be charged against the lessor;
- g. All the minimum internal control standards applicable to savings deposit accounts prescribed in Sec. X185 shall be complied with; and
- h. The acceptance of such rental deposits, however, shall be optional or discretionary only upon the bank concerned.

Secs. X216 - X220 (Reserved)

Sec. X221 Peso Savings Deposit Accounts of Embassy Officials. Embassy officials are allowed to open peso savings deposit accounts with Philippine banks: *Provided*, That they submit proof of conversion of foreign currency to peso with Philippine banks.

(M-2007-021 dated 15 September 2007)

Sec. X222 (Reserved)

C. NEGOTIABLE ORDER OF WITHDRAWAL ACCOUNTS

Sec. X223 Authority to Accept Negotiable Order of Withdrawal Accounts. Negotiable Order of Withdrawal (NOW) accounts are interest-bearing deposit accounts that combine the payable on demand feature of checks and investment feature of savings accounts.

A UB/KB may offer NOW accounts without prior authority of the Monetary Board.

A TB/RB/Coop Bank may accept NOW accounts upon prior approval of the Monetary Board.

- X223.1 Prerequisites to accept negotiable order of withdrawal accounts for thrift banks/rural banks/cooperative banks.** In addition to the *Standard Pre-qualification Requirements for the Grant of Banking Authorities* enumerated in *Appendix 5*, a TB/RB/Coop Bank applying for authority to accept NOW accounts shall also comply with the following requirements:
 - a. The applicant TB must have complied with the minimum capital required under Subsec. X111.1.

In the case of RB/Coop Bank, it must have net assets of at least P5.0 million: *Provided*, That RBs which have been authorized to accept or create NOW accounts prior to the approval of R.A. No. 7353 (Rural Banks Act of 1992) shall be allowed to continue servicing such deposits.

The terms *capital* and *net assets* shall have the same meaning as in Sec. X111.

 - b. It has neither unpaid assessment due nor past due obligations with the PDIC.

(As amended by Circular Nos. 696 dated 29 October 2010 and 674 dated 10 December 2009)
- X223.2 Requirements for accepting negotiable order of withdrawal accounts** After a TB s/RB s/Coop Bank s application to accept NOW account has been approved, it may actually accept the same subject to the following conditions:
 - a. Submission of a certification signed by the president/chairman of the board of the bank stating that the requirements enumerated under Subsec. X223.1 have been complied with up to the day before the NOW account services are actually offered/extended to the public; and
 - b. That it has complied with all other conditions that the Bangko Sentral may impose.

The applicant bank shall submit a written notice to the appropriate department of the SES of the actual date when the NOW account deposit service

is offered to the public not later than ten (10) banking days from such offering of the service.

X223.3 *Sanctions.* If any part of the certification submitted by the bank as required in these guidelines is found to be false, the following sanctions shall be imposed, without prejudice to the sanctions under Section 35 of R.A. No. 7653:

- On the bank

Suspension of its authority to accept or create NOW accounts for one (1) year.
- On the certifying officer

A fine of P5,000 per day from the time the certification was made up to the time the certification was found to be false.

Sec. X224 Rules on Servicing Negotiable Order of Withdrawal Accounts. The following rules shall be observed in servicing NOW accounts:

- Prior to or simultaneous with the opening of a NOW account, the bank shall inform the depositor of its terms and conditions;
- The bank shall be responsible for the proper identification of its depositors; it shall require, among other things, two (2) specimen signatures and such other pertinent information;
- Deposits shall be covered by deposit slips in duplicate duly validated and initialed by the teller receiving the deposit. A copy of the deposit slip shall be furnished the depositor;
- NOW accounts shall be kept and maintained separately from the regular savings deposits;
- Blank NOW forms shall be prenumbered and shall be controlled as in the case of unissued blank checks;
- A bank statement shall be sent to each depositor at the end of each month for confirmation of balances; and
- Banks must use the form prescribed by present rules for NOW accounts.

Nothing herein shall be construed as precluding a TB, RB or Coop Bank from applying for authority to accept both demand deposits and NOW accounts.

Sec. X225 Minimum Features. The order of withdrawal form shall have a size of three (3) inches by seven (7) inches, and shall be printed on security/check paper. It shall contain, as a minimum, the features of the pro-forma order of withdrawal shown in *Appendix 11*.

Sec. X226 Clearing of Negotiable Order of Withdrawal Accounts. Any NOW account which may be deposited with a bank other than the drawee bank may be cleared through the PCHC in accordance with the PCHC Clearing House Rules and Regulations¹. Nothing in this Section shall prevent direct settlement between the parties concerned. The provision of Sec. X202 shall also apply for withdrawals on NOW accounts.

(As amended by Circular Nos. 705 dated 29 December 2010 and 681 dated 08 February 2010)

Secs. X227 - X230 (Reserved)

D. TIME DEPOSITS

Sec. X231 Term of Time Deposits. Time deposits shall be issued for a specific period of term.

Sec. X232 Special Time Deposits Authority shall be automatically granted to any accredited banking institution which may participate in the supervised credit program to accept special time deposits from the Agrarian Reform Fund Commission with interest lower than the rate allowed on time deposits accepted from the general public. Such deposits shall be exempt from the legal reserve requirements, as an exception to the existing policies on the matter.

¹ see schedule of revised clearing and settlement process shown as footnote of Section X202

Sec. X233 Certificates of Time Deposit

a. *Negotiable Certificates of Time Deposit (NCTDs)*

(1) UBs/KBs may issue NCTDs without approval of the Bangko Sentral.

(2) TBs/RBs/Coop Banks may issue NCTDs upon the prior approval of the Bangko Sentral.

b. *Non-Negotiable Certificates of Time Deposit*

Banks may issue long-term non-negotiable tax-exempt certificates of time deposit without approval of the Bangko Sentral.

X233.1 *Prerequisites to issue negotiable certificates of time deposits for thrift banks/rural banks/cooperative banks*
In addition to the *Standard Pre-qualification Requirements for the Grant of Banking Authorities* enumerated in *Appendix 5*, a TB/RB/Coop Bank applying for authority to issue NCTDs shall also comply with the following requirements:

a. Applicant s capital must be at least P150.0 million. For this purpose, capital shall have the same meaning as in Sec. X111; and

b. It has neither assessment due nor past due obligations with the PDIC.

(As amended by Circular No. 674 dated 10 December 2009)

X233.2 *Requirements for issuing negotiable certificates of time deposits*
After a TB s/RB s/Coop Bank s application to issue NCTDs has been approved, it may actually issue the same subject to the following conditions:

a. Submission of a certification signed by the president/chairman of the board of the bank stating that the requirements enumerated under Subsec. X233.1 have been complied with up to the day before the NCTDs are actually issued to the public; and

b. That it has complied with all other conditions that the Bangko Sentral may impose.

The applicant bank shall submit a written notice to the appropriate department of the

SES of the actual date when the NCTDs are actually issued to the public not later than ten (10) banking days from such issuance.

X233.3 *Minimum features*

a. *Form; denomination* - NCTDs may be issued in bearer or other form denoting negotiability and shall have a standard format to be prescribed by the Bangko Sentral which shall be prenumbered serially and predenominated. The minimum denomination shall be at the discretion of the issuing bank. No certificate payable to bearer shall contain words prohibiting its negotiation.

b. *Term* - The minimum maturity of the certificates shall be 731 days.

c. *Manner of issuance* - The certificates shall be issued only upon receipt of funds equivalent to their face value.

d. *Manner of printing* - NCTDs shall be printed on security paper by the Security Plant Complex (SPC) of the Bangko Sentral.

Orders for the printing of the desired forms shall not exceed a total value equivalent to twenty percent (20%) of the issuing bank s capital accounts (based on the quarter immediately preceding the request for printing) at any one time. Additional orders for printing which shall result in an excess over the prescribed benchmark shall require prior Bangko Sentral approval.

X233.4 *Insurance coverage.* The NCTDs shall be insured with the PDIC. Banks issuing bearer certificates shall imprint on the instrument the following:

For purposes of deposit insurance by the PDIC, the holder shall have his name registered in the books of the issuing bank.

X233.5 *Desistance from issuing new negotiable certificates of time deposits*
Unless authorized by the Bangko Sentral, TBs/RBs/Coop Banks with outstanding NCTDs shall immediately desist from issuing new NCTDs.

All outstanding NCTDs shall be valid and negotiable up to their maturity dates and shall not be subject to renewal.

□ **X233.6 Sanctions.** If any part of the certification submitted by the bank as required in these guidelines is found to be false, the following sanctions shall be imposed, without prejudice to the sanctions under Section 35 of R.A. No. 7653.

a. *On the bank*

Suspension of its authority to issue NCTDs for one (1) year.

b. *On the certifying officer*

A fine of P5,000 per day from the time the certification was made up to the time the certification was found to be false.

□□ **X233.7 - X233.8 (Reserved)**

□ **X233.9 Long-term negotiable certificates of time deposit.** The following guidelines shall govern the issuance of longterm negotiable certificates of time deposit (LTNCTDs) with a minimum maturity of five (5) years:

a. *Prior Bangko Sentral approval.* No LTNCTD shall be issued without the prior approval of the Bangko Sentral.

b. *Application for authority of the issuing bank.* An application for authority on each issue/issue program of LTNCTD shall be filed with the appropriate department of the SES: *Provided*, That any portion of an approved LTNCTD that is not issued within six (6) months of the approval of the Monetary Board will be deemed forfeited¹.

The application shall be signed by the president/country manager (branch of a foreign bank) of the bank. It shall be accompanied by a certified true copy of the resolution of the bank's board of directors authorizing the issuance of LTNCTD indicating, among others, the issue size, offering period, purpose or intended use of

proceeds thereof, registry bank, underwriter/arranger, selling agent(s) and market maker(s).

c. *Pre-qualification requirements*

The issuing bank shall be held accountable for ensuring the continuous compliance by its chosen participant-FIs with the qualification requirements prescribed by the Bangko Sentral.

As such, the issuing bank shall make a careful and diligent evaluation of the parties whom it shall engage to act as underwriter/arranger, registry bank, selling agent and market maker of its LTNCTDs.

The following qualification requirements shall be strictly complied with prior to and on a continuing basis by the issuing bank and FIs engaged to act as underwriter/arranger, registry bank, selling agent and market maker while the LTNCTD of the issuing bank remains outstanding.

(1) *Issuing bank*

A bank applying for authority to issue an LTNCTD shall comply with the following requirements:

(a) It has complied with the following capital adequacy requirements:

(i) Minimum capitalization as defined under Sec. X111; and

(ii) Risk-based capital adequacy ratio under Sec. X115 within the sixty (60) days immediately preceding the date of application;

(b) It has not incurred net weekly reserve deficiencies within eight (8) weeks immediately preceding the date of application;

(c) It has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/or Bangko Sentral Management in the last two (2) preceding examinations prior to the date of application, more particularly:

(i) The ceilings on credit accommodations to DOSRI;

(ii) Liquidity floor requirements for government deposits;

¹ Approved applications and outstanding LTNCTDs as of 22 February 2014 shall not be covered by the new requirements.

□ X233.9
14.12.31

(iii) Single borrower's loan limit; and
(iv) Investment in bank premises and other fixed assets;

(d) It maintains adequate provisions for probable losses commensurate to the quality of its asset portfolio but not lower than the required valuation reserves as determined by the Bangko Sentral;

(e) It 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 date of application;

(f) It has no past due obligations with the Bangko Sentral or with any government FI;

(g) 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;

(h) It has a CAMELS Composite Rating of at least 3 in the last regular examination; and

(i) It has neither unpaid assessment due nor past due obligations with the PDIC.

(2) *Registry bank*

(a) It may be a UB, a KB, or such other specialized entity that may be qualified by the Monetary Board;

(b) In the case of a UB or a KB:

(i) It must be a third party:

(aa) with no subsidiary/affiliate relationship with the issuing bank; and

(bb) which is not related to the issuing bank in any manner that would undermine its independence.

(ii) It must have adequate facilities and the organization to do the following:

(aa) Maintain the Electronic Registry Book (ERB);

(bb) Deliver transactions within the agreed trading period; and

(cc) Issue registry confirmations to holders of LTNCTDs.

(iii) It must have a CAMELS Composite Rating of at least 3 in the last regular examination.

(3) *Underwriter/Arranger*

(a) It is either a UB or an IH: *Provided*, That if an offering is on a best-efforts basis, such arranger may also be a KB;

(b) It must be a third party, such that:

(i) it has no subsidiary/affiliate relationship with the issuing bank; and

(ii) it is not related in any manner that would undermine the objective conduct of due diligence.

(c) Underwriters must be well capitalized and must have adequate risk management as evidenced by compliance with Items c(1)(a), (d), (g) and (h) as may be applicable.

(4) *Selling agent*

It must be an FI with dealership or brokering license.

(5) *Market maker*

(a) It must not be the issuing bank;

(b) It must be a third party which is not related to the issuing bank in any manner that would undermine its independence;

(c) It must be an FI, with dealership or brokering license; and

(d) It must be well-capitalized and must have adequate risk management as evidenced by compliance with Items □c(1)(a), (d), (g) and (h)□ as may be applicable.

d. *Additional requirements for the issuance of LTNCTD.* After a bank's application to issue an LTNCTD has been approved, it may issue the same, subject to the submission of the following additional requirements to the appropriate department of the SES within ten (10) calendar days after issuance of the initial offering/tranche:

(1) Written waiver of the secrecy of deposits on said LTNCTD by the issuing bank, its subsidiaries, affiliates and wholly or majority-owned or -controlled entities of such subsidiaries and affiliates;

(2) Information disclosure and the terms and conditions of the LTNCTD issuance;

(3) Promotional materials; and

(4) Specimen of the proposed registry confirmation and purchase advice from each selling agent/market maker which will evidence sale of the LTNCTD.

The bank shall, likewise, submit within ten (10) calendar days after issuance of the initial and subsequent tranches, a written notice to the appropriate department of the SES of the actual date of initial/tranche offering accompanied by a certification by the president/country manager that the pre-qualification requirements under Item □(c)1□ have been complied with up to the time of offering.

e. *Listing of LTNCTD¹ with an accredited exchange².* LTNCTDs shall be listed on an accredited exchange within thirty (30) calendar days after its approval by the Monetary Board. Banks which fail to list their issued LTNCTD on an accredited exchange within the prescribed period shall not be allowed to further issue LTNCTDs;

f. *Functions/responsibilities of the parties involved.* The respective parties shall have, among others, the following functions/responsibilities:

(1) *Registry bank*

(a) Generates and maintains the ERB;

(b) Records any transfer of ownership;

(c) Issues and sends registry confirmation to holders;

(d) Functions as paying agent for periodic interest and principal payments; and

(e) Monitors compliance with the

prohibition on holdings of LTNCTD, as prescribed under Item □h□ hereof.

(2) *Underwriter/Arranger*

(a) Conducts due diligence on the issuing bank and determines the valuation/pricing of the primary issue;

(b) Prepares the prospectus/information disclosure/updates for multi-tranche issues;

(c) Formulates the distribution/allocation plan for the initial offering and ensures proper and orderly distribution of the primary sale/issue of the LTNCTDs;

(d) Disseminates information to prospective depositors/investors of LTNCTDs on the terms and conditions of the issue (including information of non-pretermination by the depositor prior to original maturity and the liquidity mechanism in secondary trades) and the rights and obligations of the holder, issuer, market maker/selling agent, underwriter arranger and registry bank; and

(e) When selling to its clients, it must perform the functions/responsibilities of the selling agent under Items e(3)(a) and (b)□.

(3) *Selling agent*

(a) Verifies identity of each investor and applies other standards to combat money laundering as required under Sec. X801; and

(b) Issues the purchase advice for the primary offering of the LTNCTDs.

(4) *Market maker*

(a) Sets independent pricing for the secondary trading of LTNCTDs;

(b) Posts daily the bid and offer prices for the LTNCTDs on the screen of at least one (1) of the information providers until the operation of a fixed income exchange for LTNCTDs;

(c) Verifies identity of each investor and applies other standards to combat money laundering as required under Sec. X801;

¹ Approved applications and outstanding LTNCTDs as of 22 February 2014 shall not be covered by the new requirements.

² A bank shall be allowed to issue LTNCTDs subject to the condition that the bank shall submit a deed of undertaking to the Bangko Sentral that all LTNCTDs issued after 22 February 2014 shall be applied for listing on an accredited exchange within one (1) day after the LTNCTD platform commences operation.

The platform for the listing of the LTNCTDs will be available on 01 September 2014. In this regard, banks that issued LTNCTDs after 22 February 2014 shall apply for listing by 02 September 2014.

□ X233.9
14.12.31

(d) Issues the purchase advice for the secondary sale of the LTNCTDs; and

(e) Ensures secondary market transfers and registration in coordination with the registry bank.

g. *Change of underwriter/arranger, registry bank, selling agent(s)/market maker(s).*

The issuing bank shall notify the appropriate department of the SES in writing of any change in the identity of its registry bank, underwriter/arranger, selling agent and/or market maker within ten (10) calendar days from date of such change.

Said written notice shall state the (i) reasons for the change, (ii) identity of the newly-designated FI(s), and (iii) effectivity of the engagement.

h. *Waiver of the secrecy of deposits for market makers.* A market maker who holds an LTNCTD for its own account must issue a waiver of the secrecy of deposits in favor of the Bangko Sentral for examination purposes. Any information obtained from an examination of said LTNCTD shall be held strictly confidential.

i. *Prohibition on holdings of LTNCTDs.* The issuing bank including its related companies (subsidiaries and affiliates and wholly or majority-owned or -controlled entities of such subsidiaries and affiliates) cannot be a holder of the LTNCTDs of the issuing bank.

The issuing bank shall provide the registry bank with an updated list of all related companies. This report shall be a *Category B* report.

For purposes of this Subsection, an affiliate is an entity, at least twenty percent (20%) but not exceeding fifty percent (50%) of the outstanding voting stock of which is, owned by the issuing bank.

j. *Agreements between issuing bank and registry bank/selling agent(s)/market maker(s).* The agreements between the issuing bank and the registry bank/market makers/selling agents shall comply with the

provisions of Sec. X162 on bank service contracts. The issuing bank shall be liable for any damages to investors/depositors caused by actions of said registry bank, selling agent(s)/market maker(s) contrary to the agreements entered into.

k. *Minimum features*

(1) *Form; denomination* - An LTNCTD shall be in scripless form with a third party registry bank maintaining the ERB. To have legal effect, it shall comply with the provisions of R.A. No. 8792 (Electronic Commerce Act) particularly on the existence of an assurance on the integrity, reliability and authenticity of the LTNCTD in electronic form. LTNCTDs shall be registered in the name of individuals or corporations, negotiable and prenumbered serially. The minimum denomination shall be at the discretion of the issuing bank.

(2) *Currency* - Denomination shall be in Philippine pesos.

(3) *Term* - The minimum maturity of the LTNCTDs shall be five (5) years.

(4) *Primary Offering/Secondary Trading* - The initial offering shall be executed through an underwriter or an arranger. Subsequent negotiations in secondary trading must be executed through authorized market maker(s).

l. *Purchase Advice and Registry Confirmation*

(1) The Purchase Advice and Registry Confirmation shall conspicuously contain the following caveat:

(a) □ *This LTNCTD cannot be terminated by the holder nor the Issuing Bank before (maturity date). However, negotiations/ transfers from one (1) holder to another do not constitute pretermination.*□

For tax purposes, negotiations/transfers from one (1) holder to another shall be subject to the pertinent provisions of the National Internal Revenue Code of 1997, as amended and Bureau of Internal Revenue (BIR) regulations.

The caveat shall apply if the issuing bank commits no pretermination. Otherwise, it shall read as follows:

□ This LTNCTD cannot be terminated by the holder before (maturity date). However, it may be preterminated at the instance of the Issuing Bank upon prior notice to the holder on record. Negotiations/transfers from one (1) holder to another do not constitute pretermination □

For tax purposes, negotiations/transfers from one (1) holder to another shall be subject to the pertinent provisions of the National Internal Revenue Code of 1997, as amended and Bureau of Internal Revenue (BIR) regulations □; and

(b) □ All negotiations/transfers of this LTNCTD prior to maturity must be coursed through a Market Maker □.

(2) The selling agent/market maker shall issue a Purchase Advice to evidence initial purchase/secondary trading of LTNCTD with the original copy given to the holder.

(3) The registry bank shall issue a Registry Confirmation to evidence ownership of the LTNCTD, with the original copy given to the holder.

m. *Deposit insurance coverage.* The LTNCTDs shall be insured with the PDIC, subject to applicable rules and regulations, among others, on maximum insurance coverage.

n. *Pretermination by the issuer.* LTNCTDs may be preterminated by the issuing bank, subject to the following conditions:

(1) The Information Disclosure, Purchase Advice and Registry Confirmation shall include the information that the LTNCTD may be preterminated by the issuing bank;

(2) 30- day prior notification must be given to the appropriate department of the SES together with the justification for the pretermination;

(3) 30- day prior notification to holders of record;

(4) Notwithstanding any agreement to the contrary, the issuer shall shoulder the tax due on the interest income already earned by the holders; and

(5) The issuing bank's reserve positions shall be recomputed retroactively based on the applicable reserve rate(s) for regular time deposits during the affected periods.

If the recomputed amounts result in a reserve deficiency, the issuing bank shall be fined with the corresponding monetary penalties. The preceding monetary penalty, however, shall not be imposed if pretermination by the issuer is due to a change in law or regulation that will increase the cost of maintaining the LTNCTDs.

o. *Non-pretermination by the holder.* Presentation of the LTNCTD to the issuing bank for payment before the maturity date is not allowed. However, negotiation or transfer from one (1) holder to another shall not constitute pretermination of the LTNCTD.

For tax purposes, negotiations/transfers from one (1) holder to another shall be subject to the pertinent provisions of the National Internal Revenue Code of 1997, as amended and Bureau of Internal Revenue (BIR) regulations.

p. *Sanctions.* Without prejudice to the other sanctions prescribed under Sections 36 and 37 of R.A. No. 7653 and the provisions of Section 16 of R.A. No. 8791, the following sanctions will be imposed on Bangko Sentral-supervised FIs for failure to comply with the provisions of this Subsection and for non-disclosure or misrepresentation of information:

(1) *On the issuing bank* - Suspension of its authority to issue LTNCTDs, disqualification from future issuance of LTNCTDs and a monetary penalty of P30,000 for each violation.

(2) *On the registry bank* - Disqualification to be a registry bank for

X233.9 - X234.1
14.12.31

one (1) year and a monetary penalty of P30,000 for each violation.

(3) *On the selling agents/market makers* - Disqualification to be appointed as selling agent/market maker for one (1) year and a monetary penalty of P30,000 for each violation.

(4) *On the certifying officer* - A fine of P5,000 per day from the time of required disclosure up to the time disclosure was made; or from the time misrepresentation was made up to the time the information was corrected.

(5) *On the responsible officer* - A fine of P30,000 for participating or confirming in the non-disclosure or misrepresentation of information.

FIs not supervised by the Bangko Sentral acting as selling agent and/or market maker of LTNCTDs and/or its concerned directors/officers that are found to violate rules and regulations in the performance of their functions/responsibilities shall be subject to the provisions of Section 36 of R.A. No. 7653 and shall, likewise, be referred to the SEC for appropriate action.

(As amended by M-2014-034 dated 27 August 2014, Circular No. 834 dated 26 May 2014, M-2014-023 dated 23 May 2014, Circular Nos. 824 dated 30 January 2014, 822 dated 13 December 2013, 810 dated 30 August 2013, 674 dated 10 December 2009 and 585 dated 15 October 2007)

X233.10 (Reserved)

X233.11 Long-term non-negotiable tax-exempt certificates of time deposit

The issuance of long-term non-negotiable tax-exempt certificates of time deposit shall be governed by the following rules:

- a. *Minimum features*
 - (1) *Form; denomination* - The certificate shall contain words denoting its non-negotiability and shall be issued by banks only in the name of individuals with denominations in increments of P1,000.00.
 - (2) *Term* - The minimum maturity of the certificate shall be five (5) years.
 - (3) *Manner of issuance* - The certificate

shall be issued only upon receipt of funds equivalent to their face value.

(4) *Manner of printing* - The certificate shall be printed on security paper.

(5) *Pre-termination* - In case of pre-termination, the deposit shall be subject to income tax as provided under Section 24(B)(1) of the Tax Reform Act of 1997 which states that xxx a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long-term deposit or investment certificate based on the remaining maturity thereof:

| | |
|---|-----|
| (a) Four (4) years to less than five (5) years | 5% |
| (b) Three (3) years to less than four (4) years | 12% |
| (c) Less than three (3) years | 20% |
| xxx | |

b. *Insurance coverage.* The deposits shall be insured with the PDIC, subject to applicable rules and regulations, among others, on maximum insurance coverage.

c. *Reserves against long-term non-negotiable certificates of time deposit.* The rate and form of required reserves on regular time deposit shall also apply to the required reserves on long-term non-negotiable tax-exempt certificates of time deposit.

E. DEPOSIT SUBSTITUTE OPERATIONS (QUASI-BANKING FUNCTIONS)

Sec. X234 Scope of Quasi-Banking Functions. The following rules and regulations shall govern the quasi-banking operations of banks.

X234.1 Elements of quasi-banking

- The essential elements of quasi-banking are:
- a. Borrowing funds for the borrower s own account;
 - b. Twenty (20) or more lenders at any one (1) time;
 - c. Methods of borrowing are issuance, endorsement, or acceptance of debt instruments of any kind, other than deposits,

such as acceptances, promissory notes, participations, certificates of assignments or similar instruments with recourse, trust certificates, repurchase agreements, and such other instruments as the Monetary Board may determine; and

d. The purpose of which is (1) relending, or (2) purchasing receivables or other obligations.

¶ **X234.2 Definition of terms and phrases.** The following terms and phrases shall be understood as follows:

a. *Borrowing* shall refer to all forms of obtaining or raising funds through any of the methods and for any of the purposes provided in Subsec. X234.1 whether the borrower's liability thereby is treated as real or contingent.

b. *For the borrower's own account* shall refer to the assumption of liability in one's own capacity and not in representation, or as an agent or trustee, of another.

c. *Purchasing of receivables or other obligations* shall refer to the acquisition of claims collectible in money, including interbank borrowings or borrowings between FIs, or of acquisition of securities, of any amount and maturity,

from domestic or foreign sources.

d. *Relending* shall refer to the extension of loans by an institution with antecedent borrowing transactions.

Relending shall be presumed, in the absence of express stipulations, when the institution is regularly engaged in lending.

e. *Regularly engaged in lending* shall refer to the practice of extending loans, advances, discounts or rediscounts as a matter of business, as distinguished from isolated lending transactions.

¶ **X234.3 Transactions not considered quasi-banking.** The following shall not constitute quasi-banking:

a. Borrowing by commercial, industrial and other non-financial companies through any of the means listed in Subsec. X234.1 hereof, for the limited purpose of financing their own needs or the needs of their agents or dealers; and

b. The mere buying and selling without recourse of instruments mentioned in Subsec. X234.1: *Provided, That:*

(1) The institution buying and selling without recourse shall indicate in conspicuous print on its instrument the

(Next Page is Part II - Page - 17)

phrase *without recourse*, *sans recourse* or words of similar import that will convey the absence of liability or guarantee by said institution; and

(2) In the absence of the phrase “*without recourse*”, “*sans recourse*” or words of similar import, the instrument so issued, endorsed or accepted, shall automatically be considered as falling within the purview of these regulations: *Provided, further*, That any of the following practices or practices similar and/or tantamount thereto in connection with a without recourse transaction is hereby prohibited:

(a) Issuance of postdated checks by a financial intermediary, whether for its own account or as an agent of the debt instrument issuer, in payment of the debt instrument, sold, assigned or transferred without recourse; or

(b) Issuance by a financial intermediary of any form of guaranty on sale transactions or on negotiations or assignment of debt instruments without recourse; and

(c) Payment with its own funds by a financial intermediary which assigned, sold or transferred the debt instrument without recourse, unless the financial intermediary can show that the issuer has with the said financial intermediary funds corresponding to the amount of the obligation.

§ X234.4 Pre-conditions for the exercise of quasi-banking functions. No bank shall engage in quasi-banking functions without authority from the BSP: *Provided, however*, That banks authorized by the BSP to perform universal or commercial banking functions shall automatically have the authority to engage in quasi-banking functions: *Provided, further*, That the authority to obtain funds from the public, which shall mean twenty (20) or more persons under Section 8.2 of R.A. 8791, is not a condition but an authorization for the bank or quasi-bank,

once the Monetary Board has granted the quasi-banking license.

In addition to the Standard Pre-qualification Requirements for the Grant of Bank Authorities enumerated in *Appendix 5*, a TB securing BSP authority to engage in quasi-banking functions must meet the following requirements:

a. The bank must have a networth or combined capital of at least P650.0 million computed in accordance with Sec. X111;

b. The bank is well capitalized with risk-based capital adequacy ratio of not lower than twelve percent (12%) at the time of filing the application;

c. The bank’s operation during the preceding calendar year and for the period immediately preceding the date of application has been profitable;

d. The bank has elected at least two (2) independent directors and all its directors have attended the required seminar for directors of banks conducted or accredited by the BSP;

e. The bank 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; and

f. The bank has a CAMELS Composite Rating of at least “3” in the last regular examination with management rating of not lower than “3”.

§ X234.5 Certificate of Authority from the Bangko Sentral. A bank securing BSP’s Certificate of Authority to engage in quasi-banking functions shall file an application with the appropriate department of the SES. The application shall be signed by the bank president or officer of equivalent rank and shall be accompanied by the following documents:

§§ X234.5 - X234.6
08.12.31

a. Certified true copy of the resolution of the bank's board of directors authorizing the application;

b. A certification signed by the president or the officer of equivalent rank that the institution has complied with all conditions/prerequisites for the grant of authority to engage in quasi-banking functions;

c. An information sheet;

d. Bio-data signed under oath, of the members of the managerial staff who will undertake quasi-banking operations;

e. Borrowing-investment program for one (1) year which should include at the minimum:

(1) planned distribution of portfolios as to -

(a) underwriting;

(b) commercial paper markets;

(c) stocks and bonds;

(d) government securities;

(e) receivables financing, discounting and factoring;

(f) leasing; and

(g) direct loans;

(2) expected sources of funds to support investment program classified as to -

(a) maturity: short, medium and long-term;

(b) interest rates; and

(c) domestic or foreign sources whether institutional or personal.

TBs authorized to engage and are actually performing quasi-banking functions but do not meet the new capital requirement are hereby given a period of two (2) years reckoned from 11 November 2004 within which to comply with the minimum capital requirement in Subsec. X234.4 (a): *Provided*, That in case the TB has an approved capital build-up program under Subsec. X501.2, for its FDCU license, the approved capital build-up program, may be considered compliance with this requirement: *Provided, further*,

That in case, the TB has no approved capital build-up program, the minimum capital requirement may be substituted by a capital build-up program for a period of not more than five (5) years from 11 November 2004 and which must be approved by the Monetary Board. Such capital build-up program shall be in equal annual or diminishing amounts and shall be submitted to the appropriate department of the SES within three (3) months from 11 November 2004.

TBs which fail to comply with the required capitalization upon expiration of said two (2) year period given them or those which fail to comply with approved capital build-up program shall liquidate their quasi-banking operations within one (1) year and shall be considered revoked/cancelled. The license of a TB with authority to engage in quasi-banking functions but has not actually engaged in quasi-banking functions and has not complied with the above minimum capital requirements as of 11 November 2004, shall automatically be revoked.

§ X234.6 Sale, discounting, assignment or negotiation by banks of their credit rights arising from claims against the BSP. Pursuant to the policy of the BSP to promote investor protection and transparency in securities transactions as important components of capital markets development, credit rights in Special Deposit Account (SDA) placements and reverse repo agreements with the BSP, shall not be subject of sale, discounting, assignment or negotiation on a *with or without recourse basis*.

Any violation of the provisions of this Subsection shall be considered a *less serious offense* and shall subject the bank and the director/s and/or officer/s concerned to the sanctions provided under Section X299.

(Circular No. 636 dated 17 December 2008)

Sec. X235 Deposit Substitute Instruments

Any deposit substitute transaction by a bank performing quasi-banking functions shall be limited to its own promissory notes, repurchase agreements, and certificates of assignment/participation with recourse.

§ X235.1 Prohibition against use of acceptances, bills of exchange and trust certificates. Acceptances, bills of exchange, and trust certificates shall not be used by banks as evidence of deposit substitute liabilities in connection with their quasi-banking functions. This prohibition shall not apply to the acceptance or negotiation of bills of exchange in connection with trade transactions, or to the issuance of trust certificates creating trust relationships.

§ X235.2 Negotiation of promissory notes. Negotiable promissory notes acquired by banks in connection with their quasi-banking functions shall not be negotiated by mere indorsements and/or delivery, if they do not conform with the minimum features prescribed under Subsec. X235.3. If these notes do not contain the features, their negotiation shall be covered by any of the appropriate deposit substitute instruments above-mentioned.

§ X235.3 Minimum features. Deposit substitute instruments issued by entities performing quasi-banking functions shall have the following minimum features:

a. The present value and maturity value and/or the principal amount and interest rate and such other information as may be necessary to enable the parties to determine the cost or yield of the borrowing or placement shall be specified.

b. The date of issuance shall be indicated at the upper right corner of the

instrument, and directly below which shall be the maturity period or the word “demand”, if it is a demand instrument.

c. The payee may be identified by his trust account/deposit account number in both negotiable and non-negotiable instruments.

d. Securities which are the subject of a repurchase agreement or a certificate of assignment/participation with recourse, shall be particularly described on the face of said instruments or on a separate instrument attached and specifically referred to therein and made an integral part thereof as to the maker, value, maturity, serial number, and such other particulars as shall clearly identify the securities.

e. The instrument shall provide for the payment of liquidated damages, in addition to stipulated interest, in case of default by the maker or issuer, as well as attorney’s fees and costs of collection in case of suit.

f. A conspicuous notice at the lower center margin of the face of the instrument that the transaction is not insured by the PDIC shall be indicated.

g. The corporate name of the issuer shall be printed at the upper center margin of the instrument and directly below which shall be a designation of the instrument, such as “Promissory Note” or “Repurchase Agreement”.

h. The words “duly authorized officer” shall be placed directly below the signature of the person signing for the maker or issuer.

i. Each instrument shall be serially pre-numbered.

j. The copy delivered to the payee shall bear the word “Original” and the copies retained by the issuer shall be identified as “Duplicate”, “File Copy” or words of similar import.

k. Only security paper with adequate safeguards against alteration or falsification shall be used.

§§ X235.3 - X235.5
11.12.31

Borrowings of banks from the loans and discounts window of other banks or non-bank financial intermediaries shall be exempted from the documentation requirements prescribed in this Subsection: *Provided*, That the exemption from the documentation requirements prescribed in this Subsection shall not be construed or interpreted as exempting said borrowings from other regulations standardizing deposit substitute instruments and from other BSP regulations on deposit substitutes.

Deposit substitute instruments shall conform to the language prescribed by the BSP. Any substantial deviation there from or any additional stipulation therein shall be referred to the BSP for prior approval. The size and appearance of these instruments, shall not be similar to the size and appearance of checks. Rubber stamping, typewriting or handwriting some provisions shall not be considered compliance with said regulations. (Shown in *Appendix 12* are the samples of standardized instruments as evidence of deposit substitute liabilities.)

§ X235.4 Interbank loan transactions
Except for interbank borrowings which are settled through the banks’ respective DDAs with the BSP via PhilPaSS, all interbank borrowings shall be evidenced by deposit substitute instruments containing the minimum features prescribed in Subsec. X235.3.
(As amended by Circular No. 703 dated 23 December 2010)

§ X235.5 Delivery of securities
a. Securities, warehouse receipts, quedans and other documents of title which are the subject of quasi-banking functions, such as repurchase agreements, shall be physically delivered, if certificated, to a BSP accredited custodian that is mutually acceptable to the lender/purchaser and borrower/seller, 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 while the overlying principal borrowing instrument shall be physically delivered to the lender/purchaser. The custodian shall hold the securities in the name of the borrower/seller, but shall keep said securities segregated from the regular securities account of the borrower/seller if the borrower/seller has an existing securities account with the custodian: *Provided*, That a bank/other entity authorized by the BSP to perform custodianship function may not be allowed to be custodian of securities issued or owned by said bank/entity, its subsidiaries or affiliates, or of securities in bearer form.

The delivery shall be effected upon payment and shall be evidenced by a securities delivery receipt duly signed by authorized officers of the custodian and delivered to both the lender/purchaser and seller/borrower.

Sanctions. Violation of any provision of Item “a” shall be subject to the following sanctions/penalties:

- (1) *Monetary penalties*
First offense - Fine of P10,000 a day for each violation reckoned from the date the violation was committed up to the date it was corrected.
Subsequent offenses - Fine of P20,000 a day for each violation reckoned from the date the violation was committed up to the date it was corrected.
- (2) *Other sanctions*
First offense - Reprimand for the directors/officers responsible for the violation.
Subsequent offense -
 - (a) Suspension for ninety (90) days without pay of directors/officers responsible for the violation;
 - (b) Suspension or revocation of the accreditation to perform custodianship function;
 - (c) Suspension or revocation of the authority to engage in quasi-banking

§§ X235.5- X235.11
11.12.31

function; and/or

(d) Suspension or revocation of the authority to engage in trust and other fiduciary business.

b. The guidelines to implement the delivery by the seller of securities to the buyer or to his designated third party custodian are shown in *Appendix 68*.

The disposition of compliance issues of *Appendix 68* is shown in *Appendix 68a*.

The guidelines on the delivery of government securities to the investor's principal securities account with the Registry of Scripless Securities (RoSS) are in *Appendix 68b*.

Sanctions. Without prejudice to the penal and administrative sanctions provided for under Sections 36 and 37, respectively of R.A. No. 7653 (The New Central Bank Act), violation of any provision of the guidelines in *Appendix 68* shall be subject to the following sanctions/penalties depending on the gravity of the offense:

(a) *First offense* -

(1) Fine of up to P10,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and

(2) Reprimand for the directors/officers responsible for the violation.

(b) *Second offense* -

(1) Fine of up to P20,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and

(2) Suspension for ninety (90) days without pay of directors/officers responsible for the violation.

(c) *Subsequent offenses* -

(1) Fine of up to P30,000 a day for the institution for each violation from the date the violation was committed up to the date it was corrected;

(2) Suspension or revocation of the authority to act as securities custodian and/or registry; and

(3) Suspension for 120 days without pay of the directors/officers responsible for the violation.

(As amended by Circular No. 714 dated 10 March 2011, M-2007-002 dated 23 January 2007, M-2006-009 dated 06 July 2006, M-2006-002 dated 05 June 2006 and Circular No. 524 dated 31 March 2006)

§ X235.6 Other rules and regulations governing the issuance and treatment of deposit substitute instruments

a. If there is any stipulation that payment of the deposit substitute shall be chargeable against a particular deposit account, it shall further provide that the liability of the maker or issuer of the instrument shall not be limited to the outstanding balance of said account.

b. Any agreement allowing the issuer or maker to substitute the underlying securities shall further provide that the actual substitution shall be with the prior written consent of the payee.

c. Automatic renewal upon maturity of the instrument may be effected only under terms and conditions previously stipulated by the parties.

d. Stipulations between the maker or issuer and the payee which are embodied in separate instruments shall be specifically referred to in the deposit substitute instruments and made an integral part thereof.

e. In the case of repurchase agreements and certificates of assignment/participation with recourse, the stipulation shall clearly state either (1) that the underlying securities are being delivered to the buyer or assignee as collaterals or (2) that the ownership thereof is being transferred to the buyer or assignee.

f. The regulations on interbank loan transactions prescribed in Sec. X343 shall also apply to interbank borrowings.

(As amended by Circular No. 703 dated 23 December 2010)

§§ X235.7 - X235.11 (Reserved)

**§§ X235.12
08.12.31**

§ X235.12 Repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments. The following regulations shall govern repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments of banks as well as sale on a without recourse basis of said securities by banks.

a. *Proper recording and documentation of repurchase agreements.*

Banks shall have a true and accurate account, record or statement of their daily transactions. As such, repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments must be properly recorded and documented in accordance with existing BSP regulations.

The absence of proper documentation for repurchase agreements is tantamount to willful omission of entries relevant to any transaction, which shall be a ground for the imposition of administrative sanctions and the disqualification from office of any director or officer responsible therefor under existing laws and regulations.

b. *Responsibilities of the chief executive officer (CEO) or officer of equivalent rank.*

It shall be the responsibility of the CEO or the officer of equivalent rank in a bank to:

(1) Institute policies and procedures to prevent undocumented or improperly documented repurchase agreements covering government securities, commercial papers and other negotiable and non-negotiable securities or instruments;

(2) Submit a notarized certification at the end of every semester 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 the bank 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:

(a) Informed the clients that such securities are not deposits and as such, do not benefit from any insurance otherwise applicable to deposits such as, but not limited to, R.A. No. 3591, as amended, otherwise known as the PDIC law;

(b) 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:

(i) issuer and its financial conditions;

(ii) term and maturity date;

(iii) applicable interest rate and its computation;

(iv) tax features (whether taxable, tax paid or tax-exempt);

(v) risk factors and investment considerations;

(vi) liquidity feature of the instrument:

(aa) procedures for selling the security in the secondary market (e.g., OTC or exchange);

(bb) authorized selling agents; and

(cc) minimum selling lots.

(vii) disposition of the security:

(aa) registry (address and contact numbers);

(bb) functions of the registry; and

(cc) pertinent registry rules and procedures.

(viii) collecting and paying agent of the interest and principal; and

(ix) other pertinent terms and conditions of the security and if possible, a copy of the prospectus or information sheet of the security.

(c) Informed the client that pursuant to Subsecs. X235.5 and X238.1:

(i) 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

(ii) 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 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.

(d) Clearly stated to the client that:

(i) 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

(ii) The bank is not performing any advisory or fiduciary function.

(3) Report to the appropriate department of the SES any undocumented repurchase agreement within seventy-two (72) hours from knowledge of such transactions.

c. *Treatment as Deposit Substitutes.* All sales of government securities, commercial papers and other negotiable and non-negotiable securities or instruments that are not documented in accordance with existing BSP regulations shall be deemed to be deposit substitutes subject to regular reserves.

d. *Certification.* The submission deadline for the required certification from the CEO/officer of equivalent rank of the bank shall initially be 01 February 2005 using the format attached as Annex A of *Appendix 65*. Thereafter, the required succeeding certification shall be submitted within five (5) banking days from end of reference semester using the format attached

as *Appendix 65*.

e. *Sanctions.* The Monetary Board may, at its evaluation and discretion, impose any or all of the following sanctions to a bank or the director/s or officer/s found to be responsible for 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:

(1) Fine of up to P30,000 a day to the concerned entity for each violation from the date the violation was committed up to the date it was corrected;

(2) Suspension of interbank clearing privileges/immediate exclusion from clearing;

(3) Suspension of access to BSP rediscounting facilities;

(4) Suspension of lending or foreign exchange operations or authority to accept new deposits or make new investments;

(5) Revocation of quasi-banking license;

(6) Revocation of authority to perform trust operations; and

(7) Suspension for one hundred twenty (120) days without pay of the directors/officers responsible for the violation.

Sec. X236 Minimum Trading Lot and Minimum Term of Deposit Substitute

a. The minimum size of any single deposit substitute transaction shall be P50,000.

No bank performing quasi-banking functions shall issue deposit substitute instruments in the name of two (2) or more persons or accounts except those falling under the following relationships in which cases, commingling may be allowed: (a) husband and wife; (b) persons related to each other within the second degree of consanguinity; and (c) “in trust for” (ITF) arrangements.

(As amended by Circular No. 703 dated 23 December 2010)

§§ X237 - X237.3
08.12.31

Sec. X237 Money Market Placements of Rural Banks. Banks shall not accept money market placements from any RB unless the latter presents a certification under oath stating: (a) that it has no overdue special time deposits; (b) that it has no past due obligations with the BSP or other government financial institutions; (c) the amount of its current obligations, if any, with said government financial institutions; and (d) the amount of its total outstanding money market placements. However, in no case shall such banks sell receivables to RBs without recourse.

§ X237.1 Definition of terms. As used in this Section, the following terms shall have the following meanings:

- a. *Money market placements* shall include investments in debt instruments, including purchase of receivables with recourse to the lending institution, except purchase of government securities on an outright basis.
- b. *Government securities* shall include evidences of indebtedness of the Republic of the Philippines, the BSP and other evidences of indebtedness or obligations of government entities the servicing and repayment of which are fully guaranteed by the Republic of the Philippines.
- c. *Persistent violation* shall mean the violation of any of the provisions of these rules by the director or officer concerned for four (4) or more times within a twelve (12)-month period from the date the first offense was committed.

§ X237.2 Conditions required on accepted placements not covered by prohibition. Placements accepted which are otherwise not covered by the above prohibition must comply with the following

conditions:

- a. That total money market placements of an RB as stated in the certification, including the placement being accepted by the entity concerned, shall not exceed the RB’s combined capital accounts or net worth less current obligations with the BSP or other government financial entities;
- b. The maturity of the money market placement shall not exceed sixty (60) days; and
- c. That placements shall be evidenced in all cases by promissory notes of accepting entities/repurchase agreements and/or certificates of participation/assignment with recourse and that underlying instruments shall be certificates of indebtedness issued by the BSP or other government securities the servicing and repayment of which are guaranteed by the Republic of the Philippines.

§ X237.3 Sanctions. Violations of the provisions of this Section shall be subject to the following sanctions/penalties:

- a. *Monetary penalties*
 - First offense* - Fines of P3,000 a day, reckoned from the date placement started up to the date when said placement was withdrawn, for each violation shall be assessed on the bank.
 - Subsequent offenses* - Fines of P5,000 a day, reckoned from the date placement started up to the date placement was withdrawn, for each violation shall be assessed on the bank.
- b. *Other sanctions*
 - First offense* - Reprimand for the directors/officers who approved the acceptance/placement with a warning that subsequent violations will be subject to more severe sanctions.

Subsequent offenses -

(1) Suspension for ninety (90) days without pay for directors/officers who approved the placement.

(2) Suspension or revocation of the authority to engage in quasi-banking functions.

Sec. X238 Without Recourse Transactions

No bank shall sell, discount, assign, or negotiate, in whole or in part, such as thru syndications, participations and other similar arrangements, any notes, receivables, loans, debt instruments and any type of financial asset or claim, except government securities, or be a party in any capacity in any of the above transactions, on a without recourse basis unless such receivables, notes, loans, debt instruments and financial assets or claims are registered with the SEC. This prohibition includes transactions between a bank and its trust department.

Unregistered commercial papers may be sold, discounted, assigned, or negotiated by banks to the following:

- a. other banks;
- b. QBs;
- c. IHs;
- d. insurance companies;
- e. finance companies;
- f. investment companies;
- g. pension or retirement plan maintained by the government of the Philippines or any political subdivision thereof or managed by a bank or other persons authorized by the Bangko Sentral to engage in trust functions;
- h. funds managed by another bank or other entities duly authorized to engage in trust or other fiduciary business; and
- i. such other person as the SEC may by rule determine as qualified buyers, on the basis of such factors as financial sophistication, net worth, knowledge, and experience in financial and business matters, or amount of assets under management.

§ X238.1 Delivery of securities

a. Securities sold *on a without recourse basis* allowed under Sec. X238 shall be delivered physically to the purchaser, or to his designated custodian duly accredited by the BSP, if 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, while the confirmation of sale or document of conveyance by the seller shall be physically delivered to the purchaser. The custodian shall hold the securities in the name of the buyer: *Provided, That* a bank/other entity authorized by the BSP to perform custodianship function may not be allowed to be custodian of securities issued or sold on a without recourse basis by said bank/entity, its subsidiaries or affiliates, or of securities in bearer form.

The delivery shall be effected upon payment and shall be evidenced by a securities delivery receipt duly signed by the authorized officer of the custodian and delivered to the purchaser.

Sanctions. Violation of any provisions of Item “a” shall be subject to the following sanctions/penalties:

(1) *Monetary penalties*

First offense - Fine of P10,000 a day for each violation reckoned from the date the violation was committed up to the date it was corrected.

Subsequent offenses - Fine of P20,000 a day for each violation reckoned from the date the violation was committed up to the date it was corrected.

(2) *Other sanctions*

First offense - Reprimand for the directors/officers responsible for the violation.

Subsequent offense -

(a) Suspension for ninety (90) days without pay of directors/officers responsible for the violation;

§§ X238.1 - X238.3
11.12.31

(b) Suspension or revocation of the accreditation to perform custodianship function;

(c) Suspension or revocation of the authority to engage in quasi-banking function; and/or

(d) Suspension or revocation of the authority to engage in trust and other fiduciary business.

b. The guidelines to implement the delivery by the seller of securities to the buyer or to his designated third party custodian are shown in *Appendix 68*.

Sanctions. Violation of any provision of the guidelines in *Appendix 68* shall be subject to the sanctions/penalties under Item “b” of Subsec. X235.5.

(As amended by Circular No. 714 dated 10 March 2011, M-2007-002 dated 23 January 2007, M-2006-009 dated 06 July 2006 and M-2006-002 dated 05 June 2006, Circular No. 524 dated 31 March 2006)

§ X238.2 Sanctions. Unless specific sanctions are prescribed under these rules, any violation of the provisions of this Section shall be subject to any or all of the following sanctions:

a. Suspension of quasi-banking authority for a period of six (6) months; and

b. Monetary penalty of P500 per day per transaction for each officer of the bank involved in any capacity in any transaction violative of these regulations.

§ X238.3 Securities custodianship operations

a. Securities sold on a without recourse basis shall be delivered to the purchaser, or to his designated custodian duly accredited by the BSP: *Provided*, That a bank/other entity authorized by the BSP to perform custodianship function may not be allowed to be custodian of securities issued or sold on a without recourse basis by said bank/entity, its subsidiaries or affiliates, or of securities in bearer form. Existing securities being held under

custodianship by banks/other entities under BSP supervision, which are not in accordance with said regulation, must therefore, be delivered to a BSP-accredited third party custodian. However, banks and other FIs under BSP supervision may maintain custody of existing securities of their clients who are unable or unwilling to take delivery pursuant to the provisions of Subsec. X235.5 but who declined to deliver their existing securities to a BSP accredited third party custodian subject to the following conditions:

(1) the custody arrangements with clients have been in existence prior to 05 November 2004 (effectivity of Circular 457 dated 14 October 2004);

(2) the dealing bank/NBFI under BSP supervision had been informed in writing by the client that he is not willing to have his existing securities delivered to a third party custodian;

(3) any BSP regulated institution shall not enter into securities transactions with a client who has outstanding securities not delivered to a BSP-accredited third party custodian; and

(4) it shall be the responsibility of any BSP regulated institution to satisfy itself that the person purchasing securities from it has no outstanding securities holdings which were not delivered to a BSP-accredited third party custodian.

Sanctions. Without prejudice to the penal and administrative sanctions provided for under Sections 36 and 37, respectively, of the R.A. No. 7653, violation of any provision of this Subsection shall be subject to the following sanctions/penalties:

(1) *First offense* -

(a) Fine of up to P10,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and

(b) Reprimand for the directors/officers responsible for the violation.

- (2) *Second offense* -
- (a) Fine of up to P20,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and
- (b) Suspension for ninety (90) days without pay of directors/officers responsible for the violation.
- (3) *Subsequent offenses* -
- (a) Fine of up to P30,000 a day for the institution for each violation from the date the violation was committed up to the date it was corrected;
- (b) Suspension or revocation of the authority to act as securities custodian and/or registry; and
- (c) Suspension for 120 days without pay of the directors/officers responsible for the violation.
- b. Sec. X441 shall also govern the securities custodianship and securities registries of banks.

(As amended by M-2006-009 dated 06 July 2006, M-2006-002 dated 05 June 2006 and Circular No. 524 dated 31 March 2006)

Sec. X239 Issuance of Bonds. The following guidelines shall govern the issuance of bonds by banks with quasi-banking authority.

- § X239.1 Definition of terms.** For purposes of this Section, unless the context clearly indicates otherwise, the following shall have the meaning as indicated:
- a. *Government securities* shall refer to evidences of indebtedness of the Republic of the Philippines or its instrumentalities, or of the BSP, and must be freely negotiable and regularly serviced.
- b. *Net book value* shall refer to the acquisition cost of property or accounts plus additions and improvements thereon less valuation reserves, if any.
- c. *Current market value* shall refer to the value of the property as established by a duly licensed and independent appraiser.

§ X239.2 Compliance with Securities and Exchange Commission rules on registration of bond issues. All banks with quasi-banking authority issuing or intending to issue bonds shall comply with the New Rules on Registration of Long-Term Commercial Papers promulgated by the SEC (*Appendix 13*).

§ X239.3 Notice to Bangko Sentral ng Pilipinas. Within three (3) days from approval by SEC of its bond issue, the bank concerned shall notify the appropriate department of the SES of the approval attaching thereto the documents required by the SEC for the issuance and registration of the bond issue.

- § X239.4 Minimum features.** Bonds issued by banks shall have the following minimum features:
- a. *Form; issue price; denomination* - The trust indenture and the name of the indenture trustee shall be indicated on the face of the bond certificate.
- The SEC-assigned bond registration number and expiry date, if any, shall likewise be indicated, stamped on the face of each bond certificate issued.
- Bonds may be issued at face value, at a discount or at a premium. Minimum denomination shall be P20,000.
- b. *Term* - The minimum term of the bonds shall be four (4) years. No optional redemption before the fourth year shall be allowed.
- c. *Interest; manner; form of payment* - The bonds shall not be subject to interest rate ceilings prescribed by the Monetary Board or Act No. 2655, as amended.
- d. *Trust indenture; collaterals; sinking fund* - A trust indenture shall be executed between the issuer and a qualified trust corporation as trustee, which shall neither be an affiliate nor a subsidiary of the issuer.
- The following shall be deemed as eligible collateral and shall be maintained

§§ X239.4 - X240.1
 08.12.31

at respective values indicated in relation to the face value of the bond issue:

- | | | |
|--|---|--|
| (1) Government securities | - | Aggregate current market value of 100% |
| (2) Readily marketable private securities listed in the big board of stock exchanges | - | Aggregate current market value of 150% |
| (3) Real estate | - | Net book value of 100% |
| (4) Unmatured receivables acquired with recourse | - | Net book value of 150% |
| (5) Unmatured receivables acquired without recourse | - | Net book value of 200% |

Government and private securities, certificates of title and documents evidencing receivables offered as security shall be physically delivered to the indenture trustee. Substitution of collaterals shall be allowed: *Provided*, That in no case shall the collateral fall below the herein required ratios.

The issuer may, at his option, provide for the retirement at maturity of the bond issue through the sinking fund to be deposited with and managed by the indenture trustee.

e. *Bond registry* - The bonds shall be fully registered as to principal and interest. The issuer, its trustee, agent or underwriter must maintain a bond registry duly approved by the SEC for recording initial and subsequent transfers the names of transferees, date of transfer, purchase price and serial numbers of bonds transferred.

§ X239.5 *Issuance of commercial papers.* The issuance of other forms of commercial papers by banks with quasi-banking authority shall be subject to the new rules on registration of short-term and long-term commercial papers appended hereto as *Appendices 13 and 14*.

F. GOVERNMENT DEPOSITS

Sec. X240 Statement of Policy. As a general policy, cash balances of the Government, its political subdivisions and instrumentalities as well as of government-owned or controlled corporations shall be deposited with the BSP, with only minimum working balances to be held by government-owned banks and such other banks incorporated in the Philippines as the Monetary Board may designate: *Provided*, That such banks may be authorized by the Monetary Board to hold deposits of the political subdivisions and instrumentalities of the Government beyond their minimum working balances whenever such subdivisions and instrumentalities have outstanding loans with said banks.

For purposes of this Section:

a. The term *government-owned or controlled corporations* shall refer to government-owned or-controlled corporations which are created by special laws. It shall exclude government FIs such as DBP, LBP and Al-Amanah Islamic Investment Bank of the Philippines, corporations which are created under the provisions of the Corporation Law (Act No. 1459, as amended) or the Corporation Code (BP Blg. 68) and private corporations which are taken over by government-owned or-controlled corporations.

b. *Minimum working balances* shall represent the minimum amounts necessary to enable the government instrumentality/political subdivision making the deposit to transact business efficiently and effectively as determined by the Department of Finance.

§ X240.1 *Prior Monetary Board approval.* No private bank shall, without prior approval of the Monetary Board, accept, as depository, any fund or money from the Government, its political

subdivisions and instrumentalities, and government-owned or -controlled corporations; nor shall a private bank borrow any fund or money therefrom, through the issuance or sale of its acceptances, notes or other evidences of indebtedness.

▯ **X240.2 Banks which may accept government funds**

a. Banks, the majority of the capital of which is owned by the Government, may act as depository of funds of the Government, its political subdivisions and instrumentalities, and government-owned or-controlled corporations.

b. Private banks incorporated in the Philippines may act as depository of government funds only with the prior approval of the Bangko Sentral. Local government units may maintain depository accounts preferably in government banks and, in exceptional cases and with the prior approval of the Monetary Board, in the name of their respective government units, in private banks located in or nearest to their respective areas of jurisdiction but the depository bank(s) must also seek the prior approval of the BSP: *Provided, That* a TB/RB/Coop Bank may only act as official depository of government funds pursuant to R.A. Nos. 7906, 7353 and 6938, as follows:

(1) a TB may only act as official depository of national agencies, and of municipal, city or provincial funds in the municipality, city or province where the TB is located;

(2) an RB may only act as official depository of municipal, city or provincial funds in the municipality, city or province where the RB is located; and

(3) a Coop Bank may accept deposits of all government departments, agencies and units of the national and local governments including government-owned or-controlled corporations.

c. Where there is no government bank or Bangko Sentral office in the province and

the nearest government bank or Bangko Sentral office is inaccessible by ordinary transportation, or transporting/withdrawing the government deposits to and from the said office is impractical or risky, the province, as well as cities and municipalities located therein, may seek approval of the Monetary Board to consider all their funds eligible for deposits with a qualified private depository bank within the province, city or municipality, as the case may be.

d. Banks acting as official depository of government funds may accept demand, savings or time deposits.

e. The authority of a bank to accept government deposits does not obligate the Government, its subdivisions and instrumentalities and government-owned or-controlled corporations to deposit with that bank. Thus, even if a TB or RB is authorized by the Monetary Board to accept government deposits, a municipality is not obligated to deposit with that TB or RB. Similarly, a bank which is authorized to accept deposits of the Government or a government corporation because of outstanding loans granted by the bank cannot demand as a matter of right that the Government or government corporation make deposits unless there is a stipulation in the loan agreement.

▯ **X240.3 Prerequisites for the grant of authority to accept deposits from the Government and government entities.** In addition to the *Standard Pre-qualification Requirements for the Grant of Banking Authorities* enumerated in *Appendix 5*, private banks applying for authority to accept deposits from the Government, its subdivisions and instrumentalities and government-owned or-controlled corporations and government banks applying for authority to accept government deposits in excess of minimum working balances shall also comply with the following conditions:

a. The applicant bank must have

▯▯ **X240.3 - X240.5**
13.12.31

complied with the minimum capital required under Subsec. X111.1;

b. It has neither unpaid assessment due nor past due obligations with the PDIC; and

c. The bank's CAMELS composite rating in its latest examination is not lower than three (3) with Management component score of not lower than three (3).

(As amended by Circular Nos. 696 dated 29 October 2010, 674 dated 10 December 2009 and 526 dated 10 April 2006)

▯ **X240.4 Application for authority.** An application for authority to accept government deposits shall be signed by the president of the bank and shall be filed with the appropriate department of the SES. The application shall be accompanied by a certification by the bank president or executive vice-president that the bank has complied with all the requirements enumerated under Subsec. X240.3.

Banks authorized to accept government funds as depository shall continuously comply with the conditions enumerated under Subsec. X240.3 even after the authority to accept government deposits has been granted and during the period while the banks actually hold government deposits, otherwise, any violation may be a basis for the imposition of sanctions against the bank, its directors and officers, or revocation of the authority to accept government deposits.

Deposits maintained by the Government, its subdivisions and instrumentalities and government-owned or -controlled corporations shall be supported by the following documents whenever applicable:

a. A copy of the resolution of the barangay, municipal or city council (Sangguniang Bayan/Panglunsod) or the provincial board (Sangguniang Panlalawigan) authorizing the deposit of municipal, city or provincial funds;

b. A copy of the resolution of the board of directors of the government-owned or-controlled corporations authorizing the deposit of funds of said corporations; or

c. In case of the National Government, its unincorporated branches, agencies and instrumentalities, a written authority to open deposit accounts and/or deposit government funds signed by the duly authorized official of the Department of Finance/Bureau of the Treasury (DOF/BTr) and of the department, bureau, agency, or office making the deposit.

The resolution or authority should state the name and location of the depository bank, type and terms of the deposit, and that the amount to be deposited represents working balances.

(As amended by Circular No. 811 dated 13 September 2013)

▯ **X240.5 Limits on funds of the Government and government entities that may be deposited with banks**

a. Funds of the Government, its subdivisions and instrumentalities and government-owned or-controlled corporation, deposited with banks authorized to receive deposits shall be limited to the minimum working balance of the depositor.

With prior Monetary Board approval, government or private banks may be authorized to accept amounts in excess of minimum working balances if the Government or government entity making the deposit has outstanding loan obligations to the depository bank but such amounts shall not exceed the amount of its outstanding loan obligations to the depository bank. The amount of non-transferable and non-negotiable government securities with market or below market interest rate at the time of issue, issued by the National Government to the depository bank shall be considered as outstanding loans of the National Government to said bank within the meaning of Section 113 of R.A. No. 7653.

b. The aggregate amount of government funds which a private bank can hold at any given time shall not exceed 200% of the bank's net worth.

c. Where any director, officer or stockholder of a private bank, as defined under Subsec. X326.1, is also an elective or appointive official of a municipality, city or province, said bank is prohibited from accepting deposits from said municipality, city or province unless it is the only bank existing therein: *Provided*, That this provision shall not be construed as a grant of authority to such elective or appointive public official to act as director or officer of a private bank.

§ X240.6 Liquidity floor. Unless otherwise prescribed by the Monetary Board, authorized government depository banks other than the BSP, and authorized private banks shall, inclusive of the required reserves against deposits and/or deposit substitutes, maintain a fifty percent (50%) liquidity floor with respect to deposits of, borrowings from, and all other liabilities to, the Government and government entities, in the form of transferable government securities which represent direct obligations of the National Government.

Government securities representing direct obligations of the National Government regardless of maturity, issued pursuant to the provisions of R.A. No. 245, as amended by P.D. No. 142, which are not otherwise earmarked or used as part of other reserve requirements of the BSP, shall be eligible as liquidity reserves.

Securities received pursuant to the Domestic Debt Exchange Offer of the Republic of the Philippines in exchange for securities that are eligible reserves for liquidity floor requirement shall, likewise be eligible as liquidity reserves.

Eligible securities being used as such reserve shall not in any way be encumbered or be subject to any transaction without prior approval of the BSP.

Also eligible for liquidity floor are the following:

a. The free portion of the *“Due from Bangko Sentral - Local Currency”* after satisfying the legal and other reserve requirements;

b. NDC Agri-Agra ERAP Bonds, which are not being used as alternative compliance with PD 717. Such bonds shall not in any way be encumbered or be subject to any transaction without prior approval of the BSP;

c. Securities backed by the unreleased Internal Revenue Allotments (IRA) of local government units (issued by a Special Purpose Trust administered by the DBP under the IRA Monetization Program of the Union of Local Authorities of the Philippines) the release of which IRA on scheduled date of payment has been certified by the Department of Budget Management (DBM) as not being subject to any conditionalities: *Provided*, That such securities shall be eligible only to the extent of the present value of the bond computed using the original yield to maturity (as of auction/issue date);

d. Tobacco Excise Tax Receivables Monetization Program Investment Certificates (TEXTR Certificates) backed by receivables representing the unreleased portion of the obligation of the National Government to its LGU for their share of the Tobacco Excise Taxes under R.A. No. 7171 amounting to P1.85 billion and covering the years 2001 and 2002: *Provided*, That such securities shall be eligible only to the extent of the present value of the securities computed using the original yield to maturity as of auction/issue date; and

e. Placement of banks in their SDA with the BSP, effective 10 May 2007.

For purposes of computing the fifty percent (50%) liquidity floor requirement on all government funds held by authorized banks, banks shall adopt a one (1)-week lag system, effective 04 May 2001.

§§ X240.6 - X240.9
08.12.31

Banks authorized to accept government deposits shall specify in the prescribed reports submitted to the SDC of the BSP the balance of government deposits subject to liquidity floor requirement and, if any, the corresponding GS earmarked for subject purpose.

(As amended by Circular Nos. 566 dated 03 May 2007 and 509 dated 01 February 2006)

§ X240.7 Exempt transactions. The following deposits of, borrowings from and/or liabilities to, the Government and government entities shall be exempt from the liquidity floor:

a. Obligations to the BSP arising from rediscounting facilities and sale of government securities under repo agreements made in connection with the provisions of Sec. X269 and Subsec. X601.1;

b. Special time deposits (STDs) and deposit substitutes under the special financing program of the Government and/or international FIs;

c. Obligations to the BSP consisting of emergency advances, overdraft facilities, and those arising from peso swap differentials and supervision and examination fees;

d. Marginal deposits on importations;

e. Due to the Treasurer of the Philippines (unclaimed deposit balances);

f. Funds held by participating financial institutions (PFIs) under the GSIS Housing Loan Programs: *Provided*, That the agreement between GSIS and the conduit banks specify that such funds may be held by the conduit banks for a period of not more than seven (7) calendar days prior to their release to the borrower and prior to the remittance by the conduit banks of payment to the GSIS;

g. Deposits of the BIR and BOC; and

h. Any other form of deposits, borrowings and/or liabilities specifically authorized by law or exempted by the Monetary Board.

§ X240.8 Reports. Banks shall submit to the appropriate department of the SES a report of their government deposits from all sources in the aggregate in the prescribed form.

§ X240.9 Sanctions. Any violation of this Section shall be a ground for the imposition of the following sanctions:

a. The deposit account with the BSP of the bank concerned shall be debited by the Accounting Department of the BSP in the amount of the unauthorized deposit or borrowing upon receipt of a report or notice from the appropriate department of the SES and the deposit account of the government institutions with the BSP shall be credited for the same amount. A copy of said report or notice of the SES shall be furnished each to the bank concerned and the government institutions.

b. The withdrawal of previously granted authority to accept government funds;

c. Without prejudice to the sanctions under Section 35 of R.A. No. 7653, the following administrative sanctions shall be imposed if any part of the certification as required in this Section is found to be false or misleading:

On the bank - Cancellation of the authority to accept government deposits if one has already been granted and/or disqualification to act as a government depository for not more than one (1) year.

On the certifying officer - A fine of P5,000 per day from the time the certification was found to be false, for each application filed with the BSP.

d. Any bank with deficiency in the required liquidity floor against deposits of, and/or borrowings from, the Government and government entities or with excess holdings of such deposits shall: (1) be denied the credit facilities of the BSP; and (2) if the deficiency lasts for four (4) consecutive weeks, the bank shall be

prohibited from declaring cash dividends and making new loans and investments, except investments in government securities. The prohibition shall be lifted by the Governor of the Bangko Sentral, upon certification by the appropriate department of the SES that the bank has had no deficiency in its liquidity floor and no excess holdings of government deposits for at least four (4) consecutive weeks.

X240.10 - X240.14 (Reserved)

X240.15 Acceptance by banks with internet banking facility of payment of fees for account of government entities
Domestic private banks with BSP-approved internet banking facility are allowed to accept payment of fees/other charges of similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all GOCCs: *Provided*, That the funds so accepted/collected shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of the said government entities.

These banks are required to notify the appropriate department of the SES that supervises the bank, copy furnished the Head of the Technical Working Group on E-Banking, SDC, of the names of the government institutions that will interface with their systems and any changes that may subsequently be made on the arrangements.

Sec. X241 (Reserved)

G. INTEREST

Sec. X242 Interest on Deposits/Deposit Substitutes.
Demand, savings, NOW accounts, time deposits and deposit substitutes shall not be subject to interest ceilings.

X242.1 Time of payment of interest on time deposits/deposit substitutes
Interest or yield on time deposit/deposit substitute may be paid at maturity or upon withdrawal or in advance: *Provided, however*, That interest or yield paid in advance shall not exceed the interest for one (1) year.

X242.2 Treatment of matured time deposits/deposit substitutes
a. A time deposit not withdrawn or renewed on its due date shall be treated as a savings deposit and shall earn interest from maturity to the date of actual withdrawal or renewal at a rate applicable to savings deposits.

b. A deposit substitute instrument not withdrawn or renewed on its maturity date shall from said date become payable on demand and shall earn an interest or yield from maturity to actual withdrawal or renewal at a rate applicable to a deposit substitute with a maturity of fifteen (15) days.

Banks performing quasi-banking functions shall continue to consider matured and unwithdrawn deposit substitutes as such and subject to reserves.

Sec. X243 Disclosure of Effective Rates of Interest.
Banks are required to disclose to depositors the following information on interest computation and payments:
a. Type/kind of deposit;
b. Nominal rate of interest and period covered;
c. Manner of interest payment, i.e., whether credited in advance or otherwise;
d. Basis of interest payment, i.e., whether based on average daily balance compounded quarterly or otherwise;
e. Effective rate of interest expressed as a simple annual rate, on the basis of the information above given and indicating the formula used to arrive at the effective rate of interest; and

X243 - X253.1
14.12.31

f. Illustration of basis of computing interest on a hypothetical deposit account.

Copies of the abovementioned information shall be made available to each and every depositor by attaching these copies to savings deposit passbooks and time deposit certificates.

Posters disclosing the above information and aggregate deposit rates shall also be displayed conspicuously within the bank premises.

Secs. X244 - X252 (Reserved)

H. RESERVES AGAINST DEPOSIT AND DEPOSIT SUBSTITUTE LIABILITIES

Sec. X253 Accounts Subject to Reserves; Amounts Required. The following rules and regulations shall govern the reserves against deposit and deposit substitute liabilities.

X253.1 *Required reserves against deposit and deposit substitute liabilities* The rates of required reserves against deposit and deposit substitute liabilities in local currency of banks shall be as follows:

| | UBs/KBs | TBs | RBs/ Coop Banks |
|---|---------|-----|--------------------|
| a. Demand Deposits ² | 20% | 8% | 5% |
| b. NOW Accounts ² | 20% | 8% | 5% |
| c. Savings Deposits ² | 20% | 8% | 3% |
| d. Time Deposits, Negotiable CTDs, Long-Term Non-Negotiable Tax Exempt CTDs ² | 20% | 8% | 3% |
| e. Long-term Negotiable certificate of Time Deposits | | | |
| 1. LTNCTDs under Circular No. 304 | 4% | 4% | 4% |
| 2. LTNCTDs under Circular No. 842 ¹ | 7% | 7% | 7% |
| f. Deposit Substitute (DS) ² | 20% | 8% | NA |
| g. DS evidenced by repo agreement ² | 4% | 4% | NA |
| h. IBCL (Sec. X343) | 0% | 0% | 0% |
| i. Bonds ² | 6% | 6% | NA |
| j. Mortgage/CHM cert. ² | NA | 6% | NA |
| k. Peso deposits lodged under Due to foreign banks ² | 20% | NA | NA |
| l. Peso deposits lodged under Due to Head Office/ Branches/Agencies Abroad (Philippine branch of a foreign bank) ² | 20% | NA | NA |

¹ As of 22 February 2014 the required reserves for LTNCTD shall be increased from three percent (3%) to six percent (6%). However, approved applications & outstanding LTNCTDs as of 22 February 2014 shall not be covered by the new requirements.
² For reserve week starting 11 April 2014, the required reserves for UBs/KBs and TBs shall be as follows:

| | UBs/KBs | TBs |
|---|---------|-----|
| a. Demand Deposits | 19% | 7% |
| b. NOW Accounts | 19% | 7% |
| c. Savings Deposit | 19% | 7% |
| d. Time Deposits, Negotiable CTDs, Long-Term Non-Negotiable Tax Exempt CTDs | 19% | 7% |
| e. Deposit Substitute (DS) | 19% | 7% |
| f. DS evidenced by repo agreements | 3% | 3% |

| | UBs/KBs | TBs |
|---|---------|-----|
| g. Bonds | 5% | 5% |
| h. Mortgage/CHM cert. | NA | 5% |
| i. Peso deposits lodged under Due to foreign Banks | 19% | NA |
| j. Peso deposits lodged under Due to Head Office/Branches/Agencies Abroad (Philippine Branch of a foreign bank) | 19% | NA |

Item g refers to deposit substitutes evidenced by repo agreements covering government securities up to the amount equivalent to the adjusted Tier 1 capital of the bank: *Provided, That* such rate shall apply only to repo agreements, the documentation of which conforms with, and were delivered to a BSP-accredited third party custodian as required under existing Bangko Sentral regulations.

Items k and l refer to peso deposits, except those utilized as capital of foreign banks (including Head Office/Branches/ Agencies abroad of local branches of foreign banks) booked under the Due to Foreign Banks and Due to Head Office/ Branches/Agencies Abroad accounts as provided under Subsec. X191.1, as amended.

(As amended by Circular Nos. 832 dated 27 May 2014, 830 dated 03 April 2014, 824 dated 30 January 2014, 753 dated 29 March 2012, 732 dated 03 August 2011, 726 dated 27 June 2011 and 632 dated 19 November 2008)

X253.2 Liquidity reserves
(Deleted by Circular No. 753 dated 29 March 2012)

Sec. X254 Composition of Reserves

a. *Composition of required reserves.* The required reserves shall be kept in the form of deposits placed in banks demand deposit accounts (DDAs) with the Bangko Sentral.

b. *Transitory provisions.* Banks may continue to utilize the following as eligible forms of compliance with the reserve requirement in accordance with the following guidelines:

i. Government securities. Government securities which are used as compliance with the regular and/or liquidity reserve

(Next Page is Part II - Page 35)

requirement as of 06 April 2012, shall continue to be eligible as compliance with the reserve requirement until they mature.

For purposes of this Section, government securities which may form part of the reserves against deposits/deposit substitute liabilities of banks shall refer to bonds or other evidences of indebtedness representing direct obligations of the Government of the Republic of the Philippines: *Provided*, That such securities shall have the following minimum features/conditions:

(1) The securities must bear an interest rate of not more than four percent (4%) per annum, must be non-negotiable and shall carry Bangko Sentral support;

(2) The amount, maturity date and rate of interest must be definite and stated in the certificate itself; and

(3) The government securities may not be hypothecated or encumbered in any way or earmarked for any other purpose.

The government securities held as reserves under Item □*b.*□ above shall be valued at cost of acquisition and the bank may freely alter its composition: *Provided*, That any substitution or acquisition satisfies the eligibility requirements prescribed above: *Provided, further*, That the bank notifies the Bangko Sentral of any such change in the prescribed forms not later than the reporting day following the change.

Only the buying/lending bank in a resale agreement covering eligible government securities may use such securities as reserves against deposits/deposit substitutes. Conversely, the selling/borrowing bank in a repo agreement covering eligible government securities may not use such securities as reserves against deposits/deposits substitutes.

The reserve eligibility of government securities used as collateral in the reverse repo operations of the Bangko Sentral shall be suspended during the term of the reverse repo agreement.

The phrase *non-reserve eligible* shall be stamped on the face of the custodian receipt being issued by the Bangko Sentral to buyer FIs.

ii. Reserve deposit account (RDA) Deposit placements that are maintained by banks in the RDA with the Bangko Sentral, which are used as compliance with the liquidity reserve requirement as of 06 April 2012, shall continue to be eligible as compliance with the reserve requirement until they mature.

All new deposits in the RDA shall be given a maturity date of 04 April 2012.

The RDA facility shall be discontinued and the Bangko Sentral shall no longer accept new RDA placements from banks effective 06 April 2012.

Outstanding placements in the RDA facility on 06 April 2012 shall be paid interest at maturity based on existing regulations.

iii. Cash in vault (CIV). Banks existing CIV shall be eligible as compliance with the reserve requirements until 06 April 2012. Henceforth, such mode of compliance shall no longer be allowed.

The CIV component of available reserves shall be based on the actual CIV balance outstanding with a one (1) banking day lag, for purposes of computing the reserve position of the current day.

(As amended by Circular Nos. 753 and 752 dated 29 March 2012, 551 dated 17 November 2006 and 539 dated 09 August 2006)

□ **X254.1 Allowable drawings against reserves.** Deposit with the Bangko Sentral to comply with reserve requirements are not regular current accounts. The use, therefore,

¶¶ X254.1 - X256
12.12.31

of Bangko Sentral checks for drawings against reserve deposits shall be limited to (a) settlement of obligations with the Bangko Sentral, and (b) withdrawals to meet cash requirements.

¶ **X254.2 Exclusion of uncleared checks and other cash items.** COCIs which have not been cleared yet through the Clearing Office should not be debited to the account *Due from the Bangko Sentral* and should not be considered as available reserves against deposit/deposit substitute liabilities. Such items shall be debited to the COCIs account.

Only after the COCIs have been cleared through the Clearing Office can the bank debit the *Due from the Bangko Sentral* account for said items.

¶ **X254.3 Interest income on reserve deposits.** Deposits maintained by banks with the Bangko Sentral in compliance with the reserve requirement shall no longer be paid interest effective 06 April 2012.
(As amended by Circular No. 753 dated 29 March 2012)

¶ **X254.4 Book entry method for reserve securities.** In the implementation of the book entry system for transactions in government securities eligible for reserves, transactions concerning reserve-eligible securities shall be entered in the respective securities account of each bank with the Bangko Sentral and shall be evidenced by securities account debit or credit advices to be promptly furnished the institution/s concerned. No certificate shall be issued for any purpose. Transactions with third parties other than the Bangko Sentral shall not be recognized.

Sec. X255 Exemptions from Reserve Requirements. The following shall be exempt from reserve requirements:

a. All collections credited to the special account *¶Due to BSP - Internal Revenue Account (Other Cities and Municipalities)¶*;

b. STDs from the Agrarian Reform Fund Commission and special savings deposits from farmer-borrowers; and

c. Unclaimed balances of deposit liabilities already reported to the Treasurer of the Philippines in accordance with the Unclaimed Balances Act (Act No. 3936, as amended) and transferred/reclassified from the deposit liability/other credit accounts to the liability account *¶Due to the Treasurer of the Philippines¶*.

Local banks may deduct from the amount of their gross demand deposits, the total of their *Due from Local Banks - Demand* and *Due from PNB - Clearing* in an amount not exceeding the total of their *Demand Deposits-Banks* and *Due to Local Banks*. As used herein, the term *gross demand deposits* shall mean the sum of all individual deposits, including deposits made by other local banks, the Philippine Government, its political subdivisions and instrumentalities, and GOCCs.

Sec. X256 Computation of Reserve Position. The reserve position of any bank and the penalty on reserve deficiency shall be computed based on a seven (7)-day week, starting Friday and ending Thursday, including Saturdays, Sundays, public special/legal holidays, non-banking days or declared half-day holidays and days when there is no clearing: *Provided, That* with reference to public special/legal holidays, non-banking days, unexpected declared non-banking days, declared half day holidays and days when there is no clearing, the reserve position as calculated at the close of the business day immediately preceding such public special/legal holidays, non-banking days and unexpected declared non-banking days and declared half-day holidays and days when there is no clearing, shall apply thereon. For this purpose, the principal office in the Philippines and all other banking offices located therein shall be treated as a single unit.

The guidelines on the computation of a bank's reserve position during public sector holidays are shown in *Appendix 84*.
(As amended by M-2008-025 dated 13 August 2008)

¶ **X256.1 Measurement of reserve requirement.** The required reserves in the current period (reference reserve week) shall be computed based on the corresponding levels of deposit and deposit substitute liabilities of the prior week.

¶¶ X256.2 ¶ X256.4 (Reserved)

¶ **X256.5 Guidelines in calculating and reporting to the Bangko Sentral the required reserves on deposit substitutes evidenced by repurchase agreements covering government securities**

a. The SDC shall determine the maximum allowable amount of repo agreements covering government securities that will qualify for the reduced statutory reserve requirements of two percent (2%). It shall be based on the amount reported by banks in their weekly Consolidated Daily Report of Condition. The adjusted Tier 1 capital reported daily should approximate the quarterly adjusted Tier 1 capital as submitted by banks in compliance with the risk-based CAR presented under applicable and existing capital adequacy framework.

b. Any material differences that may be noted by the SDC between the daily and the quarterly report shall be considered as erroneous reporting and shall be subject to the penalties under existing regulations. The SDC shall also make a re-run of its computation of the bank's reserve position and in the event that the reserve position resulted to reserve deficiency/ies, the corresponding penalties on reserve deficiencies shall also apply.

c. The lagged system in the measurement of a bank's reserve requirement, as provided

in Subsec. X256.1, shall also be adopted in the calculation of the two percent (2%) statutory reserve requirements for repo agreements covering government securities.

d. Deposit substitutes evidenced by repo agreements covering government securities in excess of the adjusted Tier 1 capital shall be treated as regular deposit substitutes and shall be subject to the regular statutory and liquidity reserve requirements under existing regulations.

(As amended by Circular No. 827 dated 28 February 2014)

Sec. X257 Reserve Deficiencies; Sanctions

Whenever the reserve position of any bank computed in the manner specified in Sec. X256 is below the required minimum, it shall pay the Bangko Sentral one-tenth of one percent (1/10 of 1%) per day on the amount of the deficiency or the prevailing ninety-one (91) day T-Bill rate plus three (3) percentage points, whichever is higher: *Provided, however,* That a bank shall be permitted to offset any reserve deficiency occurring one (1) or more days of the week covered by the report against excess reserves which it may hold on other days of the same week, and shall be required to pay the penalty only on the average daily net deficiency during the week¹.

In case of abuse, a bank shall automatically lose the privilege of offsetting reserve deficiency in the aforesaid manner until such time that it maintains its daily reserve position at the required minimum for at least two (2) consecutive weeks.

As used in this Section, *abuse* in the privilege of offsetting reserve deficiencies against excess reserves shall mean having reserve deficiencies occurring four (4) or more times during any given week for two (2) consecutive weeks, whether or not resulting in net weekly deficiencies.

(M-2014-031 dated 08 August 2014, M-2014-006 dated 12 February 2014, M-2013-050 dated 15 November 2013, M-2013-046 dated 30 October 2013, M-2013-045 dated 23 October 2013, M-2013-040 dated 03 September 2013,

¹ See Appendix 89

¶¶ X257 - X260
14.12.31

M-2013-001 dated 14 January 2013, 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-2011-056 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-2009-040 dated 30 October 2009, M-2009-037 dated 15 October 2009, M-2009-38 dated 08 October 2009, and M-2009-036 dated 07 October 2009)

¶ **X257.1 Chronic reserve deficiency; penalties.** In cases where the bank has chronic reserve deficiency in deposit/ deposit substitute liabilities, the bank shall be denied the credit facilities of the Bangko Sentral; and the Monetary Board may:

- (a) limit or prohibit the making of new loans or investments by the bank; and
- (b) prohibit the declaration of cash dividends. The board of directors of said bank shall be notified of such chronic reserve deficiency and the penalties therefor, and be required to immediately correct the reserve position of the bank.

As used in this Subsection, ¶ *chronic reserve deficiency* shall mean having net reserve deficiencies for two (2) consecutive weeks.

¶ **X257.2 Failure to cover overdrawings with the Bangko Sentral.** Any bank which incurs an overdrawing in its deposit account with the Bangko Sentral shall fully cover said overdraft not later than the next clearing day including interest thereon equivalent to one-tenth of one percent (1/10 of 1%) per day or the prevailing ninety-one (91) day T-Bill plus three (3) percentage points, whichever is higher. In case a bank fails to cover its overdrawings, it shall be excluded from clearing on such day and it shall also be denied the credit facilities of the Bangko Sentral. Such exclusion from clearing shall continue for as long as it has not maintained credit balances with the Bangko Sentral for at

least five (5) consecutive banking days. If its clearing account is overdrawn for five (5) consecutive banking days, it shall be prohibited from (a) making new loans or investments, except investment in government securities with Bangko Sentral support; (b) declaring cash dividends until it has maintained credit balances in its Bangko Sentral clearing account for at least fifteen (15) consecutive banking days; and (c) establishing branches. The denial from availment of credit facilities of the Bangko Sentral shall continue for as long as the bank has not maintained credit balances with the Bangko Sentral for at least fifteen (15) consecutive banking days.

For purposes of computing the total available reserves against deposit/ deposit substitute liabilities, the total amount of overdrawing in the clearing account with the Bangko Sentral shall be deducted from available reserves after the required reserves against deposit/ deposit substitute liabilities shall have been satisfied.

(As amended by Circular Nos. 705 dated 29 December 2010 and 681 dated 08 February 2010)

¶ **X257.3 Payment of penalties on reserve deficiencies.** Penalties if unpaid within fifteen (15) days from receipt of the assessment, shall be charged against the demand deposit accounts of banks with the Bangko Sentral: *Provided*, That where the bank's credit balance is insufficient and it fails to settle the assessment, the Monetary Board may limit or prohibit the making of new loans or investments by the bank.

Sec. X258 Report on Compliance. Every bank shall make a weekly report to the Bangko Sentral of its daily required and available reserves on deposit/ deposit substitute liabilities in the prescribed forms.

Secs. X259 - X260 (Reserved)

**I. SUNDRY PROVISIONS
ON DEPOSIT OPERATIONS**

Sec. X261 Booking of Deposits and Withdrawals. The following regulations shall govern the booking of deposits and withdrawals of banks.

§ X261.1 Clearing cut-off time. As a general rule, all deposits and withdrawals during regular banking hours shall be credited or debited to deposit liability accounts on the date of receipt or payment thereof: *Provided, however,* That a bank may set a clearing cut-off time for its head office not earlier than two (2) hours before the start of clearing at the BSP, and not earlier than three and one-half (3-1/2) hours before the start of clearing for all its branches, agencies and extension offices doing business in the Philippines, after which time, deposits received shall be booked as hereinafter provided: *Provided, further,* That banks which are located in areas where there are no BSP regional/clearing arrangements may set a clearing cut-off time not earlier than two (2) hours before the start of their local clearing after which time, deposits received shall be booked likewise as hereinafter provided.

§ X261.2 Definitions. As used in this Section, the following terms shall have the following meanings:

a. *Regular banking hours* shall refer to the banking hours reported to the BSP pursuant to Sec. X156, including the extended banking hours reported for servicing deposits and withdrawals; and

b. *Clearing cut-off time* shall mean the bank's closing time for the acceptance of deposits in the form of checks, bills and other demand items for clearing on the day of their receipt.

§ X261.3 Booking of cash deposits
Cash deposits received after the selected

clearing cut-off time until the close of the regular banking hours shall be booked as deposits on the day of receipt.

§ X261.4 Booking of non-cash deposits
Deposits of checks including "*on us*" checks, *manager's/cashier's/ treasurer's checks* and *demand drafts*, which are drawn against the depository bank and all its offices, as well as treasury warrants and postal money orders, received after the selected clearing cut-off time until the close of the regular banking hours, may, at the option of the bank, be booked as deposits on the day of receipt.

Other non-cash deposits received after the selected clearing cut-off time shall be treated as contingent accounts on the day of receipt and shall be booked as deposits the following banking day.

§ X261.5 Booking of deposits after regular banking hours. Deposits, whether cash or non-cash, received after the close of the regular banking hours shall be treated as contingent accounts on the day of receipt and shall be booked as deposits the following banking day.

§ X261.6 Other records required. For record and control purposes, banks shall prepare a daily abstract of deposit transactions treated as contingent accounts.

§ X261.7 Notice required. Banks shall post at a conspicuous place near each teller's window a notice to depositors indicating their selected clearing cut-off time and a statement to the effect that non-cash items deposited after said cut-off time shall be treated as transactions for the next banking day.

Sec. X262 Miscellaneous Rules on Deposits. Banks shall also be governed by the following miscellaneous rules on deposits.

SS X262.1 - X263
11.12.31

§ X262.1 Specimen signatures, identification photos. All banking institutions are required to set a minimum of three (3) specimen signatures to be simultaneously required from each of their depositors and to update the specimen signatures of their depositors every five (5) years or sooner, at the discretion of the bank. Banks may, at their option, require their depositors to submit ID photos together with the specimen signatures.

§ X262.2 Insurance on deposits. All banks shall indicate the coverage of the PDIC in each passbook, certificate of time deposit and/or cover of checkbook for demand deposit/NOW accounts stating, among other things, the maximum amount of insurance.

§ X262.3 Certification of compliance with Subsection 55.4 of R.A. No. 8791 Banks shall submit to the appropriate supervising and examining department of the BSP, through the Deputy Governor of SES, a statement within seven (7) banking days after end of June and December, signed solely by the Vice-President for Administration or Human Resource or Personnel, or by any officer assuming equivalent responsibility, certifying their institution’s compliance with Subsection 55.4 of R.A. No. 8791, which prohibits banks from employing casual, nonregular personnel or too lengthy probationary personnel in the conduct of its business involving bank deposits. A format for the certification of compliance is shown in *Appendix 49*.

The definition contained in Articles 280-281 of the Labor Code of the Philippines for private banks and Section 2 of the Civil Service Commission Memorandum Circular No. 40 and Rule VII of Civil Service: Laws and Rules for government banks shall apply in classifying employee/personnel as casual, regular or probationary. Personnel with too lengthy probationary status are employees who are allowed to work after a probationary period

of six (6) months without being considered a regular/permanent employee.

Sec. X263 Service and Maintenance Fees Banks may impose and collect service charges and/or maintenance fees on savings and demand deposit accounts, whether active or dormant, that fall below the required minimum monthly average daily balance (ADB), subject to the following conditions:

- a. the imposition of such charges or fees is clearly stated among the terms and conditions of the deposit;
- b. the rate or amount of such charges or fees is properly disclosed among the terms and conditions of the deposit;
- c. the deposit account balances have fallen below the required minimum monthly ADB for dormant accounts and for at least two (2) consecutive months for active accounts;
- d. the required minimum monthly ADB of deposits are properly disclosed among the terms and conditions of the deposit; and
- e. in the case of charges and fees for dormant accounts or dormancy fee, the period of dormancy as prescribed under Subsec. X185.12 shall be properly disclosed among the terms and conditions of the deposit, and that the depositors shall be informed by registered mail with return card or Proof of Delivery (POD) service of the Philippine Postal Corporation and other mail couriers on his last known address at least sixty (60) days prior to the imposition of dormancy fee.

Said Proof of Delivery Receipt will be accomplished upon the addressee-depositor’s receipt of the letter, with the postal personnel or courier required to obtain and safekeep a copy of the signed POD, for submission to the sender/bank.

The PhilPost system likewise employs a Delivery/Monitoring Report that tallies the number of mails with POD received, delivered and returned per client/bank,

indicating the name of the letter carrier, his signature and date signed. Said POD and Delivery/Monitoring Report may be system generated by the bank so as not to rely on the manual inscription of the required information by the PhilPost and/or other mail courier personnel.

Regardless of the forms adopted by the PhilPost and/or other mail couriers, the proper implementation of the POD service requires as a minimum, that the following information be stated clearly:

- (1) name and address of the addressee/depositor;
- (2) actual date of delivery/receipt;
- (3) name and address of sender/bank; and
- (4) name of recipient and relationship to the addressee/depositor.

Banks which erroneously charged service or maintenance fees shall reverse or credit back the amount of such charges to the respective deposit accounts that meet the required monthly ADB, within three (3) months from 03 June 2011. Depositors whose accounts were erroneously charged with these fees since 23 June 2005 but whose deposit accounts have since been closed shall likewise be given appropriate notices sent to their last known mailing address. Notices on the proper interpretation of the regulations on the imposition of service charges and maintenance fees on deposit accounts shall likewise be posted in conspicuous places within the premises of all banks.

(As amended by M-2011-030 dated 03 June 2011)

□ **X263.1 Amendments to terms and conditions for the imposition of service charges/fees.** Any change in the terms and conditions for the imposition of service charges and/or maintenance fees, e.g., increase in the amount of such charges and fees or increase in the required minimum monthly average daily balance of deposits, shall take effect only after due notice to the depositor: *Provided*, That information by regular mail, statement of account messages, electronic mail, courier delivery and/or

other alternative modes of communication on the depositor's last known address at least sixty (60) days prior to implementation shall be considered sufficient notice: *Provided, further*, That failure of the depositor to manifest or register his objection to the new service charges and maintenance fees or any change in their terms and conditions in writing within thirty (30) days from receipt of written notice of amendment shall be deemed to constitute acceptance of such changes, for purposes of this Subsection.

Banks shall likewise post said information on their respective websites, Automated Teller Machine on-screen messages, and in conspicuous places within the bank premises and other places near the bank's own Automated Teller Machine at least sixty (60) days prior to implementation.

Sec. X264 Unclaimed Balances. All unclaimed balances, which include credits or deposits of money, bullion, securities or other evidences of indebtedness of any kind, and interest thereon already reported to the Treasurer of the Philippines in accordance with the Unclaimed Balances Act (Act No. 3936, as amended) shall be transferred/reclassified from the deposit liability/other credit accounts to the liability account, *Due to the Treasurer of the Philippines*, until they are deposited with or turned over to the Treasurer of the Philippines upon order of the court that the same have been escheated in favor of the Government of the Republic of the Philippines and as such, the unclaimed deposit liabilities shall no longer be covered by reserves required of deposit liabilities.

Sec. X265 Acceptance, Encashment or Negotiation of Checks Drawn in Favor of Commissioner/Collector of Customs. All checks payable to the Commissioner/Collector of Customs shall be accepted for deposit only to the account of the Commissioner/Collector of Customs. Banks where the Commissioner/Collector of Customs has no account shall not encash,

§§ X265 - X266
08.12.31

accept nor negotiate checks payable to the Commissioner/Collector of Customs.

Any attempt to defraud the government or the bank through the irregular or unauthorized encashment or deposit of these checks to accounts other than that of the Commissioner/Collector of Customs shall be reported immediately by the head of the banking office to the BOC, copy furnished the BSP.

Sec. X266 Deposit Pick-up/Cash Delivery Services. The following are the guidelines on the deposit pick-up/cash delivery services of banks;

a. As a general rule, deposit pick-up/cash delivery services shall be limited to the following:

(1) To service the need of valued clients whose daily average deposit amounts to:

P500 thousand – for Metro Manila and Metro Cebu clients/depositors

P300 thousand – for outside Metro Manila and Metro Cebu clients/depositors

(2) To be serviced during regular banking hours and days only, unless the nature of the business and the volume of the deposits/cash would warrant servicing beyond regular banking hours and days, in which case justification therefore should be submitted to the satisfaction of the appropriate department of the SES (Central Point of Contact Department (CPCD) I, CPCD II, Integrated Supervision Department (ISD) I, and ISD II).

b. Prior BSP authority is not required before banks can engage in deposit pick-up/cash delivery services: *Provided*, That the following conditions are complied with:

(1) Pick-up of deposits/cash delivery shall be made with the use of armored cars, which shall not be operated as a mobile bank used in soliciting deposits from the general public, or in any manner in carrying out banking transactions/services other than to afford security of deposit/cash items in transit;

(2) Pick-up of deposits/cash delivery may be made with the use of non-armored

vehicles in the following cases/circumstances:

(a) On an unscheduled request; *Provided*, That:

(i) all armored vehicles have already been fielded and the request has to be served immediately; and

(ii) it is within a five (5) kilometer radius of a servicing banking office.

(b) In rugged terrain/mountainous roads or roads not suitable for heavy armored vehicles;

(c) In critical or rebel-infested areas where there are peace and order problems as certified by the local police authorities; and

(d) In island provinces where the transport of cash to a branch or office may be made only with the use of a ferry boat:

Provided, That the non-armored vehicles are equipped with dual control safe and supported with adequate security back-up. Their movements may be coordinated with law enforcement authorities.

(3) The risk of loss involved in the pick-up of deposits/cash delivery shall be adequately covered by insurance, and the armored car/non-armored car to be used shall be provided, with at least two (2) armed guards and supervised by at least two (2) officers of the bank;

(4) The deposit/cash delivery transactions shall be booked in accordance with existing regulation;

(5) The strictest measure of safeguards, control and confidentiality will be adopted in implementing the services;

(6) A separate record/log book for each armored car/non-armored car shall be maintained by the bank which shall contain the information on the deposit pick-up/cash delivery activities of the armored car/non-armored car to be supported by “trip tickets” signed by a responsible officer of the bank; and

(7) Records and/or such other reports that may be required of the bank from time to time shall be made available for

examination/inspection by the authorized representative(s) of the appropriate department of the SES during on-site examination;

c. If the use of the non-armored car under Item *b(2)(a)* becomes regular, the bank shall engage an armored car to take its place. Regularity shall mean daily (i.e., regular banking days) or periodic (e.g., every 15th or end of the month) servicing of a valued client within a three (3) month period.

d. Pick-up of deposits/cash delivery services to be made on days other than the bank s regular banking days shall be allowed without prior Bangko Sentral authority: *Provided*, That a notarized certification (using the format shown in *Appendix 82*) stating that the bank complies with all the conditions set forth in Sec. X266, jointly signed by the bank s executive vice president or officer of equivalent rank and by the bank s compliance officer, shall be submitted to the appropriate department of the SES at least five (5) banking days before bank s intended starting date of its deposit pick-up/cash delivery services beyond regular banking hours and days to clients.

e. If any of the above conditions is not met, the Bangko Sentral may suspend the deposit pick up/cash delivery operations of the bank without prejudice to the imposition of sanctions under Section 37 of R.A. No. 7653.
(As amended by Circular No. 614 dated 14 July 2008)

X266.1 *Operation of armored cars*
Except for Item *b(2)* of this Section, banks shall use armored cars to afford security in collection and/or delivering cash or securities and other valuables from or to their clients, branch or extension offices or the Bangko Sentral, provided such armored cars are not operated as mobile banks.

Sec. 1266 (Reserved)

Sec. 2266 (Reserved)

Sec. 3266 Qualifying Criteria Before a Rural/Cooperative Bank Engages in Deposit Pick-up Services

a. An RB/Coop Bank desiring to undertake deposit pick-up service must meet the following criteria:

- (1) Its total resources should not be less than P100.0 million and its net assets should be at least P10.0 million or the minimum capital required under Subsec. X111.1, whichever is higher;
- (2) It should not be deficient in its networth-to-risk assets ratio;
- (3) Its past due loan ratio should not be more than fifteen percent (15%);
- (4) It has no past due obligations with the Bangko Sentral or with any government FI;
- (5) It should have continuous profitable operations; and
- (6) It must show adherence to law, and Bangko Sentral rules and regulations.

b. An RB/Coop Bank that meets the above criteria shall submit for evaluation, the following justifications on the need for the RB/Coop Bank and its branches to undertake such service which should contain, among other things, the following:

- (1) the names of clients/companies to be serviced, estimated daily average deposit and distance/proximity of client from applicant bank;
- (2) the names and number of banks, branches, if any, in the area where depositor is situated;
- (3) the arrangement in writing between the bank and the client desiring to avail of the service, which arrangement shall define and specify the respective responsibilities of the parties; and
- (4) such other information pertinent to the application.

Sec. X267 Automated Teller Machines

a. *Off-site ATMs.* Banks may establish off-site ATMs, subject to the following conditions:

¶¶ X267 - X268.2
13.12.31

- (1) Banks shall submit a report to the appropriate department of the SES on ATMs which they establish;
 - (2) The off-site ATMs shall be installed only in centers of activity like shopping centers, supermarkets, hospitals, university campuses: *Provided*, That adequate internal control and security measures shall be adopted and submitted to the Bangko Sentral; and
 - (3) Only banks which have shown general compliance with laws, rules and regulations shall be allowed to open off-site ATMs.
- b. *Mobile ATMs*. Banks may also establish mobile ATMs, subject to the following conditions:
- (1) The mobile ATMs should be allowed to visit only centers of activity as mentioned in Item ¶a(2) above;
 - (2) The bank shall secure insurance coverage or adopt a self-insurance scheme to protect itself against losses of whatever nature in its mobile ATM operations; and
 - (3) The bank shall notify the appropriate department of the SES of the actual date a mobile ATM becomes operational and when no longer in operation.
- (As amended by Circular No. 735 dated 16 August 2011)*

J. BORROWINGS FROM THE
BANGKO SENTRAL

Sec. X268 Rediscounting Line. The following guidelines shall govern the operations of the BSP s rediscounting line by banking institutions.

Coop Banks shall be given the same privileges and incentives granted to RBs, TBs, UBs and KBs to rediscount notes with the Bangko Sentral, the Land Bank of the Philippines, and other government banks.

(Circular No. 515 dated 06 March 2006 as amended by Circular No. 682 dated 15 February 2010)

¶ **X268.1 Credit Information System**
The rediscounting availments of all eligible banks shall be drawn against their rediscounting line which is based on their

- total credit score under the Credit Information System (CRIS). The scoring system under the CRIS shall consider the following factors:
- a. Management and risk management system;
 - (1) Management; and
 - (2) Risk management system;
 - b. Financial indicators;
 - (1) Capital adequacy;
 - (2) Asset quality;
 - (3) Profitability; and
 - (4) Liquidity;
 - c. Credit experience;
 - (1) Compliance with the terms and conditions of the loan and other Bangko Sentral regulations; and
 - (2) Credit experience with other FIs.
- The CRIS guidelines shall be reviewed on a regular basis by a Credit Committee created under MB Resolution No. 832 dated 02 July 2008, to maximize its effectiveness in managing the credit risk of the Bangko Sentral.
- (Circular No. 515 dated 06 March 2006 as amended by Circular No. 630 dated 11 November 2008)*
- ¶ **X268.2 Application Procedures**
Banks applying for a rediscounting line shall submit their application in the prescribed form (RL Form No. 1) to the Department of Loans and Credit (DLC), Bangko Sentral-Manila, together with the following documents:
- a. Board resolution duly signed by the board of directors of the applicant bank, authorizing the bank to apply for a rediscounting line with the Bangko Sentral and designating the officer/s of the bank to sign and endorse documents pertaining thereto, together with their specimen signature/s;
 - b. Articles of incorporation (for new applicants only) and amendments, if any;
 - c. Organizational chart (for new applicants only);
 - d. List of board of directors and principal officers (top three (3) executive officers) and their education/training and work

experience;

e. Annual report/AFS for the immediately preceding year; and

f. For banks applying for microfinance facility, a copy of the Manual of Operations pertaining to microfinance operations.

(Circular No. 515 dated 06 March 2006, as amended by Circular Nos. 806 dated 15 August 2013, 684 dated 15 March 2010, 648 dated 02 March 2009 and 630 dated 11 November 2008)

□ **X268.3 Approval/Renewal of the line**

The approval/renewal of rediscounting line shall be subject to the bank's full compliance with the following requirements:

a. Minimum capital prescribed under Subsecs. X111.1 and X111.2 based on the latest available report of the SDC;

b. CAR as required under applicable and existing capital adequacy framework, based on the latest available report of the SDC except those with capital build-up program approved by the Monetary Board;

c. Required reserves against deposit liabilities/deposit substitutes for two (2) consecutive weeks based on the latest available report of the SDC;

d. NPL ratio lower or equal to the industry average adjusted upward by two percent (2%) based on the latest available report of the SDC, or the allowable NPL ratio approved by the Monetary Board;

e. Positive DDA balance with the Bangko Sentral as of date of application;

f. No past due obligations or collateral deficiencies on account of matured notes/unremitted collections/missing collaterals or ineligible papers with the Bangko Sentral as of date of application;

g. A CAMELS composite rating of 3 or higher based on the latest general examination of the appropriate department of the SES; and

h. The ratio of past due direct and indirect loans to DOSRI to the aggregate past due loans should not be more than five

percent (5%) based on latest available report of the SDC.

Banks applying for the microfinance facility shall also comply with the following requirements based on the latest available report of the SES:

a. At least one (1) year track record in microfinance;

b. At least 500 active microfinance borrowers;

c. A portfolio at risk ratio (PAR) of not more than five percent (5%);

d. The ratio of total collections (excluding prepayments) during the preceding 12-month period to total collectibles (past due microfinance loans beginning, plus matured loans/principal amortizations due for the period) should not be less than ninety-five percent (95%); and

e. Officers and staff responsible for microcredit operations shall have completed: (1) a training course on microfinance; and (2) at least one (1) year experience in microlending activities.

The approval, disapproval, extension, amendment, cancellation, suspension and restoration of the rediscounting line shall be delegated to a Credit Committee composed of the Assistant Governor/Managing Director (MD) of the Monetary Operations Sub-Sector, MD of the Regional Monetary Affairs Sub-Sector, and the Director of the DLC.

Banks with approved rediscounting line shall, thereafter, submit the following:

a. Rediscounting line agreement (RL Form No. 3); and

b. For new applicant rural/cooperative banks with designated custodian bank, a tripartite depository agreement (RL Form No. 2) by and among the applicant bank, designated depository bank (duly concurred by its Head Office) and the DLC.

For newly merged or consolidated banks, a temporary line not exceeding fifty percent (50%) of its adjusted net worth as of latest date may be granted for a period of

¶¶ X268.3 - X268.10
14.12.31

180 days while awaiting the required reports/data from the appropriate department of the SES, renewable for another 180 days or until such time that the required reports/data are made available, whichever comes earlier, subject to the following conditions¹:

- a. Compliance with the requirements cited under Items ¶e¶ and ¶f¶, and other guidelines issued by the DLC; and
- b. One (1) of the merging or consolidating banks has CAMELS composite rating of at least 3 and minimum CAR of ten percent (10%) based on the latest available SDC data.

(Circular No. 515 dated 06 March 2006, as amended by Circular Nos. 827 dated 28 February 2014, 806 dated 15 August 2013, 776 dated 07 December 2012, 684 dated 15 March 2010, 648 dated 02 March 2009 and 630 dated 11 November 2008)

¶ **X268.4 Amount of line.** The amount of rediscounting line shall be based on the total credit score obtained by the applicant bank computed under the CRIS guidelines which ranges from fifty percent (50%) to 200% of adjusted network.
(Circular No. 515 dated 06 March 2006, as amended by Circular No. 630 dated 11 November 2008)

¶ **X268.5 Term of the line.** The term of the line shall be for one (1) year unless sooner cancelled, suspended, amended or extended by the Credit Committee. The line is renewable annually upon submission of application one (1) month before the expiry of said line. Should there be special circumstances or information from the SES that may adversely affect the credit worthiness of a bank in the intervening period, the rediscounting line of the bank concerned will be reviewed immediately and acted upon accordingly.
(Circular No. 515 dated 06 March 2006, as amended by Circular No. 630 dated 11 November 2008)

¶ **X268.6 - X268.9 (Reserved)**

¶ **X268.10 Constitutional prohibition**

The following regulations shall govern the implementation of Section 16, Article XI of the Constitution, which reads as follows:

Sec. 16. No loan, guaranty, or other form of financial accommodation for any business purpose may be granted, directly or indirectly, by any government-owned or controlled corporation or financial institution to the President, the Vice-President, the Members of the Cabinet, the Congress, the Supreme Court, and the Constitutional Commissions, the Ombudsman, or to any firm or entity in which they have controlling interest, during their tenure.

a. Definition

(1) The terms ¶loan¶, ¶guaranty¶ or ¶other form of financial accommodation¶ as used in these regulations shall refer to transactions which involve the grant, renewal or extension to a bank by the Bangko Sentral of any loan, advance, discount, rediscount or credit in any form whatsoever.

(2) *Controlling interest in a bank.* Any of the government officials mentioned in Section 16, Article XI of the Constitution (the Official) shall be deemed to have a controlling interest in a bank if he owns more than fifty percent (50%) of the voting stock of such bank. For the purpose of this Subsection, the stockholdings of the spouse or minor child of the Official shall be included in determining if he has such controlling interest.

b. *Certification required.* A bank applying for a loan or financial accommodation with the Bangko Sentral shall submit, together with the application, a certification under oath of the President of the bank that the bank and/or any of its stockholders do not fall within the prohibition under Section 16, Article XI of the Constitution.

¹ These conditions shall not limit the Monetary Board from granting rediscounting line incentives to merged/ consolidated banks pursuant to Subsec. X108.3.

Sec. X269 Rediscounting Availments. Banks may avail of the rediscounting facility under two separate rediscounting windows, Rediscounting Window I (RW I)¹ for universal and commercial banks and Rediscounting Window II (RW II)² for thrift, rural and cooperative banks.

Banks shall enroll in the Electronic Rediscounting System (eRS) by executing and submitting to the DLC a notarized Electronic Rediscounting System Participation Agreement before availing of the rediscounting facility of the Bangko Sentral.

(Circular No. 515 dated 06 March 2006, as amended by Circular Nos. 806 dated 15 August 2013 and 630 dated 11 November 2008)

X269.1 Eligibility requirements at the time of availment. Banks availing of the Bangko Sentral rediscounting facility must have at the time of availment:

- a. A positive DDA balance;
- b. No past due obligations; and
- c. No collateral deficiencies on account of matured notes, unremitted collections, missing collaterals or ineligible papers;and
- d. No chronic reserve deficiency in deposit/deposit substitute liabilities immediately preceding the loan drawdown/availment.

For purposes of determining compliance with the reserve requirement, a bank will be considered non-compliant with the reserve requirement for the reference week when its actual net reserve position for said reference week cannot be determined due to delayed submission or non-submission of the relevant reserve report.

(Circular No. 515 dated 06 March 2006, as amended by Circular Nos. 861 dated 01 December 2014 and 630 dated 11 November 2008)

X269.2 Eligible papers and collaterals
The Bangko Sentral shall accept credit instruments covering all economic activities except the following:

- a. Interbank loans;
- b. Extended/Restructured loans;

- c. Past due loans;
- d. Unsecured loans;
- e. Personal consumption loans;
- f. Loans to NBFIs; and
- g. Loans funded from other borrowings, e.g., government FIs or multi-lateral agencies.

Credit instruments offered as collateral shall be subject to the eligibility requirements provided under Section 82 of R.A. No. 7653.

a. *Commercial credits* - Bills, acceptances, promissory notes (PNs) and other credit instruments with maturities of not more than 180 days from the date of their rediscount, discount or acquisition by the Bangko Sentral and resulting from transactions related to:

(1) the importation, exportation, purchase or sale of readily saleable goods and products, or their transportation within the Philippines; or

(2) the storing of non-perishable goods and products which are duly insured and deposited, under conditions assuring their preservation, in authorized bonded warehouses or in other places approved by the Monetary Board.

Credit instruments acquired under commercial credits shall be secured either by:

| Type of Collateral | Collateral Value |
|---|--|
| (1) Duly notarized assignment of export or domestic letters of credit, confirmed purchase order sales contract, quedans | Shall equal or exceed the outstanding balance of the credit instrument |
| (2) Trust Receipts | Shall equal or exceed the outstanding balance of the credit instrument |
| (3) Duly registered mortgage on real property | 70% of the appraised value shall equal or exceed the outstanding balance of the PN |
| (4) Credit guarantees/ sureties issued by the IGLF, the Small Business Corporation | Shall equal or exceed the outstanding balance of the PN |

¹ By 15 November 2023, all banks shall access only RW I.

² From 15 November 2013, TBs are given a sunset period of five (5) years (i.e., until 15 November 2018) to access RW II, while RBs and Coop Banks are given ten (10) years (i.e., until 15 November 2023)

X269.2
13.12.31

| Type of Collateral | Collateral Value |
|--|--|
| (SBC) and the national government | |
| (5) Credit guarantees/sureties issued by the Credit Surety Fund (CSF) jointly established by cooperatives and local government units | Shall equal or exceed 80% of the outstanding balance of the PN |
| (6) Marketable debt instruments issued by the NG and all its instrumentalities, including Republic of the Philippines US\$ denominated bonds or ROPs | Current market value shall equal or exceed the outstanding balance of the PN |

The outstanding National Food Authority papers that a bank can rediscount shall not exceed the rediscounting bank's SBL (twenty five percent [25%] of its net worth) or P3.0 billion, whichever is lower.

Dollar-denominated trust receipts covering importation of goods and raw materials are also considered eligible papers for rediscounting under the Exporters Dollar and Yen Rediscount Facility (EDYRF).

b. *Production credits* - Bills, acceptances, PNs and other credit instruments having maturities of not more than 360 days from the date of their rediscount, discount or acquisition by the Bangko Sentral and resulting from transactions related to the production or processing of agricultural, animal, mineral, industrial and other products.

Credit instruments acquired under production credits shall be secured by a duly registered mortgage on real property, seventy percent (70%) of the appraised value of which equals or exceeds the outstanding balance of the PN.

c. *Other credits* - Special credit instruments not otherwise rediscountable under the immediately preceding Items a and b such as, but not limited to, microfinance, housing, services, agricultural loans with long gestation period and other eligible economic activities with maturity of

not more than ten (10) years from date of their rediscount, discount or acquisition of the Bangko Sentral. Dollar-term loans to finance capital expenditures (plant expansion/modernization) by exporters are also considered eligible papers for rediscounting under the EDYRF provided they are booked in the regular banking units.

Credit instruments acquired under other credit shall be secured by:

| Type of Collateral | Collateral Value |
|--|--|
| (1) Duly registered mortgage on real property | 70% of the appraised value shall equal or exceed the outstanding balance of the PN |
| (2) Duly notarized assignment of receivables from service contract | Shall equal or exceed the outstanding balance of the PN |
| (3) Credit guarantees/sureties issued by the IGLF, the SBC and the national government | Shall equal or exceed the outstanding balance of the PN |
| (4) Credit guarantees/sureties issued by the CSF jointly established by cooperatives and LGUs | Shall equal or exceed 80% of the outstanding balance of the PN |
| (5) Marketable debt instruments issued by the NG and all its instrumentalities, including Republic of the Philippines US\$ denominated bonds or ROPs | Current market value shall equal or exceed the outstanding balance of the PN |

For housing loans, the lien or mortgage shall cover the property being financed.

An Original Certificate of Title issued by virtue of Free Patent, covering agricultural lands, may be accepted as underlying collateral for loans offered for rediscounting with the Bangko Sentral after the expiry of the prescription period of five years from date of the approval of the order to issue the patent. The 5-year restriction is not applicable for residential lands acquired under free patent as provided under Section 9 of R.A No. 10023.

A Land Title, with P.D. No. 1271¹ annotation, may be accepted as underlying

¹ An act nullifying decrees of registration and certificates of title covering lands within the Baguio Townsite Reservation issued in Civil Reservation Case No. 1, GLRO Record No. 211 pursuant to R.A. No. 931, as amended, but considering as valid certain titles of such lands that are alienable and disposable under certain conditions and for other purposes.

collateral for loans offered for rediscounting with the Bangko Sentral subject to the following conditions:

1. The land titles submitted specify that the original registration date was on or before 31 July 1973; and
2. The lands covered by titles are not within any government, public or quasi-public reservation, forest, military or otherwise, as certified by appropriate government agencies.

Unsecured loans may be accepted for rediscounting provided they are:

- a. Microfinance loans; or
- b. Loans secured by a duly registered mortgage on real property of the bank, seventy percent (70%) of the appraised value of which equals or exceeds the outstanding balance of the unsecured PN and other collaterals acceptable to the Bangko Sentral, e.g., marketable debt instruments issued by the NG and all its instrumentalities, including Republic of the Philippines US\$ denominated bonds or ROPs.

For real estate properties covered by Section 7 of R.A. No. 26 offered as collateral, the following conditions must be met:

1. The 2-year period from date of entry of the notation has already expired;
2. The bank has already filed the petition with the court for the cancellation thereof; and
3. The bank shall submit prior to the release of the loan a surety bond issued by an insurance/surety company which is acceptable to the Bangko Sentral and is not affiliated with the bank or its subsidiaries, or their stockholder, directors or officers, equivalent to the loan value of the property plus interest and other charges that may fall due, to answer for the payment of the obligations in the event that the petition for cancellation is denied or the notation is not cancelled on or before the maturity of the loan.

(Circular No. 515 dated 06 March 2006, as amended by Circular Nos. 807 and 806 both dated 15 August 2013, M-2011-036 dated 05 July 2011, M-2011-017 dated 18 March 2011, Circular Nos. 648 dated 02 March 2009 and 630 dated 11 November 2008)

▯▯ X269.2 - X269.5
13.12.31

▯ **X269.3 *Loan availment procedures***
Banks availing of the rediscounting facility shall submit their loan applications electronically to the Bangko Sentral using their eRS registered computers.

Upon receipt of the confirmation of loan approval:

- a. Banks shall execute the PNs with Trust Receipt Agreement and Deed of Assignment (PNTRADA) in favor of the Bangko Sentral (RL Form No. 7 for peso and RL Form No. 8 for dollar and yen), signed by the authorized officer/s of the bank.
- b. Banks authorized to hold-in trust the rediscounted credit instruments and underlying collaterals shall segregate and keep the same together with the PNTRADA at a secured place within their premises under the custody of the accountable officer.
- c. Banks with custodianship agreements shall deposit with their respective depositary/custodian bank the rediscounted credit instruments, underlying collaterals and the PNTRADA not later than the next banking day from date of loan grant, receipt of which shall be acknowledged by the depositary bank in the List of Rediscounted Loans.

(Circular No. 515 dated 06 March 2006, as amended by Circular No. 630 dated 11 November 2008)

▯ **X269.4 *Loan value.*** The loan value of all eligible papers shall be eighty percent (80%) of the outstanding balance of the borrower s credit instrument but not higher than seventy percent (70%) of the appraised value of the underlying collateral.
(Circular No. 515 dated 06 March 2006, as amended by Circular Nos. 684 dated 15 March 2010, 648 dated 02 March 2009 and 630 dated 11 November 2008)

▯ **X269.5 *Maturities.*** The maturities of Bangko Sentral rediscounts are, as follows:

| Type of Credit | Maturity Date | |
|-----------------------|--------------------|--------------------|
| | RW I | RW II |
| a. Commercial Credits | 180 days from | 180 days from |
| (1) Export Packing | date of rediscount | date of rediscount |
| (2) Trading | but shall not go | but shall not go |
| (3) Transport | beyond the | beyond the |
| (4) Quedan | maturity date of | maturity date of |

X269.5 - X269.7
14.12.31

| | RW I | RW II |
|------------------------|--|---|
| | the credit instrument | the credit instrument |
| (5) Export Bills (EBs) | | |
| At sight | Fifteen (15) days from date of purchase | Fifteen (15) days from date of purchase |
| Usance EB | Term of draft but not to exceed sixty (60) days from shipment date | Term of draft but not to exceed sixty (60) days from shipment date |
| b. Production Credits | 180 days from date of rediscount but shall not go beyond the maturity date of the PN. Renewable, not to exceed 180 days. | 360 days from date of rediscount but shall not go beyond the maturity date of the PN. |
| c. Other Credits | 180 days from date of rediscount but shall not go beyond the maturity date of the PN. (renewable depending on the type of credit). | 360 days from date of rediscount but shall not go beyond the maturity date of the PN (renewable depending on the type of credit). |

(Circular No. 515 dated 06 March 2006, as amended by Circular Nos. 806 dated 15 August 2013 and 630 dated 11 November 2008)

X269.6 **Rediscount/Lending rates and liquidated damages.** The rediscount rates for peso, dollar and yen loans shall be, as follows:

a. Peso Rediscounts

| | RW I | RW II |
|---------------|---|---|
| Interest Rate | Bangko Sentral one (1)-month repurchase (R/P) rate plus term premium: | Bangko Sentral overnight reverse repurchase (O/N RRP) rate plus term premium) |
| 30 days | Bangko Sentral one (1)-month R/P rate | |
| 90 days | Bangko Sentral one (1)-month R/P rate+0.0625 | Bangko Sentral O/N RRP rate |
| 180 days | Bangko Sentral one (1)-month R/P rate +0.1250 | Bangko Sentral O/N RRP rate + 0.0625 |
| 360 days | n/a | Bangko Sentral O/N RRP rate + 0.1250 |

¹ See Appendix 89

b. Dollar/Yen Rediscounts
Based on the 90-day London Inter-bank Offered Rate (LIBOR) plus 200 bps plus term premia for longer maturities, as follows:

| Term | Premium |
|--------------|------------------------------------|
| 1-90 days | 90-day LIBOR + 200 bps |
| 91-180 days | 90-day LIBOR + 200 bps + 6.25 bps |
| 181-360 days | 90-day LIBOR + 200 bps + 12.50 bps |

The lending rates of banks on their rediscounted papers shall not be subject to any ceiling but the spreads of the banks on these papers shall be closely monitored by the Bangko Sentral to ensure that these are consistent with the prevailing market rates.

Past due Bangko Sentral loans and unpaid matured notes shall be levied liquidated damages equivalent to five percent (5%) per annum¹.

(Circular No. 515 dated 06 March 2006, M-2014-039 dated 01 October 2014, M-2014-031 dated 08 August 2014, M-2014-006 dated 12 February 2014, Circular Nos. 807 and 806 both dated 15 August 2013, M-2013-050 dated 15 November 2013, M-2013-046 dated 30 October 2013, M-2013-045 dated 23 October 2013, M-2013-040 dated 03 September 2013, M-2013-001 dated 14 January 2013, 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, Circular No. 679 dated 01 February 2010, M-2009-040 dated 30 October 2009, M-2009-037 dated 15 October 2009, M-2009-38 dated 08 October 2009, and M-2009-036 dated 07 October 2009, Circular Nos.648 dated 02 March 2009 and 630 dated 11 November 2008)

X269.7 **Release of proceeds.** The proceeds of the rediscounting availment shall be released, as follows:

a. *Peso rediscounts* - automatically credited to the borrowing bank s DDA or its depository bank s DDA with the Bangko Sentral on the same day for loan application submitted to the Bangko Sentral before 4:30 pm during banking days.

b. *Dollar/Yen rediscounts* - released through the Treasury Department, Bangko Sentral, for credit to the designated foreign correspondent bank of the borrowing bank, as follows:

(1) Same banking day credit for dollar loan application submitted to the Bangko

Sentral before 11:00 am, during banking days; and

(2) Following banking day credit for yen loan application submitted to the Bangko Sentral before 11:00 am, during banking days.

(Circular No. 515 dated 06 March 2006, as amended by Circular No. 630 dated 11 November 2008)

X269.8 Repayments/ Remittance of collections/ arrearages¹. The following shall govern repayments, remittance of collections, and arrearages:

a. Repayments -

(1) Peso rediscounts

(a) The loan value of the rediscounted credit instruments or the amortization plus interest due thereon shall automatically be debited against the borrower bank s DDA with the Bangko Sentral at maturity/ amortization due date.

(b) For microfinance loans, the DDA of the borrower bank shall automatically be debited on the amortization due date for the loan value of the amortization plus interest due thereon. For loans with daily, weekly or semi-monthly amortizations, the borrower bank s DDA shall automatically be debited on the last amortization due date of said month for the total loan value of the amortizations for the month plus interest due thereon.

(c) The loan value of unremitted collections and of the rediscounted credit instruments and/or underlying collaterals found to be missing, ineligible or with exceptions not corrected within fifteen (15) days from receipt of notice plus interest due thereon shall automatically be debited against the borrowers bank s DDA with the Bangko Sentral.

(2) Dollar/Yen rediscounts

Dollar and yen loans shall be repaid in the same currency under which they were released. For this purpose, the bank shall submit online to the Bangko Sentral its payment instruction one (1) day before the payment date or the maturity date of the loan

¹ See Appendix 89

corresponding to the remittance instruction to its designated correspondent bank. The payment shall cover total collections or payment of maturing loans plus interest due thereon. In case of short payment, the bank s DDA with the Bangko Sentral shall automatically be debited for the peso equivalent of the shortage .

If the foreign currency denominated loans are not settled on maturity date, the borrowing bank s DDA with the Bangko Sentral shall be debited automatically for the peso equivalent of the matured obligation plus accrued interest due thereon. The foreign exchange (FX) rate at the time of the loan repayment shall not be lower than the FX rate at the time of loan availment and any FX loss arising from default or repayment shall be for the account of the borrower and not for the Bangko Sentral.

b. Remittance of collections -

(1) Total collections received by the borrowing bank before the maturity date of the rediscounted credit instruments shall be remitted not later than five (5) banking days following the date of receipt of collections to the following:

Peso Rediscounts - Bangko Sentral

Dollar Rediscounts - Federal Reserve Bank of New York for the account of Bangko Sentral

Yen Rediscounts - Bank of Tokyo for the account of Bangko Sentral

(i) *Total collections* shall refer to the loan value of the principal amount collected from rediscounted credit instruments plus accrued interest due on the outstanding balance of subject credit instruments.

(ii) For banks with Bangko Sentral loans under past due status, total collections shall include all collections on principal, interest and penalty.

(iii) In the case of negotiated EBs, the receipt by the borrowing bank of payment from its correspondent bank either through actual remittance or credit advice; or through book entries made by the

X269.8 - X269.11
14.12.31

borrowing bank charging its correspondent bank before receipt of advice shall constitute receipt of collection.

(2) The bank shall ensure that adequate records are maintained in its Head Office on the collections made by the branches.

c. Arrearages. The Bangko Sentral shall undertake all necessary collection measures allowed by law, such as foreclosure proceedings against banks with past due loans.

(Circular No. 515 dated 06 March 2006, M-2014-039 dated 01 October 2014, M-2014-031 dated 08 August 2014, M-2014-006 dated 12 February 2014, Circular No. 807 dated 15 August 2013, M-2013-050 dated 15 November 2013, M-2013-046 dated 30 October 2013, M-2013-045 dated 23 October 2013, M-2013-040 dated 03 September 2013, M- 2013-001 dated 14 January 2013, 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-2010-39 dated 03 November 2010, M-2010-007 dated 23 April 2010, M-2009-040 dated 30 October 2009, M-2009-37 dated 15 October 2009, M-2009-38 dated 08 October 2009, and M-2009-036 dated 07 October 2009, Circular Nos. 648 dated 02 March 2009 and Circular No. 630 dated 11 November 2008)

X269.9 Prohibited transactions. The following shall not be allowed without prior approval of the Bangko Sentral:

a. Substitution of rediscounted credit instruments and underlying collateral real properties on outstanding loans with the Bangko Sentral;

b. Renewal of rediscounted credit instruments without remitting payment while the loan released against the rediscounted credit instrument is still outstanding with the Bangko Sentral; and

c. Acceptance of properties as payment (dacion en pago).

(Circular No. 515 dated 06 March 2006 as amended by Circular No. 630 dated 11 November 2008)

X269.10 Monitoring and credit examination of borrowing banks. The DLC shall conduct an off-site analysis of the Bangko Sentral s credit exposure to borrowing banks and a risk-based on-site credit examination that will focus primarily on determining whether there is a high ,

moderate or low probability of default on the settlement of the banks rediscounting obligations with the Bangko Sentral.

(Circular No. 515 dated 06 March 2006,as amended by Circular Nos. 806 dated 15 August 2013 and 630 dated 11 November 2008)

X269.11 Penalties/sanctions. The following penalties and sanctions shall be imposed on the erring bank and/or the bank s authorized/certifying officers.

a. For serious offense

| Aggregate Amount/ Penalty Range | Minimum | Maximum |
|---------------------------------|---------|---------|
| P50K or less | P83 | P250 |
| Above P50K to 100K | 250 | 750 |
| Above P100K to P500K | 1,000 | 3,000 |
| Above P500K to 1M | 2,500 | 7,500 |
| Above P1M | 5,000 | 15,000 |

b. For less serious offense

| | | |
|----------------------|-------|--------|
| P50K or less | P63 | P188 |
| Above P50K to 100K | 188 | 563 |
| Above P100K to P500K | 750 | 2,250 |
| Above P500K to 1M | 1,875 | 5,625 |
| Above P1M | 3,750 | 11,250 |

c. Minor offense

| | | |
|----------------------|-------|-------|
| P50K or less | P42 | P125 |
| Above P50K to 100K | 125 | 375 |
| Above P100K to P500K | 500 | 1,500 |
| Above P500K to 1M | 1,250 | 3,750 |
| Above P1M | 2,500 | 7,500 |

The following definition of terms shall apply:

(1) Offense shall refer to a violation that connotes infraction of the terms and conditions of the loans granted by the Bangko Sentral and of the applicable laws, rules and regulations, Bangko Sentral credit policies and non-compliance with the Bangko Sentral/Monetary Board directives.

(2) *Serious offense* – This refers to acts or omissions constituting violation of the terms and conditions of the loans granted to the bank and of the applicable laws, rules and regulations that constitute unsafe and unsound banking practices; and the misrepresentation of facts and warranties committed by the bank/ individual(s) that influenced the approval and amount of the rediscounting loan/line granted, such as:

(a) Rediscounting of ineligible papers, fictitious borrowers/loans/titles or submission of spurious documents;

(b) Absence of or failure to execute vital loan documents;

(c) Failure or delay in the deposit of rediscounted loan documents with the custodian bank, except those caused by fortuitous events; and

(d) Failure to remit to the Bangko Sentral collections on principal of the rediscounted loans within the prescribed period of five (5) banking days from date of actual receipt of collections except collections from microfinance loans.

(3) *Less serious offense* – This refers to acts or omissions constituting violation of the terms and conditions of the loans granted to the bank and of the applicable laws, rules and regulations that constitute unsafe and unsound banking practices but not falling under the serious offense category; however, the deficiencies noted should be addressed immediately to mitigate the credit risk of the Bangko Sentral.

(4) *Minor offense* – This includes acts or omissions which are procedural in nature, not intentional, may not result in any loss or damage to or any significant increase in the risk of the creditor Bangko Sentral and can be resolved immediately during the normal course of business. For purposes of classifying the nature of the offense, this includes all other acts or omissions which cannot be classified under serious or less serious offenses.

(5) *Aggregate amount* - shall refer to the

aggregate amount of the following under the current examination:

(a) *Under serious offense:*

Total loan value of the following:

(i) Rediscounted ineligible papers with serious offense, fictitious loans or spurious loan documents as determined by the Bangko Sentral or Office of Special Investigation;

(ii) Undeposited vital loan documents and underlying collaterals as of examination date; and

(iii) Collections on principal of rediscounted loans which were not remitted to the Bangko Sentral within the prescribed period of five (5) banking days from date of receipt of collections.

(b) *Under less serious offense:*

Total loan value of rediscounted ineligible papers with less serious offense as determined by the Bangko Sentral.

(c) *Under minor offense:*

Total loan value of rediscounted ineligible papers with minor offense as determined by the Bangko Sentral.

(6) *Minimum penalty* – refers to the range of penalties to be imposed if the mitigating factor(s) outweighs the aggravating circumstances, to wit:

(a) The act or omission is not intentional or the bank acted in good faith when the error, deficiency, violation or the absence/lack of the required action were committed.

(b) The bank is willing to take immediate action or has started to rectify the deficiencies/violations noted or undertakes to correct the deficiencies within fifteen (15) days from receipt of notice.

(c) The bank has voluntarily disclosed the offense/violation committed before it is discovered by the Bangko Sentral or has remitted to the Bangko Sentral the total amount due plus accrued interest.

(7) *Maximum penalty* – refers to the range of penalties to be imposed if the aggravating circumstances outweigh the mitigating factor(s), to wit:

¶¶ X269.11 - X269.12
08.12.31

(a) The act or omission carries with it the intention to commit or cover up a violation or to defraud the Bangko Sentral.

(b) Commission or omission of a specific offense corrected in the past but found repeated in another transaction in subsequent examination.

(c) Additional interest charges on unpaid penalty.

An additional interest of twelve percent (12%) per annum shall be assessed on nonpayment of the penalties, from date of demand until full settlement thereof.

The foregoing monetary penalties shall be without prejudice to the cancellation of the bank's rediscounting line with the

Bangko Sentral and/or administrative and criminal sanctions that may be charged against its culpable officers.

(Circular No. 515 dated 06 March 2006 as amended by Circular No. 630 dated 11 November 2008)

¶ **X269.12 *Interlocking directorship/officership.*** Banks owned or managed by the same owners, stockholders, directors, officers or family/business group may also be suspended from availment of the rediscounting facility by the Credit Committee once the rediscounting line of any of the banks belonging to the same group is suspended, until such time that the suspension of the erring bank is lifted.

(Circular No. 515 dated 06 March 2006 as amended by Circular No. 630 dated 11 November 2008)

(Next Page is Part II - Page 53)

Sec. X270 Repurchase Agreements with the Bangko Sentral. Repo agreements with the BSP shall be governed by Sec. X601.

Sec. X271 Bangko Sentral Liquidity Window. The following guidelines shall govern the grant by the BSP of credit accommodations through a liquidity window to banks.

§ X271.1 Nature of liquidity window
The window shall meet the liquidity needs of the financial system under normal conditions and shall be distinct from overdrafts and emergency advances.

§ X271.2 Terms of credit
a. *Interest rate.* The rate of interest chargeable on availments under the liquidity window shall be the rate equivalent to the reference rate for ninety (90) days determined and announced by the BSP for floating rate loans, plus or minus a rate to be determined by the BSP on the basis of the prevailing monetary situation.

The additional or discount rate established for any given time shall be made public by the BSP and applied uniformly to all borrowers during that period.

The additional rate to be imposed over and above the reference rate shall not be less than two (2) percentage points, with the applicable additional rate to be determined by the BSP on the basis of the prevailing monetary situation.

b. *Security.* Any paper, irrespective of maturity, eligible under Section 82 of R.A. No. 7653.

c. *Loan values.* The loan values of the paper offered as collateral should be eighty percent (80%) of the amount still due outstanding on the paper offered as collateral.

d. *Repayment period.* The term of the credit accommodation shall not exceed seven (7) days.

§ X271.3 Limit. Availment by any bank under this facility shall not exceed ten percent (10%) of its net worth, as defined under Sec. X111 as of the end of the quarter preceding the date of application. In the case of branches of foreign banks, the quota shall be ten percent (10%) of the assigned capital as of the date of application. Additionally, a bank or a branch of a foreign bank may avail itself of this facility to the extent equivalent to a further five percent (5%) of its net worth, as defined under Sec. X111 or assigned capital, as the case may be, as of the end of the quarter preceding the date of availment. Any availment of the liquidity window shall fall within the unavailed basic rediscount ceiling of the bank or the branch of a foreign bank as the case may be.

Sec. X272 Emergency Loans or Advances to Banking Institutions. The emergency loan or advance to banking institutions is governed by the provisions of Sections 84 to 88 of R.A. No. 7653, otherwise known as The New Central Bank Act. The following guidelines shall govern the BSP's emergency loans and advances.

(Circular No. 517 dated 06 March 2006)

§ X272.1 Nature of emergency loans or advances. An emergency loan or advance is a credit facility that is intended to assist a bank experiencing serious liquidity problems arising from causes not attributable to, or beyond the control of, the bank management. The grant of such facility is discretionary upon the Monetary Board, and is intended only as a temporary remedial measure to help a solvent bank overcome serious liquidity problems. As provided under Sections 84 to 88 of R.A. No. 7653, no emergency loan or advance may be granted except on a fully secured basis and the Monetary Board may prescribe additional conditions, which the borrowing banks

§§ X272.1 - X272.3
08.12.31

must satisfy in order to have access to the credit facility of the BSP.

(Circular No. 517 dated 06 March 2006)

§ X272.2 When an emergency loan or advance may be availed of. An emergency loan or advance may be granted:

a. In periods of national and/or local emergency or of imminent financial panic which directly threaten monetary and banking stability, i.e., situations involving bank runs, massive movements by depositors of their funds from certain banks to other banks, bank holidays and voluntary cessation of business, or when there are movements which endanger the economy, or when the international stability of the peso is threatened, or when there is an exchange crisis.

b. During normal periods for the purpose of assisting a bank in a precarious financial condition or under serious financial pressures brought about by unforeseen events or events which though foreseeable, cannot be prevented by the bank concerned.

Provided, That there is a concurrent vote of at least five (5) members of the Monetary Board and the latter has ascertained that the bank is not insolvent: *Provided, further*, That banks with positive CAR of not more than six percent (6%) based on adjusted books of accounts shall submit a Business Improvement Plan (BIP) acceptable to the BSP within six (6) months from date of advice by the appropriate department of the SES. For this purpose, the appropriate department of the SES shall warn the concerned banks that failure to submit the required BIP in accordance with the criteria of the appropriate department of the SES shall disqualify the bank from access to the BSP's emergency loan facility. Banks with zero to negative CAR should have an existing BSP-approved rehabilitation plan and on track with the Plan to be eligible to avail itself of emergency loan.

(Circular No. 517 dated 06 March 2006)

§ X272.3 Allowable amount of emergency loan or advance. The maximum amount of an emergency loan or advance shall be limited to the amount needed by the applicant bank to overcome the emergency or financial predicament but not to exceed the sum of fifty percent (50%) of its total deposits and deposit substitutes as of the last banking day of the month preceding the date of emergency loan application: *Provided*, That, in no case shall such maximum amount exceed the loan values of the collaterals submitted, as determined by the BSP.

The amount approved by the Monetary Board shall be released in tranches. The first tranche shall not exceed twenty-five percent (25%) of the total deposits and deposit substitutes of the bank as of the last banking day of the month preceding the date of emergency loan application and shall be released only after the submission of the collaterals and required documents under Subsecs. X272.4 and X272.5: *Provided, however*, That upon request of the applicant bank, the Monetary Board may authorize a first tranche in an amount greater than twenty-five percent (25%) of the bank's total deposits and deposit substitutes if the circumstances surrounding the emergency or financial predicament warrant the release of such greater amount and the same is adequately secured by first class collaterals.

Except as provided in Subsec. X272.7(d) hereof, the proceeds of the emergency loan or advance shall be utilized exclusively to service net withdrawals of deposits and deposit substitutes, i.e., amount of the bank's total withdrawals less total deposits.

The principal amount of the emergency loan or advance shall not exceed the difference between the highest level of the bank's deposit and deposit substitutes of the immediately preceding thirty (30)-day period from date of emergency loan application and the current level of deposits

and deposit substitutes as determined by the appropriate department of the SES.

(Circular No. 517 dated 06 March 2006)

§ X272.4 Application procedures

Banks applying for an emergency loan or advance shall submit an application (EL Form No. 1) with the appropriate department of the SES, copy furnished the DLC. During normal periods, the applicant-bank shall state the reasons for the proposed loan availment and other details showing the precarious financial condition or the serious financial pressures being experienced by the bank.

The bank shall submit together with the application, the following documents:

a. Certified Statement of Condition (under oath) as of the last banking day of the month preceding the date of emergency loan application.

b. A duly notarized secretary's certificate (EL Form No. 2) together with a resolution of the board of directors of the bank:

(1) Authorizing the availment by the bank of an emergency loan or advance from the BSP.

(2) Signifying the bank's commitment to comply with the guidelines set forth herein and the terms and conditions that may be imposed by the Monetary Board.

(3) Designating the chairman and the president or in their absence, any of the next two (2) highest officers, as duly authorized signatories for the emergency loan or advance application, promissory notes, and all undertakings. Designated authorized officers not lower than senior vice president, or equivalent position, may be authorized to execute all accessory documents for the emergency loan or advance.

(4) Authorizing the Bangko Sentral to evaluate other assets of the bank certified by its auditors to be good and available for collateral purposes should the grant of subsequent tranches be applied for.

After determining the eligibility of the applicant bank to avail of the emergency

loan or advance under Subsec. X272.2, the appropriate department of the SES shall prepare a memorandum to the Monetary Board stating among others, the following:

a. Validation of the eligibility of applicant bank.

b. Financial condition of applicant bank.

c. Volume of deposits and expected withdrawals of deposits.

d. Amount and terms of the loan.

e. Whenever applicable, circumstances that warrant the grant of the first tranche greater than twenty-five percent (25%) of the total deposits and deposit substitutes as provided by law.

The applicant bank shall submit to the DLC, prior to the release of the first tranche, the following documents together with the copy of the application:

a. Listing of assets that are good and available for collateral purposes as certified by the bank's duly appointed external auditor (EL Form No. 3).

b. Listing of collaterals in the prescribed formats (EL Form Nos. 4/4a/4b) as well as a 3.5" diskette containing the database, (in MS Excel format), together with the documents of title and/or evidences of ownership of the collaterals offered including the following documents:

(1) Appraisal reports of not more than one (1) year conducted by an independent appraiser acceptable to the BSP in accordance with BSP's terms of reference.

(2) Latest tax declarations.

(3) Current tax receipts, tax clearances and other documents needed for registration of mortgages and deeds of assignment.

(4) Current insurance policies covering improvements and official receipts of premium payments.

(5) Department of Agrarian Reform (DAR) certification that agricultural properties offered as collaterals are not covered by the Comprehensive Agrarian Reform Program (CARP).

§ X272.4
08.12.31

(6) Current original promissory notes of bank's borrowers duly endorsed in favor of the BSP.

(7) Special power of attorney or stockholder's resolution, when appropriate.

c. Notarized Deed of Undertaking executed by the above-mentioned officers of the bank to: (1) register with the Registry of Deeds all the covering legal documents before loan release at the expense of the bank and that, in the event the BSP agrees to release the proceeds of the loan before said documents are registered, the same shall be registered by the bank at its own expense; and (2) submit the documents needed to complete the requirements of the tranche not later than fifteen (15) days from release of the emergency loan or advance. (EL Form No. 5).

In case of failure by the bank to register the covering legal documents within fifteen (15) days from date of release of loan proceeds, the BSP shall register said documents for the account of the applicant bank, and all costs and expenses shall, at the option of BSP, be deducted from any subsequent availments of the bank or from its DDA or be added to its liability account with the BSP.

d. Notarized Joint and Several Undertaking executed by all the controlling stockholders [owning more than fifty percent (50%) of the voting stocks] of the bank and every person or a group of persons whose stockholdings are sufficient to elect at least one (1) director to indemnify and hold harmless from suit the BSP, its Monetary Board members, Governor, officers and personnel, and the conservator whose appointment the Monetary Board may find necessary at any time. The Department of Finance or stockholder of record will sign the joint and several undertaking if the government is a stockholder (EL Form No. 6).

e. Notarized Deed of Undertaking with waiver of secrecy of deposits and

commitment by the directors, principal officers with the equivalent rank of vice-president and up, all the controlling stockholders, and every person or group of persons and their respective spouses, whose stockholdings are sufficient to elect at least one (1) director not to withdraw any portion of their deposits and deposit substitutes as of date of release of the first tranche while the emergency loan remains outstanding. In the event of a compelling reason to withdraw, payment of the emergency loan or advance in an amount equivalent to the deposits to be withdrawn shall be made (EL Form No. 7).

f. Notarized Surety Agreement executed by the controlling stockholders and every person or group of persons whose stockholdings are sufficient to elect at least one (1) director obligating themselves jointly and severally with the bank to pay promptly on maturity, or when due, the Bangko Sentral, its successors or assigns, all promissory notes covering the emergency loan or advance. (The Government, its subdivisions, instrumentalities and agencies, and government entities are exempted from this requirement.) (EL Form No. 8)

g. Notarized Deed of Negative Pledge executed by the controlling stockholders and every person or group of persons whose stockholdings are sufficient to elect at least one (1) director, together with their respective certificates of stock. (The Government, its subdivisions, instrumentalities and agencies, and government entities are exempted from this requirement.) (EL Form No. 9).

h. Certification under oath executed by the chairman and president of the bank that the bank or any of its stockholders does not fall within the prohibition under Section 16, Article XI of the Constitution (EL Form No. 10).

Prior to the release of the subsequent tranches, the bank shall submit to DLC the

documents of title and/or evidences of ownership of the collaterals, together with the other documents referred to in Item “b” of the immediately preceding paragraph of this Subsection for the amount being applied for release and, where necessary, such other acceptable security which, in the judgment of the Monetary Board, would be adequate to supplement the assets tendered to collateralize the subsequent tranche.

Banks availing of emergency loan or advance may decline to submit either item “f” or “g” or both, but the loan values specified in Items “b” and “d” of Subsec. X272.6 shall be reduced.

(Circular No. 517 dated 06 March 2006)

§ X272.5 Other documentary requirements. Before release of any emergency loan or advance, the applicant bank shall, aside from the documentary requirements already mentioned above, submit such other requirements/documentation as may be required by the DLC, e.g., duly Notarized Promissory Note

in Favor of the BSP (EL Form No. 11/11a), Notarized Deed of Real Estate Mortgage (EL Form No. 12-Bank Assets/12a-Stockholder/Third Party Assets), Notarized Deed of Pledge (EL Form No.13- Individual/Corporation/13a-Stockholders’/Third Party Assets), Notarized Deed of Assignment of Mortgages (EL Form No. 14), Hold-out on Foreign Currency Deposits with BSP (EL Form No. 15) and Joint Affidavit executed by the bank’s chairman and president and the Individual Mortgagor (EL Form No. 16- Individual) or the Corporate-Mortgagor’s chairman and president (EL Form 16a- Corporation).

(Circular No. 517 dated 06 March 2006)

§ X272.6 Acceptable collaterals and their corresponding loan values. All availments of the emergency loan or advance shall be secured by first class collaterals, i.e., 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 COLLATERALS | With Surety Agreement and Negative Pledge | With Surety Pledge but no Negative Pledge | With Negative Pledge but no Surety Agreement | No Surety Agreement and no Negative Pledge |
|--|--|--|--|--|
| a. Government securities - based on the current market value of the securities | 80% | 80% | 80% | 80% |
| b. Unencumbered real estate properties in the name of the bank <div> 1. Initial rate - based on the appraised value (AV) of the land and insured improvements 2. Final rate - 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 </div> | <div> 40% 70% </div> | <div> 35% 65% </div> | <div> 30% 60% </div> | <div> 25% 55% </div> |
| c. Hold-outs on foreign currency deposits with the BSP - based on current market value | 80% | 80% | 80% | 80% |
| d. Mortgage credits (with remaining maturities of not more than 360 days) <div> 1. Initial rate - based on the AV of the property securing the loan evidenced by negotiable instruments or the outstanding balance of such loan whichever is lower 2. Final rate - 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 BSP's terms of reference or the outstanding balanceof such loan whichever is lower. </div> | <div> 40% of AV or 50% of the outstanding balance 70% of AV or 80% of the outstanding balance </div> | <div> 35% of AV or 40% of the outstanding balance 65% of AV or 75% of the outstanding balance </div> | <div> 30% of AV or 40% of the outstanding balance 60% of AV or 70% of the outstanding balance </div> | <div> 25% of AV or 40% of the outstanding balance 55% of AV or 65% of the outstanding balance </div> |
| e. Commercial papers ("AAA") | 80% | 80% | 80% | 80% |

§§ X272.6 - X272.7
 08.12.31

Assets of stockholders and of other third parties, the latter acceptable only in instances provided under the last paragraph of Subsec. X272.8, are acceptable as collaterals for emergency loan with corresponding loan values, as follows:

| ACCEPTABLE COLLATERALS | With Surety Agreement and Negative Pledge | With Surety Pledge but no Negative Pledge | With Negative Pledge but no Surety Agreement | No Surety Agreement and no Negative Pledge |
|---|---|---|--|--|
| I. Asset of stockholders to secure new loan releases if the bank has no available first class collaterals: | | | | |
| a. Unencumbered real estate | | | | |
| 1. Initial rate - based on the AV of the land and insured improvements | 35% | 30% | 25% | 20% |
| 2. Final rate - 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 | 60% | 55% | 50% | 45% |
| b. Government Securities | 80% | 80% | 80% | 80% |
| c. Commercial papers ("AAA") | 80% | 80% | 80% | 80% |
| II. Assets of other third parties to cover deficiency arising from unpaid interest and liquidated damages, reduction in loan value of existing colaterals and conversion of overdrafts into emergency loan: | | | | |
| a. Unencumbered real estate | | | | |
| 1. Initial rate - based on the AV of the land and insured improvements | 30% | 25% | 20% | 15% |
| 2. Final rate - 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 | 50% | 45% | 40% | 35% |
| b. Government securities | 80% | 80% | 80% | 80% |
| c. Commercial papers ("AAA") | 80% | 80% | 80% | 80% |

Other types of assets may be acceptable as collateral for emergency loan as the Monetary Board may approve.

The initial valuation rate shall apply in case the appraisal reports of independent appraiser acceptable to the BSP for real estate collaterals are not available or not in accordance with BSP’s terms of reference or the collaterals themselves are with rectifiable minor deficiencies as determined by DLC, but will be adjusted upon compliance with the foregoing requirements.

All collateralization expenses, such as registration fees, documentary stamps, etc., shall be borne by the applicant bank.

(Circular No. 517 dated 06 March 2006)

§ X272.7 **Manner and conditions of release.** The manner and conditions of release of emergency loan or advance shall be as follows:

a. The grant of emergency loan or advance shall bear the concurrent vote of at least five (5) members of the Monetary Board.

b. The emergency loan or advance shall have a ninety (90)-day availability period from date of Monetary Board approval, non-renewable, non-extensible. Request for extension or renewal shall be treated as new loan application to be evaluated by the appropriate department of the SES if qualified under Subsec. X272.2.

c. The amount approved by the Monetary Board may be disbursed in one (1) or more releases as dictated by the needs of the bank and availability of first class collateral.

d. The proceeds of the emergency loan or advance shall be applied first to the advance interest, and then to any outstanding overdrawings that may have

been incurred by the bank in its demand deposit with the BSP.

e. The bank shall submit to the DLC a board resolution confirming every receipt of proceeds of emergency loan or advance. Likewise, the bank shall submit a board resolution confirming the undertakings executed by the officers under Subsec. X272.4.

(Circular No. 517 dated 06 March 2006)

§ X272.8 Interest rates, liquidated damages, and penalties. The interest rate that shall be charged on emergency loan or advance shall be based on the BSP lending rate plus two percent (2%) per annum. Interest shall be collected in advance from the borrowing bank.

An additional five percent (5%) per annum shall be imposed as liquidated damages on the past due emergency loan or advance.

A penalty of one-tenth of one percent (1/10th of 1%) per day of delay on unremitted/delayed remittance of collections received by the bank from promissory notes covering the assigned mortgage credits or the proceeds of sale from assigned/mortgaged real estate properties commencing on the day following the deadline prescribed in Subsec. X272.11 shall be imposed on the erring bank.

Any shortfall in collateral due to unpaid accrued interest, liquidated damages, reduction in loan value of existing collaterals and conversion of overdraft into emergency loan may be covered by third party assets after the assets of the bank have been exhausted.

A Joint Affidavit (EL Form No. 16/16a) between the bank's chairman and president and the corporate-mortgagor's chairman and president or the individual mortgagor to be signed and notarized in the BSP shall be submitted in support of the mortgage documents. The signing

shall be photographed as well as recorded in video tape.

(Circular No. 517 dated 06 March 2006)

§ X272.9 General terms and conditions. A bank with an outstanding emergency loan or advance shall comply with the following conditions:

a. The bank shall not, without the prior authorization of the Monetary Board, expand its outstanding loans or investments as of the date of application for emergency loan, except for investment in government securities.

b. The bank shall not declare cash dividends.

c. The bank shall not grant new loans to DOSRI or to affiliates and subsidiaries.

d. The bank shall accept the BSP designated Comptroller to be assisted by examiners recommended by the appropriate department of the SES and the DLC to monitor the operations of the bank under the Terms of Reference as determined by the Monetary Board.

e. The bank shall not be allowed to avail of the BSP rediscounting facility.

f. The bank shall comply with any other terms and conditions that may be imposed by the Monetary Board.

(Circular No. 517 dated 06 March 2006)

§ X272.10 Maturity/Conditions for renewals. The term of any emergency loan or advance shall not exceed 180 days including renewals.

Any request for renewal of an emergency loan or advance shall be treated as a new loan and shall be considered only upon the bank's compliance with the following:

a. All the requirements of the previous tranche/s;

b. Remittance of collections/proceeds of sales under Subsec. X272.11;

c. Payment of advance interest;

§§ X272.10 - X272.12
08.12.31

d. Submission of a duly notarized promissory note in favor of the Bangko Sentral; and

e. Other requirements that may be imposed by the Monetary Board on the borrowing bank.

The Director of the DLC shall approve the renewal of an emergency loan or advance.

(Circular No. 517 dated 06 March 2006)

§ X272.11 Remittance of collections/ repayments/arrearages. The following shall govern remittance of collections, sale proceeds, repayments and arrearages:

a. Total collections received on loan accounts assigned to the BSP shall be held in trust for, and remitted to the BSP not later than five (5) banking days following the date of receipt in payment of the bank’s outstanding emergency loan or advance, net of refund of interests, if any.

b. Proceeds from the sale of properties assigned/mortgaged to the BSP shall be held in trust for, and remitted to the BSP not later than five (5) banking days following the date of receipt in payment of the bank’s outstanding emergency loan or advance, net of refund of interests, if any.

For banks with emergency loan or advance under current status, “total collections” and “proceeds from the sale” shall pertain to the loan value of the mortgaged credits and properties.

For banks with emergency loan or advance under past due status:

(1) Total collections shall pertain to total collections from the mortgaged credits, i.e. principal plus interest and penalty.

(2) Proceeds from the sale shall pertain to net proceeds from the sale of assigned/ mortgaged properties or the total BSP claims pertaining to the sold properties, i.e., loan value plus interest and penalty, whichever is higher.

The bank shall ensure that adequate records on the collections and sale made by the branches are maintained in its Head Office.

c. Increases in the deposit level of the borrowing bank equivalent to the recovery of the net withdrawal of deposits, shall be remitted to the BSP or debited against the bank’s demand deposit account in payment of the emergency loan or advance, net of refund of interest.

d. The loan value of the collaterals of the emergency loan or advance, i.e., mortgaged credits and properties, discovered by the BSP falling short of its criteria of first class collaterals, shall be debited against the bank’s DDA with the BSP, net of refund of interest.

e. The BSP shall undertake all necessary collection measures allowed by law, such as foreclosure proceedings against banks, whether operating or closed, with past due loans.

In the event the bank fails to comply with any of the foregoing, the DLC shall notify, copy furnished the bank, the borrowers of the assignment of their outstanding loans to the BSP and advise them to remit payment directly to the BSP (EL Form 17).

(Circular No. 517 dated 06 March 2006)

§ X272.12 Default. The following shall constitute events of default which shall render the emergency loan or advance due and demandable and shall be sufficient cause for the BSP to stop further releases of funds, without prejudice to any action the BSP may decide to take in accordance with R.A. No. 7653:

a. Insolvency or bankruptcy of the bank.

b. Appointment of a receiver for the bank.

c. The bank’s property and business is taken possession of or its business suspended or closed by the lawfully

authorized governmental agency or authority.

d. Violation of any of the terms and conditions of all loan and collateral documents.

e. Non-compliance with the undertakings executed by the borrowing bank.

(Circular No. 517 dated 06 March 2006)

Sec. X273 Facility to Committed Credit Line Issuers. The following guidelines shall govern the grant by the BSP of special credit accommodations to banks which establish committed credit line in favor of corporations proposing to issue commercial paper.

§ X273.1 Nature of special credit accommodations. The BSP may extend a loan to any bank which on its own or as a member of a group of banks, provides a committed credit line facility to a corporation proposing to issue commercial paper.

§ X273.2 Conditions to access. A bank applying for a loan pursuant to the provisions of this Section shall submit to the BSP documents showing that it has extended a committed credit line to a commercial paper issuer and that such issuer has availed itself of said credit line.

§ X273.3 Terms of credit

a. *Interest rate.* The rate of interest chargeable on the availment of this credit facility shall be that which is equivalent to eighty percent (80%) of the total of interest and fees received by the bank from the issuer, net of provision for gross receipts tax paid by the bank on such income.

b. *Security.* The promissory note executed by the commercial paper issuer in favor of the bank for the amount drawn against the committed credit line shall be the security for this credit facility.

c. *Loan values.* The loan value of paper offered as collateral shall be eighty percent (80%) of the amount still due and outstanding on the paper offered as collateral.

d. *Repayment period.* The term of the credit accommodation may not exceed ninety (90) days and shall be non-renewable.

§ X273.4 Ceiling. If availment of this credit facility is outside the other rediscount ceiling of the bank, it shall be limited to the extent of fifteen percent (15%) of the net worth of the bank.

Sec. X274 (Reserved)

Sec. 1274 (Reserved)

Sec. 2274 Countryside Financial Institutions Enhancement Program (CFIEP) for Thrift Banks. The CFIEP shall be implemented under the terms of reference indicated in *Appendix 16*.

Sec. 3274 Countryside Financial Institutions Enhancement Program for Rural and Cooperative Banks. The CFIEP shall be implemented under the terms of reference indicated in *Appendix 16*.

Sec. X275 Recording and Reporting of Borrowings. The bank’s liability for papers discounted and/or rediscounted “with recourse” with the BSP and/or other financial institutions shall be recorded and shown as “*Bills Payable*” in all reports submitted to the BSP.

The loans and discounts, bills purchased, acceptances and other accounts affected by such discounting and/or rediscounting transactions shall remain as part of the bank’s loan portfolio. A footnote in the financial statement shall indicate the outstanding balances of the discounted and/or rediscounted loans.

§§ X276 - 3277.1
 08.12.31

Sec. X276 **Rediscounting Window for Low-Cost Housing as Defined by the Housing and Urban Development Coordinating Council (HUDCC).** The rules and regulations governing the rediscounting of housing loan papers of qualified banks under the low-cost housing program of the HUDCC are shown in *Appendix 40*.

Sec. X277 (Reserved)

Sec. 1277 **Rediscounting Window Available to All Universal and Commercial Banks for the Purpose of Providing Liquidity Assistance to Investment Houses.** The following implementing guidelines shall govern the new rediscount window available to all UBs and KBs under Section 82(c) of R.A. No. 7653, for the purpose of providing liquidity assistance to IH:

- a. Criteria for eligibility
 - (1) Eligible papers

Promissory note of the UB/KB executed in favor of the BSP and secured by a Deed of Pledge or Assignment of unencumbered/unhypothecated commercial papers with a rating of triple “A” and double “A”.
 - (2) Loan limit

Availments against this facility shall be charged against the rediscount ceiling of the borrowing bank (100% of net worth) as of the end of the quarter immediately preceding the date of application.
- b. Terms and conditions
 - (1) The loan shall be assessed an annual interest rate equivalent to one percent (1%) below the weighted average of the ninety-one (91)-day Treasury Bill rate for the last auction of the immediately preceding month.
 - (2) The loan shall have a term of 180 days from date of availment.
 - (3) The loan value shall be ninety percent (90%) of the face value of the commercial paper.

- (4) The BSP will automatically debit the demand deposit account of the UB/KB upon maturity of the rediscounting loan.
- (5) The chief executive officer of the bank or his equivalent must certify that the rediscounted commercial paper is still outstanding as of the time of assignment.
- (6) The UBs/KBs shall comply with the documentary requirements of the DLC.
 - c. Duration

Qualified UBs/KBs may avail of this facility until December 2000.

Sec. 2277 **Rediscounting Window Available to TBs for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs.** TBs availing of rediscounting facility for purposes of providing liquidity assistance to support and promote microfinance programs shall comply with the guidelines under Sec. 3277, except for the requirement of a custodian bank under Subsec. 3277.4a(6).

Sec. 3277 **Rediscounting Window Available to Rural and Cooperative Banks for the Purpose of Providing Liquidity Assistance to Support and Promote Microfinance Programs.** The following guidelines shall govern the rediscounting facility available to RBs and Coop Banks for the purpose of providing liquidity assistance to support and promote microfinance programs.

- § 3277.1 **Eligibility requirements**
 - a. *Eligible borrowers* . RBs and Coop Banks with at least one (1) year track record in microfinance and at least 500 active borrowers, ratio of past due microfinance loans to total outstanding microfinance loans of not more than five percent (5%) as of end of the month preceding loan application and collection ratio of not less than ninety-five percent (95%) based on ratio of total collections (excluding prepayments) during the preceding twelve

(12)-month period to the sum of past due microfinance loans at the beginning of said period and amount of matured loans including principal amortizations during the same twelve (12) - month period.

b. *Eligible papers.* Promissory Note (PN) of the RB or Coop Bank executed in favor of the BSP and secured by duly endorsed PN of microcredit borrowers.

c. *Manual of operations.* Written policies on microfinance operations must be set forth and documented in a policy manual duly approved by the bank's board of directors. The manual should include the following minimum features:

(1) Scope of microfinance activities and the types of services or products offered to clients;

(2) Authorities and responsibilities of:

(a) Board of directors;

(b) Management;

(c) Chief executive officer or its equivalent;

(d) Credit officers; and

(e) Other officers involved in the microfinance operations;

(3) Policies and procedures covering microfinance program/project;

(4) Client evaluation process which should involve at least: client orientation, pre-application, credit investigation, and loan application process;

(5) Loan processing, documentation and release of proceeds;

(6) Accounts monitoring system;

(7) Accounts delinquency management;

(8) Management Information System;

(9) Accounting policies, systems and procedures; and

(10) Internal controls and audit policies, systems and procedures.

d. A copy of System of Reviewing Asset Accounts and Setting Up of Adequate Valuation Reserves submitted.

e. *Staff training and experience.* Key officers and staff responsible for microcredit operations must have a minimum

experience of one (1) year and have completed a training course in microlending activities.

f. *Prescribed financial ratios and regulations.* Applicant bank must comply with the following financial ratios and regulations:

(1) Minimum capital prescribed under Subsec. X111.1;

(2) Risk-based capital ratio of not less than ten percent (10%);

(3) Reserves against deposit liabilities prescribed under existing regulations;

(4) Ratio of past due direct and indirect loans to DOSRI to the bank's aggregate past due loans of not more than ten percent (10%);

(5) Loans-to-deposits ratio of at least seventy-five percent (75%);

(6) Reports required to be submitted to the various departments and/or offices of the BSP;

(7) CAMELS rating of "3" or better; and

(8) Ratio of past due loans to total loan portfolio of not more than the industry average for RBs as of the preceding quarter.

§ 3277. 2 Microcredit line

a. Application for MCR Line shall be filed with the DLC, BSP at its head office in Manila or the appropriate BSP Regional Loans and Credit Unit (BSPRLCU). The term of the MCR line shall not exceed one (1) year from the date it is granted. The line may be renewed for another year upon submission of an application at least two (2) months before expiry, subject to full compliance with the prescribed eligibility requirements and the credit review by the DLC.

b. Total availments against the facility, which shall be charged against the approved MCR line, shall form part of the total authorized rediscount ceiling of the borrowing bank. The rediscount ceiling for microfinance shall be equivalent to one hundred percent (100%) of the bank's net

§§ 3277.2 - 3277.4
08.12.31

worth, net of valuation reserves and other capital adjustments as recommended by the appropriate department of the SES as of the last regular examination of the bank.

c. The proceeds of availment or drawdown against the approved MCR line shall be credited to the account of the RB or Coop Bank maintained with the depository bank or with BSP. The RB or Coop Bank shall be notified in writing/electronically of the credit of such account on the same banking day that the proceeds are released.

§ 3277. 3 Terms and conditions

a. The loan value shall be equivalent to eighty percent (80%) of the outstanding balance of the microfinance borrower's PN.

b. The RB or Coop Bank's loan from the BSP shall have a term of not more than 360 days. The maturity date of the microfinance borrower's PN shall in no case be beyond the maturity date of the RB or Coop Bank's PN.

c. The loan shall be assessed an annual interest rate equivalent to the 91-day Treasury Bill rate for the last auction date of the preceding month.

d. The demand deposit account of the RB or Coop Bank will be automatically debited at the maturity date of the BSP loan for the full amount due excluding collections from microfinance borrowers which were credited to the Special Savings Account of the BSP with the borrowing bank.

e. Any responsible officer who is holding a position that is not lower than manager or equivalent rank must, upon approval by the bank's Board, endorse the rediscounted PNs and certify that the same are still outstanding as of the time of application.

f. Collections made on amortizations due and maturing PNs shall be remitted to the DLC not later than two (2) banking days following the date of receipt of collections by the Head Office/branches located

within Metro Manila and not later than four (4) banking days following the date of receipt of collections by the Head Office/branches located outside Metro Manila as provided under Subsec. 3277.5.

g. A penalty of five percent (5%) per annum shall be imposed on matured and unpaid bank PNs in favor of the BSP.

Full compliance at all times with the eligibility requirements as prescribed under Subsec. 3277.1.

§ 3277.4 Documentary requirements

a. *Application for MCR Line.* RBs or Coop Banks applying for an MCR line shall submit a letter of application to DLC or the appropriate BSPRLCU accompanied by the following documents:

(1) Certificate of the Secretary (original) and copy of the resolution duly signed by the board of directors of the applicant bank, authorizing the bank to apply for an MCR line with the BSP and designating the officer authorized under Subsec. 3277.3(e) to endorse the PNs and sign all papers pertaining to the rediscounting line in the prescribed format.

(2) Certification of the applicant bank that it has complied with the financial and regulatory ratios, conditions, and reportorial requirements prescribed under the eligibility requirements for rediscounting as provided under Subsec. 3277.1.

(3) *Consolidated Financial Statements.* Statement of Condition as of the end of the month immediately preceding the date of application together with the corresponding Statement of Income and Expenses covering the results of operations for the last three (3) years.

(4) Report on required and available reserves covering the past two (2) consecutive weeks immediately preceding the date of application.

(5) Rediscounting Line Agreement executed by the CEO of the RB or Coop Bank.

(6) Notarized custodian agreement executed among the CEO of the RB or Coop Bank, the third party custodian and the BSP.

b. *Availment of MCR Line.* For availment of MCR line, the RB or Coop Bank shall submit the following documents:

- (1) Application for MCR Line Availment - original and one (1) copy in prescribed form duly accomplished and signed by the CEO of the applicant bank;
- (2) Rediscount Schedule (RS); and
- (3) Notarized PNs in favor of the BSP - original and two (2) copies.

§ 3277.5 Remittance of collections/payments/repayments. Collections made on amortizations due and maturing PNs shall be remitted to the DLC not later than two (2) banking days following the date of receipt of collections by the Head Office/branches located within Metro Manila and not later than four (4) banking days following the date of receipt of collections by the Head Office/branches located outside Metro Manila. As an alternative, collections may be deposited in a Special Savings Deposit Account (SSDA) which shall be maintained by the BSP with the borrower-bank and remitted to DLC or the appropriate BSPRLCU on the last banking day of every month. The SSDA shall earn interest of one percent (1%) lower than the 91-day Treasury Bill rate for the last auction date of the preceding month.

On due date of the PN, the RB or Coop Bank shall remit to the BSP the unpaid balance of such PN: *Provided*, That any amount credited to the SSDA shall be applied as payment of the PN in favor of BSP. The remittance shall be reported under DLC Form No. 5. The remittance to BSP shall be in the form of cash, demand draft, manager's check or based on authority issued by the bank to debit its

demand deposit account with BSP. Check payments and demand drafts shall be given value when cleared.

§ 3277.6 Reports required. A monthly report on microfinance transactions shall be submitted to DLC or the appropriate BSPRLCU within the deadline set in Appendix 6.

§ 3277.7 Accounts verification. The microcredit accounts rediscounted shall be subject to verification and confirmation by authorized DLC or the appropriate BSPRLCU representatives to determine their eligibility and acceptability for rediscounting.

§ 3277.8 Sanctions. Any misrepresentation and/or violation of the provisions of this Section shall subject the RB or Coop Bank and/or the erring directors/officers to any of the following sanctions:

a. *Erring RB or Coop Bank*

(1) Fines in amounts as may be determined by the Monetary Board to be appropriate, but in no case to exceed Thirty thousand pesos (P30,000) a day for each violation;

(2) Suspension of rediscounting privileges or access to BSP credit facilities; and/or

(3) Reduction of rediscounting line.

b. *Erring directors/officers*

For violation of any of the provisions of this Section the following shall be imposed against the directors and officers of the bank:

(1) *1st offense* - a warning that a repetition of the same or similar offense shall subject the erring director/officer to monetary penalties and/or sanctions;

(2) *2nd offense* - a fine of P500 per day for each violation from the time the violation was committed up to the time it is corrected without prejudice, however, to the imposition of higher penalties; and

§§ 3277.8 - X284
 10.12.31

(3) *3rd and subsequent offenses* - a fine of P5,000 per day from the time the violation was committed up to the time it is corrected without prejudice, however, to the imposition of higher penalties.

If any of the documentary requirements submitted by the bank as required under Subsec. 3277.4 is found to be false, a fine of P5,000 per day, from the time the certification was made up to the time the certification was found to be false, shall be imposed against the certifying officer.

Sec. X278 Enhanced Intraday Liquidity Facility. The ILF is a smoothening mechanism which is available to eligible participant banks in the Philippine Payments and Settlements System (PhilPaSS) to support their liquidity requirements and avoid payment gridlocks in PhilPaSS. The revised features of the enhanced intraday liquidity facility are in *Appendix 21-B*.

(As superseded by the MOA between the BSP, BTr, BAP and Money Market Association of the Philippines dated 25 March 2008)

Secs. X279 - X280 (Reserved)

K. OTHER BORROWINGS

Sec. X281 Borrowings from the Government. Except as may be authorized by existing statutes, no private bank shall, whether or not performing quasi-banking functions, borrow any fund or money from the Government and government entities, through the issuance or sale of its acceptances, notes or other evidences of debt.

§ X281.1 Exemption from reserve requirement. The following borrowings shall not be subject to the reserve requirements:

- a. STDs and deposit substitutes of specialized government banks and private banks arising from their lending operations under the special financing programs of the Government and/or international FIs; and
- b. Funds held by participating financial institutions (PFIs) under the GSIS Housing Loan Programs: *Provided*, That the agreement between the GSIS and the conduit banks specify that such funds may be held by the conduit banks for a period of not more than seven (7) calendar days prior to their release to the borrower and prior to the remittance by the conduit banks of payments to the GSIS.
- c. Borrowings by accredited FIs under the Wholesale Lending Program for SMEs of the SBGFC.

Sec. X282 Borrowings from Trust Departments or Investment Houses Funds borrowed by banks from trust departments or managed funds of banks or IHs are not considered as interbank borrowings and therefore are subject to the:

- a. Reserve requirement on deposit substitutes; and
- b. Minimum trading lot rule.

(As amended by Circular No. 703 dated 23 December 2010)

Sec. X283 (Reserved)

Sec. 1283 (Reserved)

Sec. 2283 Mortgage/CHM Certificates of Thrift Banks. With prior approval of the Monetary Board, TBs may issue and deal in mortgage and CHM certificates. The rules and regulations governing the issuance of said certificates is shown in *Appendix 17*.

Sec. 3283 (Reserved)

Sec. X284 (Reserved)

Sec. 1284 (Reserved)

Sec. 2284 (Reserved)

Sec. 3284 Borrowings of Rural Banks/ Cooperative Banks. RBs and Coop Banks may rediscount papers with any bank.

The obligations of RBs arising from availments of rediscounting facilities and other borrowings from the BSP, will be considered as deposit substitutes. However, with the qualification in the Tax Code of 1997 that the term *public* means borrowing from twenty (20) or more individual or corporate lenders at any one (1) time, it is clear that the obligations of

the RBs to BSP, which are entered in their books as “*Bills Payable-BSP*,” do not presently fall under the category of deposit substitutes.

Secs. X285 - X298 (Reserved)

Sec. X299 General Provision on Sanctions. Any violation of the provisions of this Part shall be subject to Sections 36 and 37 of R.A. No. 7653.

The guidelines for the imposition of monetary penalty for violations/offenses with sanctions falling under Section 37 of R.A. No. 7653 on banks, their directors and/or officers are shown in *Appendix 67*.

PART THREE

LOANS, INVESTMENTS AND SPECIAL CREDITS

Section X301 Lending Policies

(Deleted by Circular No. 855 dated 29 October 2014)

X301.1 (Reserved)

1301.1 Rules and regulations to govern the development and implementation of banks' internal credit risk rating systems

(Deleted by Circular No. 855 dated 29 October 2014)

2301.1 (Reserved)

3301.1 (Reserved)

X301.2 - X301.5 (Reserved)

X301.6 Large exposures and credit risk concentrations

a. Definition. Large exposures shall refer to exposures to counterparty or a group of connected counterparties equal or greater than five percent (5%) of the FI's qualifying capital as defined under applicable and existing capital adequacy framework.

Connected counterparties refer to a group of counterparties that are connected through (a) direct or indirect control of one of the counterparties over the other(s) or (b) economic interdependencies, and must be treated as a single counterparty. Control shall be determined in accordance with Subsec. X303.1(g).

Economic Interdependence refers to a situation where counterparties are reliant on each other, such that if one of the counterparties experiences financial problems in repaying its obligations, the creditworthiness of the other(s) would also likely deteriorate. FIs shall define in their credit policy criteria in determining connectedness based on economic

interdependence, which shall consider, among others, significant dealings or transactions of one or more counterpart(y/ies) that impact the financial capacity or ability to repay the obligations of the other counterpart(y/ies).

In cases where the criteria do not automatically imply an economic dependence that results in two (2) or more counterparties being connected, the FI shall provide evidence to Bangko Sentral that a counterparty which is economically connected to another, still can pay its liabilities even if the latter's financial condition weakens.

b. Scope of application. Large exposures of FIs and their subsidiaries and affiliates to third parties across the relevant regulatory consolidation group shall be aggregated and compared with the group's qualifying capital.

c. Exclusions. Loans, other credit accommodations and guarantees that are excluded from the single borrower's limit (SBL) under Sec. X303 and Subsec. X303.4 as well as intraday and end-of-day interbank exposures arising from interbank payment and settlement processes shall be excluded from large exposures.

d. Notification requirements. An FI must immediately inform the Bangko Sentral when it has concerns that its large exposures or credit risk concentrations have the potential to impact materially upon its capital adequacy, along with proposed measures to address these concerns.

e. Reporting. FI's records on monitoring of large exposures shall be made available to the Bangko Sentral examiners for verification at any given time. When warranted, the Bangko Sentral may impose additional reporting requirements

¶¶ X301.6 - X303
14.12.31

on the FI in relation to its large exposures and credit risk concentrations.

f. *Sanction.* Any failure or delay in complying with the requirements under Items ¶d¶ and ¶e¶ of this Subsection shall be subject to penalty applicable to those involving major reports.

(As amended by Circular Nos. 855 dated 29 October 2014 and 827 dated 28 February 2014)

Sec. X302 Loan Portfolio and Other Risk Assets Review System.

(Deleted by Circular No. 855 dated 29 October 2014)

¶ **X302.1 Provisions for losses; booking**
(Deleted by Circular No. 855 dated 29 October 2014)

¶ **X302.2 Sanctions.**
(Deleted by Circular No. 855 dated 29 October 2014)

¶ **X302.3 Regulatory relief for banks under rehabilitation program approved by the Bangko Sentral.** Banks may be allowed to charge their outstanding unbooked allowance for probable losses directly to retained earnings, on one-time basis, subject to the following conditions:

a. That this is in connection with a comprehensive rehabilitation program approved by the Bangko Sentral; and

b. The effects thereof, if these had been charged to profit and loss, shall be fully disclosed in the audited financial statements, annual reports and published statement of condition.

(Circular No. 763 dated 03 August 2012)

A. LOANS IN GENERAL

Sec. X303 Credit Exposure Limits to a Single Borrower

a. Consistent with national interest, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any person, partnership, association, corporation or other entity shall at no time exceed twenty five percent (25%) of the net worth of such

bank. The basis for determining compliance with the single borrower s limit (SBL) is the total credit commitment of the bank to or on behalf of the borrower.

b. The total amount of loans, credit accommodations and guarantees prescribed in the first paragraph may be increased for each of the following circumstances:

1. By an additional ten percent (10%) of the net worth of such bank: *Provided*, That the additional liabilities are adequately secured by trust receipts, shipping documents, warehouse receipts or other similar documents transferring or securing title covering readily marketable, non-perishable goods which must be fully covered by insurance;

2. By an additional twenty-five percent (25%) of the net worth of such bank: *Provided*, That the additional loans, credit accommodations and guarantees are for the purpose of undertaking infrastructure and/or development projects under the Public-Private Partnership (PPP) Program of the government duly certified by the Secretary of Socio-Economic Planning: *Provided, further*, That the total exposures of the bank to any borrower pertaining to such infrastructure and/or development projects under the PPP Program shall not exceed twenty-five percent (25%) of the net worth of such bank: *Provided, furthermore*, That the additional twenty-five percent (25%) shall only be allowed for a period of six (6) years from 28 December 2010: *Provided, finally*, That the credit risk concentration arising from total exposures to all borrowers pertaining to such infrastructure and/or development projects under the PPP Program shall be considered by the bank in its internal assessment of capital adequacy relative to its overall risk profile and operating environment. Said loans, credit accommodations and guarantees based on the contracted amount as of the end of the six (6)-year period shall not be increased but

may be reduced and once reduced, said exposures shall not be increased thereafter; and

3. By an additional fifteen percent (15%) of the net worth of such bank: *Provided*, That the additional loans, credit accommodations and guarantees are granted to finance oil importation of oil companies, which are not affiliates of the lending bank, engaged in energy and power generation: *Provided, further*, That the oil companies qualify under the credit underwriting standards of the lending bank and the lending bank shall comply with Subsec. X301.6 on the guidelines in managing large exposures and credit risk concentration: *Provided, furthermore*, That the credit risk concentration arising from total exposures to all oil companies shall be considered by the bank in its internal assessment of capital adequacy relative to its overall risk profile and operating environment and shall be incorporated in the Internal Capital Adequacy Assessment Process (ICAAP) document required to be submitted under Sec. X117: *Provided, finally*, That the additional fifteen percent (15%) shall only be allowed for a period of three (3) years from 03 March 2011 or, until 03 March 2014. Said additional loans, credit accommodations and guarantees outstanding as of the end of the three (3)-year period and in excess of twenty five percent (25%) of the lending bank's net worth shall not be increased but shall be reduced and once reduced, said exposures shall not be increased thereafter.

c. The above prescribed ceilings shall include: (1) the direct liability of the maker or acceptor of paper discounted with or sold to such bank and the liability of a general endorser, drawer or guarantor who obtains a loan or other credit accommodation from or discounts paper with or sells papers to such bank; (2) in the case of an individual

who owns or controls a majority interest in a corporation, partnership, association or any other entity, the liabilities of said entities to such bank; (3) in the case of a corporation, all liabilities to such bank of all subsidiaries in which such corporation owns or controls a majority interest; and (4) in the case of a partnership, association or other entity, the liabilities of the members thereof to such bank.

d. Even if a parent corporation, partnership, association, entity or an individual who owns or controls a majority interest in such entities has no liability to the bank, the liabilities of subsidiary corporations or members of the partnership, association, entity or such individual shall be combined under certain circumstances, including but not limited to any of the following situations: (1) the parent corporation, partnership, association, entity or individual guarantees the repayment of the liabilities; (2) the liabilities were incurred for the accommodation of the parent corporation or another subsidiary or of the partnership or association or entity or such individual; or (3) the subsidiaries though separate entities operate merely as departments or divisions of a single entity.

e. For purposes of this Section, loans, other credit accommodations and guarantees shall exclude: (1) loans and other credit accommodations secured by obligations of the Bangko Sentral or of the Philippine Government; (2) loans and other credit accommodations fully guaranteed by the government as to the payment of principal and interest; (3) loans and other credit accommodations secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two (2) internationally accepted rating agencies; (4) loans and other credit accommodations to the extent covered

X303 - X303.1
14.12.31

by the hold-out on or assignment of, deposits maintained in the lending bank and held in the Philippines; (5) loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits; and (6) other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items.

f. The wholesale lending activities of government banks to participating financial institutions (PFIs) for relending to end-user borrowers shall at no time exceed a separate limit of thirty-five percent (35%) of net worth, subject to the following guidelines: (1) it shall apply only to loans granted to PFIs on a wholesale basis for on-lending to end-user borrowers; (2) it shall apply only to loan programs funded by multilateral, international or local development agencies, organizations or institutions especially designed for wholesale lending activities of government banks; (3) the end-user borrowers of the PFIs shall be subject to the twenty-five percent (25%) SBL, not the increased ceiling of thirty-five percent (35%); and (4) government banks shall observe appropriate criteria for accrediting PFIs and for the grant/renewal of credit lines to accredited PFIs.

g. Loans and other credit accommodations and usual guarantees by a bank to any non-bank entity, whether locally or abroad, shall be subject to the limits as herein prescribed.

Loans and other credit accommodations as well as deposits and usual guarantees by a bank to any other bank, whether locally or abroad, shall be subject to the limits as herein prescribed or P100.0 million, whichever is higher: *Provided*, That the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions.

Deposits of RBs/Coop Banks with government-owned or controlled financial

institutions like the LBP and the DBP shall not be covered by the SBL imposed under R.A. No. 8791.

In municipalities and cities where there are no government banks, the deposits of RBs/Coop Banks in private banks in said areas shall not be subject to the SBL imposed under R.A. No. 8791. Deposits in private banks located in municipalities/cities where there are government banks shall be subject to the limits as prescribed in the second paragraph above.

The outstanding balance of the demand deposit account in a private depository bank being used by the TBs/RBs/Coop Banks with authority to accept/create demand or current deposits, to fund checks cleared through the said private depository bank shall also be exempt from the SBL imposed under R.A. No. 8791 even if there is a government-owned or controlled financial institution in the area.

h. Loans, credit accommodations and guarantees to any person, partnership, association, corporation or other entity or group of companies in excess of the applicable SBL arising from acquisition, merger or consolidation of borrower-corporations, which loans, credit accommodations and guarantees were granted prior to and are outstanding as of date of acquisition, merger or consolidation of borrower-corporations shall not be increased, but shall be reduced and once reduced, shall not be increased beyond the applicable SBL.

It is expected that FIs would generally observe a lower internal single borrower s limit than the prescribed limit of twenty-five percent (25%) as a matter of sound practice. *(As amended by Circular Nos. 855 dated 29 October 2014, 803 dated 05 July 2013, 779 dated 9 January 2013, 734 dated 16 August 2011, 712 dated 9 February 2011 and 700 dated 06 December 2010)*

X303.1 *Definition of terms.* For purposes of this Section, the following definitions shall apply:

a. *Total credit commitment* shall include outstanding loans and other credit accommodations, deferred letters of credit less margin deposits, and guarantees. Except as specifically provided, total credit commitment shall be reckoned on credit risk-weighted basis consistent with existing regulations.

b. *Loans* shall refer to all the accounts under the loan portfolio of a bank as enumerated in the Manual of Accounts for Banks.

c. *Other credit accommodations* shall refer to credit and specific market risk exposures of banks arising from accommodations other than loans such as receivables (sales contract receivables, accounts receivables and other receivables), and debt securities booked as investments.

d. *Bank guarantee*. A bank guarantee is an irrevocable commitment of a bank binding itself to pay a sum of money in the event of non-performance of a contract by a third party. The guarantee is a commitment separate and distinct from the principal debt or contract.

e. *Net worth* shall mean the total of the unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of unbooked valuation reserves and other adjustments as may be required by the Bangko Sentral.

f. *Qualifying capital* shall mean capital under applicable and existing capital adequacy framework.

g. The term "control of majority interest" shall be synonymous to controlling interest and exists when the parent owns directly or indirectly through subsidiaries 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 of majority interest may also exist even when the parent owns one-half or less of the voting power of an enterprise when there is:

(1) Power over more than one-half of the voting rights by virtue of an agreement with other investors; or

(2) Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or

(3) Power to appoint or remove the majority members of the board of directors or equivalent governing body; or

(4) Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or

(5) Any other arrangement similar to any of the above.

h. *Subsidiary* shall refer to 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 its parent corporation.

i. *Credit risk transfer* shall refer to any arrangement that allows the bank to transfer the credit risk associated with its loan or other credit accommodation to a third party.

j. *Readily marketable goods* shall mean articles of commerce, agriculture or industry of such uses as to make them the subject of constant dealings in ready markets with such frequent quotations as to make their prices easily and definitely ascertainable, or which lend themselves easily to disposal by sale at any time to pay the obligations secured by the said goods.

k. *Bill of exchange drawn in good faith against actually existing values* shall mean one (1) which is drawn by a seller on the purchaser for the purchase price of commodities sold. A bill of exchange, whether drawn against goods for exports or against goods to be sold locally, which is discounted or purchased by a bank is a bill drawn against existing values only when it is accompanied by shipping documents, warehouse receipts or other papers, securing title to the goods sold. However, bills of exchange drawn in good faith against actually existing values as defined in this paragraph, which are past due or the

¶ X303.1 - X303.4
14.12.31

maturities of which have been extended, shall be considered as additional loans authorized under the second paragraph of this section and shall be subject to the ten percent (10%) limitation provided therein.

I. *Commercial or business paper actually owned by the person negotiating the same* shall mean a paper arising from an actual business transaction. A trade acceptance or promissory note actually owned by the person negotiating the same is a commercial or a business paper. However, if a bill is drawn against an agent or fictitious drawee, or if a promissory note is executed by an agent or fictitious drawee, neither is a commercial nor a business paper. Commercial or business papers actually owned and discounted by the person negotiating the same, which are past due or the maturity of which have been extended, shall be considered as money borrowed and shall be subject to the limitation of twenty-five percent (25%) provided in the first paragraph of this Section: *Provided*, That commercial or business papers purchased by banks from SMEs which became past due or the maturities of which have been extended, shall be considered additional loan by the bank to the purchaser of goods or services from the SME and shall be entitled to an increased SBL equivalent to ten percent (10%) of the net worth of the concerned bank if the purchasers are companies with credit ratings of at least AA- or equivalent from a Bangko Sentral-recognized rating agency.

(As amended by Circular Nos. 827 dated 28 February 2014)

¶ **X303.2 Rediscounted papers included in loan limit.** The liabilities to the bank of borrowers whose papers were rediscounted by banks with the Bangko Sentral shall not be deemed as having been extinguished by the rediscount, but shall be considered as still existing and shall be included in determining

the SBL until such papers are paid by the borrowers.

¶ **X303.3 Credit risk transfer.** Subject to prior approval of the Bangko Sentral, loans and other credit accommodations covered by a legally effective credit risk transfer arrangement such as guarantee, letter of indemnity, standby letter of credit or credit derivative, may be excluded from the total credit commitment of the bank to a borrower in reckoning compliance with the SBL.

¶ **X303.4 Exclusions from loan limit**

a. The discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper which are actually owned by the person, company, corporation or association negotiating the same;

b. Credit accommodations to finance the importation of rice and corn to the extent of 100% of the net worth of the bank concerned shall be excluded in determining the SBL prescribed herein, subject to the following conditions:

(1) The importation shall be made in pursuance of a national policy duly enunciated by the National Government;

(2) The importation shall have been approved by the National Economic Development Authority (NEDA);

(3) The letter of credit shall specify that importation shall be made with certification from the National Food Authority (NFA), or the consular establishment of the Philippine government at the source of any such establishment of the Philippine government at the source of any such shipment to the effect that the commodity being imported is either rice or corn; and

(4) The related bills of lading shall specify in addition to the name of the importer concerned, that the NFA shall be

¹ It shall cover all new underwritten debt and equity securities issued from 15 February 2013.

the consignee of the shipment;

c. The portion of loans and other credit accommodations covered by the guarantee of IGLF;

d. The total liabilities of a commercial paper issuer for commercial paper held by a UB acting as a firm underwriter of said commercial paper shall not be counted in determining compliance with the SBL within a period of ninety (90) calendar days from the issuance of the commercial paper¹: *Provided*, That in no case shall such liabilities exceed five percent (5%) of the net worth of the UB beyond normal applicable SBL;

e. The portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral FIs where the Philippine Government is a member/shareholder, such as the IFC and the ADB;

f. Loans and other credit accommodations or portion thereof, specifically provided for with valuation reserve: *Provided*, That the bank has no unbooked valuation reserves;

g. Loans and other credit accommodations as a result of an underwriting or sub-underwriting agreement of debt securities outstanding for a period not exceeding thirty (30) calendar days. Said other credit accommodations shall include, among others, inventories of debt securities such as, but not limited to, bonds and notes purchased by the UB out of its underwriting commitments¹;

h. Loans granted to foreign embassies. These loans are considered as loans to their respective central governments and as such shall be considered non-risk; and

i. Foreign securities lending under Sec. X531 and other domestic securities lending programs duly recognized by the Bangko Sentral containing safeguards consistent with best international practices, to protect securities lenders' risk exposures.

(As amended by Circular Nos. 784 dated 25 January 2013, 578 dated 17 August 2007 and 550 dated 17 November 2006)

□ **X303.5 Sanctions.** Violations of the provisions of this Section shall be subject to the following:

a. *Monetary penalties*² - Fines of one-tenth of one percent (1/10 of 1%) of the excess over the ceiling but not to exceed P30,000.00 a day for each SBL violation shall be assessed on the bank to be reckoned from the date the excess started up to the date when such excess was eliminated: *Provided*, That a maximum fine of P500.00 a day for each violation shall be imposed against banks with total resources of less than P50.0 million at the time of granting of loan/credit accommodation.

b. *Other sanctions*

First offense – Reprimand for the directors/officers who approved the credit availment which resulted in the excess with a warning that subsequent violations will be subject to more severe sanctions.

Subsequent offenses –

(1) Fine of P1,000.00 for directors/officers who approved the credit availment which resulted in the excess.

(2) Suspension of the bank's branching privileges and access to Bangko Sentral rediscounting facilities until the excess is eliminated.

(3) Other penalties as the Monetary Board may impose depending on the gravity of the offense.

¹ It shall cover all new underwritten debt and equity securities issued from 15 February 2013.

² Outstanding credit commitments of a bank as of 02 May 2004 which are within the ceiling prescribed under the regulations existing prior to said date but will exceed the limitations prescribed in this Section shall not be subject to penalty for a period of one (1) year or until said credit commitments become past due or are extended, renewed or restructured whichever comes later. Said credit commitments shall, however, be reported to the Bangko Sentral within fifteen (15) banking days from 02 May 2004.

¶¶ X303.6 - X303.8
08.12.31

- ¶¶ X303.6 ¶ X303.7 (*Reserved*)
- ¶ X303.8 *Limit for wholesale lending activities of government banks.* There shall be a separate SBL of thirty-five percent (35%) of unimpaired capital and surplus for the wholesale lending activities of government banks to PFIs for relending to end-user borrowers, subject to the following guidelines:
- a. Government banks SBL of thirty-five percent (35%) of unimpaired capital and surplus shall apply only to loans granted to PFIs on a wholesale basis for on-lending to end-user borrowers;
 - b. The thirty-five percent (35%) SBL shall apply only to loan programs funded by multilateral, international or local developmental agencies, organizations or institutions specially designed for wholesale lending activities of government banks;
 - c. The end-user borrowers of the PFIs shall be subject to the twenty-five percent (25%) SBL, not to the increased ceiling of thirty-five percent (35%); and
 - d. Government banks shall observe the minimum criteria for accrediting PFIs and for the grant/renewal of credit lines to accredited PFIs as set forth in *Appendix 41*.

(Next page is Part III page 11)
(No pages 9 to 10)

Sec. X304 Grant of Loans and Other Credit Accommodations. In addition to the principles and standards provided under Section X178, the following regulations shall be observed in the grant of loans and other credit accommodations.

(As amended by Circular No. 855 dated 29 October 2014)

▯ **X304.1 Additional requirements.** FIs shall require submission and maintain on file updated ITRs of the borrower, and his co-maker, if applicable, duly stamped as received by the BIR together with supporting financial statements, as applicable. FIs shall likewise require borrowers to execute a waiver of confidentiality of client information and/or an authority of the FI to conduct random verification with the BIR in order to establish authenticity of these documents.

Should the document(s) submitted prove to be incorrect in any material detail, the FI may terminate any loan or other credit accommodation granted on the basis of said document(s) and shall have the right to demand immediate repayment or liquidation of the obligation.

The required submission of such documents shall not cover the following credit exposures:

- a. Microfinance loans as defined under Subsec. X361.1 (a);
- b. Loans to registered Barangay Micro-Business Enterprises (BMBEs);
- c. Interbank loans;
- d. Loans secured by hold-outs on or assignment of deposits or other assets considered non-risk by the Monetary Board;
- e. Loans to individuals who are not required to file ITRs under BIR regulations, as follows:

(1) Individuals whose gross compensation income does not exceed their total personal and additional exemptions, or whose compensation income derived from one (1) employer does not exceed P60,000 and the income tax on which has been correctly withheld;

(2) Those whose income has been subjected to final withholding tax;

(3) Senior citizens not required to file a return pursuant to R.A. No. 7432, as amended by R.A. No. 9257, in relation to the provisions of the National Internal Revenue Code (NIRC) or the Tax Reform Act of 1997; and

(4) An individual who is exempt from income tax pursuant to the provisions of the NIRC and other laws, general or special; and

f. Loans to borrowers, whose only source of income is compensation and the corresponding taxes on which has been withheld at source: *Provided*, That the borrowers submitted, in lieu of the ITR, a copy of their Employer's Certificate of Compensation Payment/Tax Withheld (BIR Form 2316) or their payslips for at least three (3) months immediately preceding the date of loan application.

g. Loans and other credit accommodations not exceeding P3.0 million; or

h. Loans to start up enterprise borrowers during the first three (3) years of their operations or banking relationship.

(As amended by Circular Nos. 855 dated 29 October 2014, 746 dated 03 February 2012, 694 dated 14 October 2010, 622 dated 16 September 2008, 607 dated 30 April 2008 and 549 dated 09 October 2006)

▯ **X304.2 Purpose of loans and other credit accommodations.**

(Deleted by Circular No. 855 dated 29 October 2014)

▯ **X304.3 Prohibited use of loan proceeds.** Banks are prohibited from requiring their borrowers to acquire shares of stock of the lending bank out of the loan or other credit accommodation proceeds from the same bank.

▯ **X304.4 Signatories.** Banks shall require that loans and other credit accommodations be made under the signature of the principal borrower and, in the case of unsecured loans and other credit

□ □ **X304.4 - X304.11**
10.12.31

accommodations to an individual borrower, at least one (1) co-maker, except that a co-maker is not required when the principal borrower has the financial capacity and a good track record of paying his obligations. (As amended by Circular No. 622 dated 16 September 2008)

□ **X304.5 - X304.8 (Reserved)**

□ **X304.9 Policies on loans to non-immigrants and embassy officials.** Banks are allowed to extend peso loans to the following:

a. Non-immigrants holding visas issued under Secs. 9(d) and 9(g) of the Immigration Act of 1940, Special Investor s Resident Visa (SIRV) and visas issued by the Philippine Economic Zone Authority: *Provided*, That such loans shall be limited to peso consumer loans including credit cards, auto loans and appliance loans, but excluding real estate or housing loans: *Provided, further*, That the lending bank institutes measures to mitigate credit risk such as requiring the submission of a Comfort Letter from the visa holder s employer, limiting the term of the loan to the period of the visa s validity, submission of SIRV identification card, as well as subjecting the visa holder to the usual credit processes/requirements; and

b. Embassy officials [foreign diplomats and career consular officials and employees who are physically residing in the Philippines for a term of one (1) year or more]: *Provided*, That such loans shall be limited to consumer loans, including credit cards, auto loans, appliance loans and others that may henceforth be allowed by the Monetary Board: *Provided, further*, That the lending bank institutes measures to mitigate credit risk such as requiring the submission of a Comfort Letter from the Embassy employing said officials.

(M-2007-021 dated 15 August 2007)

□ **X304.10 Minimum required disclosure**¹. Banks shall provide a table of the applicable fees, penalties and interest rates on loan transactions, including the period covered by and the manner of and reason for the imposition of such penalties, fees and interests; fees and applicable conversion reference rates for third currency transactions, in plain sight and language, on materials for marketing loans, such as brochures, flyers, primers and advertising materials, on loan application forms, and on billing statements: *Provided*, That these disclosures of the fees, charges and interest rates in the terms and conditions of the loan agreement: *Provided further*, That such table of fees, penalties and interest rates shall be printed in plain language and in bold black letters against a light or white background, and using the minimum Arial 12 theme font and size, or its equivalent in readability, and on the first page, if the applicable document has more than one (1) page.

(Circular No. 702 dated 15 December 2010)

□ **X304.11 Unfair collection practices** Banks, collection agencies, counsels and other agents may resort to all reasonable and legally permissible means to collect amounts due them under the loan agreement: *Provided*, That in the exercise of their rights and performance of duties, they must observe good faith and reasonable conduct and refrain from engaging in unscrupulous or untoward acts. Without limiting the general application of the foregoing, the following conduct is a violation of this Subsection:

a. the use or threat of violence or other criminal means to harm the physical person, reputation, or property of any person;

b. the use of obscenities, insults, or profane language which amount to a criminal act or offense under applicable laws;

¹ Banks were given a period of 120 days from 06 January 2011 or up to 06 May 2011 to fully implement the required disclosure requirements.

- c. disclosure of the names of borrowers who allegedly refuse to pay debts, except as allowed under Subsec. X304.12;
- d. threat to take any action that cannot legally be taken;
- e. communicating or threat to communicate to any person credit information which is known to be false, including failure to communicate that a debt is being disputed;
- f. any false representation or deceptive means to collect or attempt to collect any debt or to obtain information concerning a borrower; and
- g. making contact at unreasonable/inconvenient times or hours which shall be defined as contact before 6:00 A.M. or after 10:00 P.M., unless the account is past due for more than sixty (60) days or the borrower has given express permission or said times are the only reasonable or convenient opportunities for contact.

Banks shall inform their borrowers in writing of the endorsement of the collection of their account to a collection agency/agent, or the endorsement of their account from one collection agency/agent to another, at least seven (7) days prior to the actual endorsement. The notification shall include the full name of the collection agency and its contact details: *Provided*, That the required notification in writing shall be included in the terms and conditions of the loan agreement. Banks shall adopt policies

and procedures to ensure that personnel handling the collection of accounts, whether these are in-house collectors, or third-party collection agents, shall disclose his/her full name/true identity to the borrower.

(As amended by Circular No. 702 dated 15 December 2010)

¶ **X304.12 Confidentiality of information.** Banks shall keep strictly confidential the data on the borrower or consumer, except under the following circumstances:

- a. disclosure of information is with the consent of the borrower or consumer;
- b. release, submission or exchange of customer information with other financial institutions, credit information bureaus, lenders, their subsidiaries and affiliates;
- c. upon orders of court of competent jurisdiction or any government office or agency authorized by law, or under such conditions as may be prescribed by the Monetary Board;
- d. disclosure to collection agencies, counsels and other agents of the bank to enforce its rights against the borrower;
- e. disclosure to third party service providers solely for the purpose of assisting or rendering services to the bank in the administration of its lending business; and
- f. disclosure to third parties such as insurance companies, solely for the purpose

(Next Page is Part III - Page 15)
* No page 14

of insuring the bank from borrower default or other credit loss, and the borrower from fraud or unauthorized charges.

(Circular No. 702 dated 15 December 2010)

▯▯ X304.13 - X304.14 (Reserved)

▯ **X304.15 Sanctions.** Violations of the provisions of Subsecs. X304.10 to X304.12 shall be subject to any or all of the following sanctions depending upon their severity:

a. *First offense.* Reprimand for the directors/officers responsible for the violation;

b. *Second offense.* Disqualification of the bank concerned from the credit facilities of the Bangko Sentral except as may be allowed under Section 84 of R. A. No. 7653;

c. Subsequent offense/s:

i. Prohibition on the bank concerned from the extension of additional credit accommodation against personal security; and

ii. Penalties and sanctions provided under Sections 36 and 37 of R. A. No. 7653.

(Circular No. 702 dated 15 December 2010)

Sec. X305 Interest and Other Charges. The rate of interest, including commissions, premiums, fees and other charges, on any loan, or forbearance of any money, goods or credits regardless of maturity and whether secured or unsecured shall not be subject to any regulatory ceiling.

▯ **X305.1 Rate of interest in the absence of stipulation.** The rate of interest for the loan or forbearance of any money, goods or credits and the rate allowed in judgments, in the absence of expressed contract as to such rate of interest, shall be six percent (6%) per annum.

(As amended by Circular No. 799 dated 21 June 2013)

▯ **X305.2 Escalation clause; when allowable.** Parties to an agreement

pertaining to a loan or forbearance of money, goods or credits may stipulate that the rate of interest agreed upon may be increased in the event that the applicable maximum rate of interest is increased by the Monetary Board: *Provided*, That such stipulation shall be valid only if there is also a stipulation in the agreement that the rate of interest agreed upon shall be reduced in the event that the applicable maximum rate of interest is reduced by law or by the Monetary Board: *Provided, further*, That the adjustment in the rate of interest agreed upon shall take effect on or after the effectivity of the increase or decrease in the maximum rate of interest.

▯ **X305.3 Floating rates of interest.** The rate of interest on a floating rate loan during each interest period shall be stated on the basis of Manila Reference Rates (MRRs), T-Bill Rates or other market based reference rates plus a margin as may be agreed upon by the parties.

The MRRs for various interest periods shall be determined and announced by the Bangko Sentral every week and shall be based on the weighted average of the interest rates paid during the immediately preceding week by the ten (10) KBs with the highest combined levels of outstanding deposit substitutes and time deposits, on promissory notes issued and time deposits received by such banks, of P100,000 and over per transaction account, with maturities corresponding to the interest periods for which such MRRs are being determined. Such rates and the composition of the sample KBs shall be reviewed and determined at the beginning of every calendar semester on the basis of the banks combined levels of outstanding deposit substitutes and time deposits as of 31 May or 30 November, as the case may be.

The rate of interest on floating rate loans existing and outstanding as of 23 December 1995 shall continue to be determined on the basis of the MRRs

X305.3 - X306.1
14.12.31

obtained in accordance with the provisions of the rules existing as of 01 January 1989: *Provided, however,* That the parties to such existing floating rate loan agreements are not precluded from amending or modifying their loan agreements by adopting a floating rate of interest determined on the basis of the TBR or other market based reference rates.

Where the loan agreement provides for a floating interest rate, the interest period, which shall be such period of time for which the rate of interest is fixed, shall be such period as may be agreed upon by the parties.

For the purpose of computing the MRRs, banks shall accomplish the report forms, RS Form 2D and Form 2E (BSP 5-17-34A).

X305.4 *Accrual of interest earned on loans.* Accrual of interest earned on loans shall only be allowed if the loans and other credit accommodations are current and performing (i.e., no condition of financial difficulties or inability to meet financial obligations as they mature). However, interest income on past due loans arising from discount amortization (not from the contractual interest of the accounts) shall be accrued in accordance with PAS 39.

Accrued interest receivable shall be classified in accordance with their respective loan accounts and provided with *Allowance for Uncollected Interest on Loans*.

(As amended by Circular No. 855 dated 29 October 2014)

X305.5 *Method of computing interest* Banks may only charge interest based on the outstanding balance of a loan at the beginning of an interest period.

For a loan where principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

Towards this end, all loan-related

documents shall show repayment schedules in a manner consistent with this provision. Marketing materials and presentations shall likewise be consistent with this provision.

To enhance loan transaction transparency, Effective Interest Rate (EIR) calculation models illustrative of common loan features are presented in *Appendix 91* for guidance. It is understood, however, that an EIR calculation model, founded on established principles of discounted cash flow analysis, for a loan should be based on the actual features thereof. A bank shall be solely responsible for the propriety and accuracy of its EIR calculation model. However, for purposes of determining compliance with this Section, the Bangko Sentral s determination of the reasonableness and accuracy of an EIR calculation model prevails.

(Circular No. 730 dated 20 July 2011 and M-2011-040 dated 28 July 2011)

Sec. X306 Past Due Accounts. Past due accounts of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, as defined in the Manual of Accounts for Banks, which are not paid at maturity¹.

(M-2014-039 dated 01 October 2014, M-2014-031 dated 08 August 2014, M-2014-006 dated 12 February 2014, M-2013-050 dated 15 November 2013, M-2013-046 dated 30 October 2013, M-2013-045 dated 23 October 2013, M-2013-042 dated 25 September 2013, M-2013-040 dated 03 September 2013, M-2013-001 dated 14 January 2013, 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-2011-056 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-2009-040 dated 30 October 2009, M- 2009-037 dated 15 October 2009, M-2009-038 dated 08 October 2009 and M-2009-036 dated 07 October 2009)

X306.1 *Accounts considered past due* The following shall be considered as past due:

a. *Loans or receivables payable on*

¹ See Appendix 89

demand - If not paid on the date indicated on the demand letter, or within three (3) months from date of grant, whichever comes earlier;

b. *Bills discounted and time loans, whether or not representing availments against a credit line* - If not paid on the respective maturity dates of the promissory notes;

c. *Customers' liability on drafts under letters of credit/trust receipts:*

(1) *Sight Bills* - If dishonored upon presentment for payment or not paid within thirty (30) days from date of original entry, whichever comes earlier;

(2) *Usance Bills* - If dishonored upon presentment for acceptance or not paid on due date, whichever comes earlier; and

(3) *Trust receipts* - If not paid on due date.

d. *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;

e. *Loans/receivables payable in installments* - The total outstanding balance thereof shall be considered past due in accordance with the following schedule:

| | |
|-----------------|--|
| | Minimum No. of Installments In Arrears |
| Mode of Payment | |
| Monthly | 3 |
| Quarterly | 1 |
| Semestral | 1 |
| Annual | 1 |

Provided, however, That when the total amount of arrearages reaches twenty percent (20%) of the total outstanding balance of the loan/receivable, the total outstanding balance of the loan/receivable shall be considered as past due, regardless of 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 loan/receivable balance;

For this purpose, the term "*installments*" shall refer to principal and/or interest amortizations that are due on several dates as indicated/specified in the loan documents.

f. *Credit card receivables* - If the minimum amount due or minimum payment required is not paid within two (2) cycle dates, the total amount due stated in the monthly billing statement: *Provided, however,* That the total outstanding balance which includes amortization/s of any fixed monthly installment plan or deferred payment scheme shall be considered and reported past due when the number of monthly installments in arrears is three (3) or more: *Provided, further,* That the bank shall have the right to demand the obligation in full in case of default in any installment thereon if the contract between the bank and the cardholder contains an *acceleration clause* ; and

g. *(Deleted by Circular No. 202 dated 27 May 1999)*

h. *Microfinance loans - Past Due/Portfolio-at-Risk (PAR)* is the outstanding principal amount of all loans that have at least one (1) installment past due for one (1) or more days. The amount includes the unpaid principal balance but excludes accrued interest. Under PAR, loans are considered past due if a payment has fallen due and remained unpaid. Loan payments are applied first to any interest due, then to any installment of principal that is due but unpaid, beginning with the earliest installment. The number of days of lateness delinquency is based on the due date of the earliest loan installment that has not been fully paid.

¶¶ X306.1 - X307
14.12.31

For the purpose of determining delinquency in the payment of obligations as defined in Item ¶b (3) of Subsec. X143.1, any due and unpaid loan installment or portion thereof, from the time the obligor defaults, shall be considered past due.

i. Restructured loans shall be considered past due in case of delay of any of its principal or interest payments.

Restructured loans are loans the principal terms and conditions of which have been modified in accordance with a restructuring agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. The modification may include, but is not limited to, change in maturity, interest rate, collateral or increase in the face amount of the debt resulting from the capitalization of accrued interest/accumulated charges. Items in litigation and loans subject of judicially approved compromise, as well as those covered by petitions for suspension or for new plans of payment approved by the court or the SEC, shall not be classified as restructured loans.
(Circular No. 409 dated 14 October 2009, as amended by Circular Nos. 855 dated 29 October 2014 and 607 dated 30 April 2008)

¶ **X306.2 Demand loans.** Banks shall, in case of non-payment of a demand loan, make a written demand within three (3) months following the grant of such loan. The demand shall indicate a period of payment which shall not be later than three (3) months from date of said demand.

¶ **X306.3 Renewals/extensions**
(Deleted by Circular No. 855 dated 29 October 2014)

¶ **X306.4 Restructured loans**
(Deleted by Circular No. 855 dated 29 October 2014)

¶ **X306.5 Write-off of loans, other credit accommodations, advances and other assets as bad debts.**
(Deleted by Circular No. 855 dated 29 October 2014)

¶ **X306.6 Writing-off microfinance loans as bad debts.**
(Deleted by Circular No. 855 dated 29 October 2014)

¶ **X306.7 Updating of information provided to credit information bureaus**
Banks which have provided adverse information, such as the past due or litigation status of loan accounts, to credit information bureaus, or any organization performing similar functions, shall submit monthly reports to these bureaus or organizations on the full payment or settlement of the previously reported accounts within five (5) banking days from the end of the month when such full payment was received. For this purpose, it shall be the responsibility of the reporting banks to ensure that their disclosure of any information about their borrowers/clients is with the consent of borrowers/clients concerned.
(Circular No. 589 dated 18 December 2007)

Sec. X307 Truth in Lending Act Disclosure Requirement. Banks are required to strictly adhere to the provisions of R.A. No. 3765, otherwise known as the Truth in Lending Act, and shall make the true and effective cost of borrowing an integral part of every loan contract.

The following regulations shall apply to all banks engaged in the following types of credit transactions:

- a. Any loan, mortgage, deed of trust, advance and discount;
- b. Any conditional sales contract, any contract to sell, or sale or contract of sale of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract;
- c. Any rental-purchase contract;
- d. Any contract or arrangement for the hire, bailment, or leasing of property;

e. Any option, demand, lien, pledge, or other claim against, or for delivery of, property or money;

f. Any purchase, or other acquisition of, or any credit upon security of any obligation or claim arising out of any of the foregoing; and

g. Any transaction or series of transactions having a similar purpose or effect.

The following categories of credit transactions are outside the scope of these regulations:

(1) Credit transactions which do not involve the payment of any finance charge by the debtor; and

(2) Credit transactions in which the debtor is the one specifying a definite and fixed set of credit terms such as bank deposits, insurance contracts, sale of bonds, etc.

□ **X307.1 Definition of terms**

a. *Person* means any individual, partnership, corporation, association or other organized group of persons, or the legal successor or representative of the foregoing, and includes the Philippine Government or any agency thereof or any other government, or any of its political subdivisions, or any agency of the foregoing.

b. *Cash price or delivered price*, in case of trade transactions, is the amount of money which would constitute full payment upon delivery of property (except money) or service purchased at the bank's place of business. In the case of financial transactions, cash price represents the amount of money received by the debtor upon consummation of the credit

transaction, net of finance charges collected at the time the credit is extended (if any).

c. *Down Payment* represents the amount paid by the debtor at the time of the transaction in partial payment for the property or service purchased.

d. *Trade-in* represents the value of an asset agreed upon by the bank and debtor, given at the time of the transaction in partial payment for the property or service purchased.

e. *Non-finance charges* correspond to the amounts advanced by the bank for items normally associated with the ownership of the property or of the availment of the service purchased which are not incident to the extension of credit. For example, in the case of the purchase of an automobile on credit, the creditor may advance the insurance premium as well as the registration fee for the account of the debtor.

f. *Amounts to be financed* consist of the cash price plus non-finance charges less the amount of the down payment and value of the trade-in.

g. *Finance charge* includes interest, fees, service charges, discounts, and such other charges incident to the extension of credit.

h. *Simple annual rate* is the uniform percentage which represents the ratio between the finance charge and the amount to be financed under the assumption that the loan is payable in one (1) year with single payment upon maturity and there are no upfront deductions to principal.

For loans with terms different from the above assumptions, the EIR shall be calculated and disclosed to the borrower as the relevant true cost of the loan

(Next page is Part III page 21)
(No page 20)

comparable to the concept of simple annual rate.

For loans with contractual interest rates stated on monthly basis, the effective interest rate may be expressed as a monthly rate.

In accordance with the Philippine Accounting Standards (PAS) definition, EIR is the rate that exactly discounts estimated future cash flows through the life of the loan to the net amount of the loan proceeds. For consistency, methodology and standards for discounted cash flow models shall be prescribed to be used for the purpose.

(As amended by Circular No. 730 dated 20 July 2011)

□ **X307.2 Information to be disclosed**

As a general rule, loan terms shall be disclosed to all types of borrower. For small business/retail/consumer credit, the following are the minimum information to be disclosed (sample form in *Appendix 19*):

- a. The total amount to be financed;
- b. The finance charges expressed in terms of pesos and centavos;
- c. The net proceeds of the loan; and
- d. The percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate or an EIR as described in Item *h* of Subsec. X307.1. EIR may also be quoted as a monthly rate in parallel with the quotation of the contractual rate.

Banks are required to furnish each borrower a copy of the disclosure statement, prior to the consummation of the transaction.

(As amended by Circular No. 730 dated 20 July 2011)

□ **X307.3 Inspection of contracts covering credit transactions.** Banks shall keep in their offices or places of business copies of contracts which involve the extension of credit by the bank and the payment of finance charges therefor. Such copies shall be available for inspection or examination by the appropriate

department of the SES.

□ **X307.4 Posters.** Banks shall post in conspicuous places in their principal place of business and branches, the information as contained in the revised format of disclosure statement in *Appendix 19*. The posters shall include an explicit notification that the disclosure statement is a required attachment to the loan contract and the customer has a right to demand a copy of such disclosure.

(As amended by Circular No. 730 dated 20 July 2011)

□ **X307.5 Sanctions and penal provisions.** Non-compliance with any of the provisions of this Section shall be regarded at least as a less serious offense, depending on the severity of non-disclosure, number of loans and amount involved in the violation. In addition to sanctions under R.A. No. 3765, the following sanctions may be imposed:

- a. *First offense.* Reprimand on the erring officer/s;
- b. *Second offense.* Reprimand on the entire board of directors; and
- c. *Subsequent offense/s:*
 - i. Suspension of the erring officer/s and/or entire board of directors; and
 - ii. Restriction on lending activities.

This is without prejudice to other penalties and sanctions provided under Sections 36 and 37 of R.A. No. 7653.

(Circular No. 754 dated 17 April 2012)

Sec. X308 Amortization on Loans and Other Credit Accommodations. The amortization schedule of bank loans and other credit accommodations shall be adapted to the nature of the operations to be financed.

In case of loans and other credit accommodations with maturities of more than five (5) years, provisions must be made for periodic amortization payments, but such payments must be made at least annually: *Provided, however, That when*

¶¶ X308 - X309.4
14.12.31

the borrowed funds are to be used for purposes which do not initially produce revenues adequate for regular amortization payments, the bank may permit the initial amortization payment to be deferred until such time as said revenues are sufficient for such purpose, but in no case shall the initial amortization date be later than five (5) years from the date on which the loan or other credit accommodation is granted: *Provided, further,* That in the case of agriculture and fisheries projects with long gestation periods, the initial amortization payment may be deferred for a longer period based on the economic life of the project as provided under Section 24 of R.A. No. 8435 and implemented under Sec. X349.

Sec. X309 Non-Performing Loans

¶ **X309.1 Accounts considered non-performing; definitions**

The following accounts shall comprise a bank's gross non-performing loans (NPLs):

a. *Non-performing loans* shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

b. In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three (3) or more installments are in arrears.

c. In the case of loans payable in daily, weekly or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance

with Sec. X306, i.e., 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 loan/receivable balance.

d. Restructured loans shall be considered non-performing except when as of restructuring date: (i) the principal and interest payments have been updated and (ii) the loan is yielding a rate of interest that fully compensates the FI for its cost of funds and credit risk.

The restoration to a performing loan shall only be effective after a *satisfactory record* of at least three (3) consecutive payments of the required amortizations of principal and/or interest.

A restructured loan which has been restored to a performing loan status shall be immediately considered non-performing in case of default of any principal or interest payment.

e. All items in litigation as defined in the Manual of Accounts for Banks shall be considered non-performing.

f. In the case of microfinance loans, past due/portfolio-at-risk (PAR) accounts as defined in Subsec. X361.1(b) shall be considered NPL.

Effective 01 January 2013, as a complementary measure to computing gross NPLs, banks shall likewise compute their net NPLs, which shall refer to gross NPLs less specific allowance for credit losses on the total loan portfolio: *Provided,* That such specific allowance for credit losses on the total loan portfolio shall not be deducted from the total loan portfolio for purposes of computing the net NPL ratio.

(As amended by Circular Nos. 855 dated 29 October 2014, 772 dated 16 October 2012 and 607 dated 30 April 2008)

¶ **X309.2 - X309.3 (Reserved)**

¶ **X309.4 Reporting requirement**

(Deleted by Circular No. 772 dated 16 October 2012)

□ X309.5 *Reportorial requirement*

Banks shall submit reports for NPL movements and aging in formats to be prescribed by the Bangko Sentral. The report shall be submitted to the appropriate department of the SES, within fifteen (15) banking days after end of every reference quarter. Such report shall be considered a *Category A-1* report for purposes of implementing fines in the submission of required reports pursuant to existing regulations.

Sec. X310 (Reserved)

B. SECURED LOANS

Sec. X311 Secured Loans and Other Credit Accommodations. A loan may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan: *Provided*, That such collateral must have an established market and the valuation methodology used is sound, and: *Provided further*, That in the case of real estate collateral, the maximum collateral value shall be sixty percent (60%) of its value as appraised by an appraiser acceptable to the Bangko Sentral.

A loan may also be considered as secured to the extent covered by a third party financial guarantee or surety arrangement where the credit enhancement provider is itself considered to be of high credit quality (credit rating of at least AA or equivalent) or is considered to be such by the Bangko Sentral.

□ **X311.1** *Loans secured by junior mortgage on real estate.*

(Deleted by Circular No. 855 dated 29 October 2014)

▮ **X311.2 (Reserved)**

▮ **1311.2 (Reserved)**

▮ **2311.2 (Reserved)**

▮ 3311.2 Eligible real estate collaterals on rural/cooperative bank loans.

(Deleted by Circular No. 855 dated 29 October 2014)

▮ **X311.3 Insurance on real estate improvements.**

(Deleted by Circular No. 855 dated 29 October 2014)

¶ **X311.4 Participation in foreclosure proceedings.** Foreign banks which are authorized to do banking business in the Philippines through any of the modes of entry under Subsec. X105.1 shall be allowed to bid and take part in foreclosure sales of real property mortgaged to them, as well as to avail of enforcement and other proceedings, and accordingly take possession of the mortgaged property, for a period not exceeding five (5) years from actual possession which excludes the redemption period, as defined under Subsec. X311.5, unless actual possession was acquired earlier: *Provided*, That in no event shall title to the property be transferred to such foreign bank.

In case said bank is the winning bidder, it shall, during the said five (5)-year period, transfer its rights to a qualified Philippine national, without prejudice to a borrower's rights under applicable laws. Should the bank fail to transfer such property within the five (5)-year period, it shall be penalized one half (1/2) of one percent (1%) per annum of the price at which the property was foreclosed until it is able to transfer the property to a qualified Philippine national.

To enable the Bangko Sentral to

□ □ **X311.4 - 3311.4**
14.12.31

determine compliance with the foregoing, the foreign bank shall maintain, and make readily available for inspection, information pertaining to individual mortgaged properties foreclosed.

This provision does not limit the right of the mortgagee-bank to own condominium units as provided under existing laws.

(Circular No. 858 dated 21 November 2014)

□ **1311.4 (Reserved)**

□ **2311.4 Foreclosure by thrift banks**

The foreclosure of mortgages covering loans granted by TBs and executions of judgment thereon involving real properties levied upon by a sheriff shall be exempt from the publications in newspapers now required by law where the total amount of loan, excluding interests due and unpaid, does not exceed P100,000 or such amount as the Monetary Board may prescribe as may be warranted by prevailing economic conditions and by the nature of service of customers served by each category of the TB. It shall be sufficient publication in such cases if the notices of foreclosure and execution of judgment are posted in the conspicuous area of the TB's premises, municipal building, municipal public market, the barangay hall, and the barangay public market, if there be any, where the land mortgaged is situated within a period of sixty (60) days immediately preceding the public auction of execution of judgment. Proof of publication as required herein shall be accomplished by an affidavit of the sheriff or officer conducting the foreclosure sale or execution of judgment and shall be attached with the records of the case.

A TB shall be allowed to foreclose lands mortgaged to it: *Provided*, That said lands shall be covered under R.A. No. 6657.

□ **3311.4 Foreclosure by rural/cooperative banks.** The foreclosure of mortgages covering loans granted by RBs

and executions of judgment thereon involving real properties levied upon by a sheriff shall be exempt from the publications in newspapers now required by law where the total amount of loan, excluding interests due and unpaid, does not exceed P100,000 or such amount as the Monetary Board may prescribe as may be warranted by prevailing economic conditions. It shall be sufficient publication in such cases if the notices of foreclosure and execution of judgment are posted in the most conspicuous area of the municipal building, the municipal public market, the RB, the barangay hall, and the barangay public market, if any, where the land mortgaged is situated during the period of sixty (60) days immediately preceding the public auction of execution of judgment.

Proof of publication as required herein shall be accomplished by an affidavit of the sheriff or officer conducting the foreclosure sale or execution of judgment and shall be attached with the records of the case: *Provided*, That when a homestead or free patent is foreclosed, the homesteader or free patent holder, as well as his heirs shall have the right to redeem the same within one (1) year from the date of foreclosure in the case of land not covered by a Torrens Title or one (1) year from the date of the registration of the foreclosure in the case of land covered by a Torrens Title. *Provided, further*, That in any case, borrowers, especially those who are mere tenants, need only to secure their loans with the produce corresponding to their share.

In the case of Coop Banks, the foreclosure of mortgages 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 interests 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. Proof of publication as required herein shall be accomplished by an affidavit of the sheriff or officer conducting the foreclosure sale or execution of judgment and shall be attached to the records of the case.

An RB/Coop Bank shall be allowed to foreclose lands mortgaged to it including lands covered by R.A. No. 6657 (The Comprehensive Agrarian Reform Law of 1988), as amended: *Provided*, That said lands shall be subject to the retention limits provided under R.A. No. 6657: *Provided, further*, That a rural bank's power to foreclose lands mortgaged to it shall be subject to the limitations in the succeeding paragraph.

RBs which are not qualified to acquire or hold land in the Philippines pursuant to existing laws shall be allowed to bid and take part in foreclosure sales of real property mortgaged to them, as well as to avail of enforcement and other proceedings, and accordingly to take possession of the mortgaged property, for a period not exceeding five (5) years from actual possession which excludes the redemption period, as defined under Subsec. X311.5, unless actual possession was acquired earlier: *Provided*, That in no event shall title to the property be transferred to such RB.

In case the RB, which is not qualified to acquire or hold land in the Philippines, is the winning bidder, it shall, during the said five (5) year period, transfer its rights to a qualified Philippine national as defined under existing laws without prejudice to a

borrower's right under applicable laws. Should said unqualified RB fail to transfer such property within the five (5) year period, it shall be penalized at one-half (1/2) of one percent (1%) *per annum* of the price at which the property was foreclosed until the property is transferred to a qualified Philippine national.

To enable the Bangko Sentral to determine compliance with the foregoing, RBs not qualified to acquire or hold land in the Philippines shall maintain, and make readily available for inspection, information pertaining to individual mortgaged properties foreclosed.

Transitory provisions. An RB established and operating prior to the effectivity of R.A. No. 10574, and which is considered as an RB not qualified to acquire or hold land in the Philippines starting 13 September 2013, shall:

a. submit to the appropriate department of the SES a divestment plan for the disposal of its title/interest in all land properties held by it; and

b. transfer for a period of five (5) years existing owned or acquired properties to qualified Philippine nationals; *Provided*, That upon the expiry of the said five (5)-year period, RBs not qualified to acquire or hold land in the Philippines which fail to transfer their properties to qualified Philippine nationals shall be subject to the penalties under Subsec. 3311.4.

(As amended by Circular Nos. 858 dated 21 November 2014, 809 dated 23 August 2013 and 682 dated 15 February 2010)

■ **X311.5 Redemption of foreclosed real estate mortgage.** In the event of foreclosure, whether judicially or extrajudicially, of any mortgage on real estate, the mortgagor or debtor shall have the right within one (1) year after the sale of the real estate, to redeem the property by paying the amount due under the mortgage deed, with interest thereon at the rate specified in the mortgage, and all costs and expenses incurred by the

X311.5 - X313
14.12.31

bank or institution from the sale and custody of said property less the income derived therefrom. However, the purchaser at the auction sale concerned shall have the right to enter upon and take possession of such property immediately after the date of the confirmation of the auction sale and administer the same in accordance with the law.

Juridical persons whose property is being sold pursuant to an extra-judicial foreclosure, shall have the right to redeem the property in accordance with this provision until, but not after, the registration of the certificate of

foreclosure sale with the applicable Register of Deeds which in no case shall be more than three (3) months after foreclosure, whichever is earlier.

Sec. X312 Loans and Other Credit Accommodations Secured By Chattels and Intangible Properties.
(Deleted by Circular No. 855 dated 29 October 2014)

Sec. X313 Loans and Other Credit Accommodations Secured By Personal Properties.
(Deleted by Circular No. 855 dated 29 October 2014)

(Next Page is Part III - Page 25)

Sec. X314 Increased Loan Values and Terms of Loans for Home Building.
(Deleted by Circular No. 855 dated 29 October 2014)

Sec. X315 Loans Secured by Certificates of Time Deposit.
(Deleted by Circular No. 855 dated 29 October 2014)

Secs. X316 - X318 (Reserved)

C. UNSECURED LOANS

Sec. X319 Loans Against Personal Security
(Deleted by Circular No. 855 dated 29 October 2014)

▯ **X319.1 General guidelines.**
(Deleted by Circular No. 622 dated 16 September 2008)

▯ **X319.2 Proof of financial capacity of borrower.**
(Deleted by Circular No. 622 dated 16 September 2008)

▯ **X319.3 Signatories.**
(Deleted by Circular No. 622 dated 16 September 2008)

Sec. X320 Credit Card Operations; General Policy. The Bangko Sentral shall foster the development of consumer credit through innovative products such as credit cards under conditions of fair and sound consumer credit practices. The Bangko Sentral likewise encourages competition and transparency to ensure more efficient delivery of services and fair dealings with customers.

Towards this end, the following rules and regulations shall govern the credit card operations of banks and subsidiary/affiliate credit card companies, aligned with global best practices.

- ▯ **X320.1 Definition of terms**
- a. *Credit card.* Means any card, plate, coupon book or other credit device existing for the purpose of obtaining money, property, labor or services on credit.
 - b. *Credit card receivables.* Represents the total outstanding balance of credit cardholders arising from purchases of goods

and services, cash advances, annual membership/renewal fees as well as interest, penalties, insurance fees, processing/service fees and other charges.

c. *Minimum amount due or minimum payment required.* Means the minimum amount that the credit cardholder needs to pay on or before the payment due date for a particular billing period/cycle as defined under the terms and conditions or reminders stated in the statement of account billing statement which may include: (1) total outstanding balance multiplied by the required payment percentage or a fixed amount whichever is higher; (2) any amount which is part of any fixed monthly installment that is charged to the card; (3) any amount in excess of the credit line; and (4) all past due amounts, if any.

d. *Default or delinquency.* Shall mean non-payment of, or payment of any amount less than, the ▯*Minimum Amount Due*▯ or ▯*Minimum Payment Required*▯ within two (2) cycle dates, in which case, the ▯*Total Amount Due*▯ for the particular billing period as reflected in the monthly statement of account may be considered in default or delinquent.

e. *Acceleration clause.* Shall mean any provision in the contract between the bank and the cardholder that gives the bank the right to demand the obligation in full in case of default or non-payment of any amount due or for whatever valid reason.

f. *Subsidiary* refers to 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 the power to vote by a bank or other FI.

g. *Affiliate* refers to an entity linked directly or indirectly to a bank or other FI through any one or a combination of any of the following:

(1) Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a bank or other financial institution of at

□ X320.1 - X320.2
14.12.31

least ten percent (10%) or more of the outstanding voting stock of the entity, or vice-versa;

(2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations;

(3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of each FI and the entity; or

(4) Management contract or any arrangement granting power to the bank or other FI to direct or cause the direction of management and policies of the entity, or vice-versa.

h. *Simple annual rate* is the uniform percentage which represents the ratio between the finance charge and the amount to be financed under the assumption that the loan is payable in one (1) year with single payment upon maturity and there are no upfront deductions to principal.

For loans with terms different from the above assumptions, the effective annual interest rate shall be calculated and disclosed to the borrower as the relevant true cost of the loan comparable to the concept of simple annual rate.

For loans with contractual interest rates stated on monthly basis, the effective interest rate may be expressed as a monthly rate.

In accordance with the PAS definition, *effective interest rate* is the rate that exactly discounts estimated future cash flows through the life of the loan to the net amount of loan proceeds. For consistency, methodology and standards for discounted cash flow models shall be prescribed to be used for the purpose.

i. *Credit card acquirer*- refers to the institution that accepts and facilitates the processing of the credit card transaction which is initially accepted by the merchant.

j. *Credit cardholder*- refers to a person who owns and benefits from the use of a credit card.

k. *Credit card business activity report* - report which contains the quantitative data on credit card industry.

l. *Credit card issuer*- refers to a bank or a corporation that offers the use of its credit card.

m. *Pre-approved credit cards* are unsolicited credit cards issued by credit card issuers to consumers who have not applied for such credit cards. Acts described under *Appendix 103* and other similar acts are deemed tantamount to the act of issuing pre-approved credit cards, notwithstanding any contrary stipulations in the contract.

n. *Application* is a documented request of the credit card applicant to a credit card issuer for the availment of a credit card. The intention and consent for the availment of the credit card must be clear and explicit.

(As amended by Circular Nos. 845 dated 15 August 2014, 812 dated 23 September 2013 and 754 dated 17 April 2012)

□ **X320.2 Risk management system.** To safeguard their interests, banks and subsidiary/affiliate credit card companies are required to establish an appropriate system for managing risk exposures from credit card operations which shall be documented in a complete and concise manner. The risk management system shall cover the organizational set-up, records and reports, accounting, policies and procedures and internal control.

Written policies, procedures and internal control guidelines shall be established on the following aspects of credit card operations:

- a. Requirements for application;
- b. Solicitation and application processing;
- c. Determination and approval of credit limits;
- d. Issuance, distribution and activation of cards;
- e. Supplementary or extension cards;
- f. Cash advances;
- g. Billing and payments;

- h. Deferred payment program or special installment plans;
 - i. Collection of past due accounts;
 - j. Handling of accounts for write-off;
 - k. Suspension, cancellation and withdrawal or termination of card;
 - l. Renewal of cards, upgrade or downgrade of credit limit;
 - m. Lost or stolen cards and their replacement;
 - n. Accounts of DOSRI and employees;
 - o. Disposition of errors and/or questions about the billing statement/ statement of account and other customers complaints; and
 - p. Dealings with marketing agents/ collection agents.
- (As amended by Circular No. 702 dated 15 December 2010)

¶ **X320.3 Minimum requirements**

Banks and their subsidiary or affiliate credit cards companies shall not issue pre-approved credit cards as provided under *Appendix 103*, notwithstanding any contrary stipulations in the contract.

(As amended by Circular Nos. 845 dated 15 August 2014 and 702 dated 15 December 2010)

¶ **X320.4 Information to be disclosed**

Banks or their subsidiaries/affiliate credit card companies shall disclose to each person to whom the credit card privilege is extended in the agreement, contract or any equivalent document governing the issuance or use of the credit card or any amendment thereto or in such other statement furnished the cardholder from time to time, prior to the imposition of the charges and to the extent applicable, the following information:

- a. the finance charges, individually itemized, which are paid or to be paid by the cardholder;
- b. non-finance charges, individually

itemized, which are paid or to be paid by the cardholder in connection with the transaction but which are not incident to the extension of credit;

- c. the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate or an annual effective interest rate, as described in Item ¶h of Subsec. X320.1. EIR may also be quoted as a monthly rate in parallel with the quotation of the contractual rate;

- d. for installment loans, the number of installments, amount and due dates or periods of payment schedules to repay the indebtedness;

- e. the default, late payment/penalty fees or similar delinquency-related charges payable in the event of late payments;

- f. the conditions under which interest may be imposed, including the time period, within which any credit extended may be repaid without interest;

- g. the method of determining the balance upon which interest and/or delinquency charges may be imposed;

- h. the method of determining the amount of interest and/or delinquency charges, including any minimum or fixed amount imposed as interest and/or delinquency charge;

- i. where one (1) or more periodic rates may be used to compute interest, each such rate, the range of balances to which it is applicable, and the corresponding simple annual rate; and

- j. for transactions made in foreign currencies and/or outside the Philippines, for dual currency accounts (peso and dollar billings), as well as payments made by credit cardholders in any currency other than the billing currency: the application of payments; the manner of conversion from the transaction currency and payment

(No page 28)
(Next page is Part III - page 29)

currency to Philippine pesos or billing currency; definition or general description of verifiable blended exchange conversion rates (e.g., MASTERCARD and/or VISA International rates on the day the item was processed/posted to the billing statement, plus mark-up, if any) including conversion commission; and/or other currency conversion charges and costs arising from the purchase by the card company of foreign currency to settle the customer's transactions shall also be disclosed.

Banks and their subsidiary or affiliate credit card companies shall also provide the following information to their cardholders:

1. A table of the applicable fees, penalties and interest rates on credit card transactions, including the period covered by and the manner of and reason for the imposition of such penalties, fees and interests; fees and applicable conversion reference rates for third currency transactions, in plain sight and language, on materials for marketing credit cards, such as brochures, flyers, primers and advertising materials, on credit card application forms, and on credit card billing statements: *Provided*, That these disclosures are in addition to the full disclosure of the fees, charges and interest rates in the terms and conditions of the credit card agreement found elsewhere on the application form and billing statement; and

2. A reminder to the cardholder in the monthly billing statement, or its equivalent document, that payment of only the minimum amount due or any amount less than the total amount due for the billing cycle/period, would mean the imposition of interest and/or other charges: *Provided*, That such table of fees, penalties and interest rates and reminder shall be printed in plain language and in bold black letters against a light or white background,

and using the minimum Arial 12 theme font and size, or its equivalent in readability, and on the first page, if applicable document has more than one page.

Transitory provisions. Banks and their subsidiary or affiliate credit card companies shall be given a period of 120 days from 06 January 2011 to fully implement the required disclosure requirements.

(As amended by Circular No. 754 dated 17 April 2012 and Circular No. 702 dated 15 December 2010)

¶ **X320.5 *Interest accrual on past due loans.*** Interest income on past due loans arising from discount amortization (and not from the contractual interest of the accounts) shall be accrued as provided in PAS 39.

¶ **X320.6 *Method of computing interest*** Banks and/or subsidiaries/affiliate credit card companies shall only charge interest based on the outstanding balance of a loan at the beginning of an interest period.

For a loan where the principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

Towards this end, all loan-related documents shall show repayment schedules in a manner consistent with this provision. Marketing materials and presentations shall likewise be consistent with this provision.

(As amended by Circular No. 754 dated 17 April 2012)

¶ **X320.7 (2011- X320.6) *Finance charges.*** The amount of finance charges in connection with any credit card transaction charged to the cardholder includes interest, fees, service charges, discounts, and such other charges incident to the extension of credit.

(As amended by Circular No. 754 dated 17 April 2012)

¶ **X320.8 (2011- X320.7) *Deferral charges.*** The bank and the cardholder may, prior to the consummation of the

¶¶ X320.8 - X320.13
12.12.31

transaction, agree in writing to a deferral of all or part of one (1) or more unpaid installments and the bank may collect a deferral charge which shall not exceed the rate previously disclosed pursuant to the provisions on disclosure.
(As amended by Circular No. 754 dated 17 April 2012)

¶ **X320.9 (2011- X320.8) Late payment/penalty fees.** No late payment or penalty fee shall be collected from cardholders unless the collection thereof is fully disclosed in the contract between the issuer and the cardholder: *Provided*, That late payment or penalty fees shall be based on the unpaid minimum amount due or a prescribed minimum fixed amount: *Provided, further*, That said late payment or penalty fees may be based on the total outstanding balance of the credit card obligation, including amounts payable under installment term or deferred payment schemes, if the contract between the issuer and the cardholder contains an *acceleration clause* and the total outstanding balance of the credit card is classified and reported as past due.
(As amended by Circular No. 754 dated 17 April 2012)

¶ **X320.10 (2011-X320.9) Confidentiality of information.** Banks and subsidiary affiliate credit card companies shall keep strictly confidential the data on the cardholder or consumer, except under the following circumstances:
a. disclosure of information is with the consent of the cardholder or consumer;
b. release, submission or exchange of customer information with other financial institutions, credit information bureaus, credit card issuers, their subsidiaries and affiliates;
c. upon orders of court of competent jurisdiction or any government office or agency authorized by law, or under such conditions as may be prescribed by the

Monetary Board;
d. disclosure to collection agencies, counsels and other agents of the bank or card company to enforce its rights against the cardholder;
e. disclosure to third party service providers solely for the purpose of assisting or rendering services to the bank or card company in the administration of its credit card business; and
f. disclosure to third parties such as insurance companies, solely for the purpose of insuring the bank from cardholder default or other credit loss, and the cardholder from fraud or unauthorized charges.
(As amended by Circular No. 754 dated 17 April 2012)

¶ **X320.11 (2011- X320.10) Suspension, termination of effectivity and reactivation.** Banks or their subsidiary/affiliate credit card companies shall formulate criteria or parameters for suspension, revocation and reactivation of the right to use the card and shall include in their contract with cardholders a provision authorizing the issuer to suspend or terminate its effectivity, if circumstances warrant.
(As amended by Circular No. 754 dated 17 April 2012)

¶ **X320.12 (2011- X320.11) Inspection of records covering credit card transactions.** Banks or their subsidiary/ affiliate credit card companies shall make available for inspection or examination by the appropriate department of the SES complete and accurate files on card applicant/cardholder to support the consideration for approval of the application and determination of the credit limit which shall be in accordance with the verified debt repayment ability and/or net worth of the card applicant/cardholder.
(As amended by Circular No. 754 dated 17 April 2012)

¶ **X320.13 (2011- X320.12) Offsets.** For purposes of transparency and adequate

disclosure, the credit card issuer shall inform/notify the credit cardholder in the agreement, contract or any equivalent document governing the issuance or use of the credit card that, pursuant to the provisions of Articles 1278 to 1290 of the New Civil Code of the Philippines, as amended, the use of his credit card will subject his deposit/s with the bank to offset against any amount/s due and payable on his credit card which have not been paid in accordance with the terms of the agreement/contract.

(As amended by Circular No. 754 dated 17 April 2012)

X320.14 (2011- X320.13) Handling of complaints. Banks or subsidiary affiliate credit card companies shall give cardholders at least twenty (20) calendar days from statement date to examine charges posted in his/her statement of account and inform the bank/ subsidiary credit card companies in writing of any billing error or discrepancy. Within ten (10) calendar days from receipt of such written notice, the bank/subsidiary credit card company shall send a written acknowledgment to the cardholder unless the action required is taken within such ten (10)-day period.

Not later than two (2) billing cycles or two (2) months which in no case shall exceed ninety (90) days after receipt of the notice and prior to taking any action to collect the contested amount, or any part thereof, banks/subsidiary credit card companies shall make appropriate corrections in their records and/or send a written explanation or clarification to the cardholder after conducting an investigation. Nothing in this Subsection shall be construed to prohibit any action by the bank/subsidiary credit card company to collect any amount which has not been indicated by the cardholder to contain a

billing error or apply against the credit limit of the cardholder the amount indicated to be in error.

(As amended by Circular No. 754 dated 17 April 2012)

X320.15 (2011-X320.14) Unfair collection practices. Banks, subsidiary/ affiliate credit card companies, collection agencies, counsels and other agents may resort to all reasonable and legally permissible means to collect amounts due them under the credit card agreement: Provided, That in the exercise of their rights and performance of duties, they must observe good faith and reasonable conduct and refrain from engaging in unscrupulous or untoward acts. Without limiting the general application of the foregoing, the following conduct is a violation of this Subsection:

- a. the use or threat of violence or other criminal means to harm the physical person, reputation, or property of any person;
- b. the use of obscenities, insults, or profane language which amount to a criminal act or offense under applicable laws;
- c. disclosure of the names of credit cardholders who allegedly refuse to pay debts, except as allowed under Subsec. X320.9;
- d. threat to take any action that cannot legally be taken;
- e. communicating or threat to communicate to any person credit information which is known to be false, including failure to communicate that a debt is being disputed;
- f. any false representation or deceptive means to collect or attempt to collect any debt or to obtain information concerning a cardholder; and
- g. making contact at unreasonable/ inconvenient times or hours which shall be defined as contact before 6:00 A.M. or after 10:00 P.M., unless the account is past due for more than sixty (60) days or the cardholder

X320.15 - X320.17
13.12.31

has given express permission or said times are the only reasonable or convenient opportunities for contact.

Banks and their subsidiary/affiliate credit card companies shall inform their cardholder in writing of the endorsement of the collection of their account to a collection agency/agent, or the endorsement of their account from one (1) collection agency/agent to another, at least seven (7) days prior to the actual endorsement. The notification shall include the full name of the collection agency and its contact details: *Provided*, That the required notification in writing shall be included in the terms and conditions of the credit card agreement. Banks and their subsidiary/affiliate credit card companies shall adopt policies and procedures to ensure that personnel handling the collection of accounts, whether these are in-house collectors, or third-party collection agents, shall disclose his/her full name/true identity to the cardholder.

(As amended by Circular No. 754 dated 17 April 2012)

X320.16 (2011- X320.15) Sanctions and penal provisions.
Violations of the provisions of Subsecs. X320.1, X320.5, and X320.7 to X320.14 shall be subject to any or all of the following sanctions depending upon their severity:

- a. Disqualification of the bank concerned from the credit facilities of the Bangko Sentral except as may be allowed under Section 84 of R.A. No. 7653;
- b. Prohibition of the bank concerned from the extension of additional credit accommodation against personal security; and
- c. Penalties and sanctions provided under Sections 36 and 37 of R.A. No. 7653.

Non-compliance with the provisions of Subsecs. X320.2 to X320.4, and X320.6 and X320.15 shall be regarded at least as a less serious offense, depending on the severity of non-disclosure, number of loans and amount involved in the violation. In addition to sanctions under

R.A. No. 3765, the following sanctions may be imposed:

- a. *First offense*. Reprimand on the erring officer/s;
- b. *Second offense*. Reprimand on the entire board of directors; and
- c. *Subsequent offense/s*:
 - i. Suspension of the erring officer/s and/or entire board of directors; and
 - ii. Restriction on lending activities.

This is without prejudice to other penalties and sanctions provided under Sections 36 and 37 of R.A. No. 7653.

(As amended by Circular Nos. 754 dated 17 April 2012 and 702 dated 15 December 2010)

X320.17 Submission of credit card business activity report.
For purposes of transparency and availability of data on credit card operations and in the light of ensuring consumer protection, as well as managing risks involved in credit transactions, banks including their subsidiaries and affiliates, shall submit a monthly quantitative report to Bangko Sentral covering the following data on credit card issuers/acquirers, cardholders, credit card complaints, and usage location:

| Credit Card Issuance | Unit of Expression |
|--|------------------------|
| I. Cards-in-force per network/brand | Number |
| II.Cards-in-force per card type | Number |
| III. Approved credit card applications | Number |
| IV. Cards issued by status | Number |
| V. Cards issued per credit limit | Peso amount |
| VI. Billings per mode of transactions | Peso amount |
| VII. Billings per network/brand | Peso amount |
| VIII. Billed fees/charges | Peso amount |
| IX. Gross payment | Peso amount |
| X. Receivables | Peso amount |
| XI. Rates/charges per cardholder | Peso amount/percentage |

| Cardholder Profile | |
|---|--------|
| I.Cardholder information (age, occupation, gender, civil status, educational attainment, geographic location) | Number |
| II. Cardholder by type of payment | Number |

| Complaints | |
|----------------------------------|--------|
| I. Cardholder issues | Number |
| II. Complaint/request resolution | Number |
| III. External service provider | Number |

| Usage Location | |
|----------------|-------------|
| I.Incoming | Peso amount |
| II. Outgoing | Peso amount |

(As amended by Circular Nos. 812 dated 23 September 2013, 754 dated 17 April 2012 and 702 dated 15 December 2010)

Sec. X321 Salary Loans. The Bangko Sentral shall promote the sustainable development of consumer lending such as salary loans under conditions of fair and sound credit practices. (Circular No. 837 dated 18 June 2014)

▯ **X321.1 Definition of terms**

a. *Salary Loans.* Unsecured loans, granted to individuals on the basis of regular salary, pension or other fixed compensation, where repayment would come from such future remunerations, either through salary deduction, debit from the borrower s deposit account, over-the-counter payment or other type of payment arrangement agreed upon by the borrower and lender. (Circular No. 837 dated 18 June 2014)

D. RESTRUCTURED LOANS

Sec. X322 Restructured Loans; General Policy.
(Deleted by Circular No. 855 dated 29 October 2014)

▯▯ **X320.17 - X326.1**
14.12.31

▯ **X322.1 Definition; when to consider performing/non-performing.**
(Deleted by Circular No. 855 dated 29 October 2014)

▯ **X322.2 Procedural requirements.**
(Deleted by Circular No. 855 dated 29 October 2014)

▯ **X322.3 Restructured loans considered past due.**
(Deleted by Circular No. 855 dated 29 October 2014)

▯ **X322.4 Classification.**
(Deleted by Circular No. 855 dated 29 October 2014)

Secs. X323 - X325 (Reserved)

E. LOANS AND OTHER CREDIT ACCOMMODATIONS TO DIRECTORS, OFFICERS, STOCKHOLDERS AND THEIR RELATED INTERESTS

Sec. X326 General Policy. Dealings of a bank with any of its DOSRI should be in the regular course of business and upon terms not less favorable to the bank than those offered to others.

▯ **X326.1 Definitions.** For purposes of these regulations, the following definitions shall apply:

- a. *Directors* shall refer to bank directors as defined in Subsec. X141.1.
- b. *Officers* shall refer to bank officers as defined in Subsec. X142.1.
- c. *Stockholder* shall refer to any stockholder of record in the books of the bank, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts, whose stockholdings in the lending bank, individual and/or collectively with the stockholdings of: (i) his spouse and/or relative within the

(Next page is Part III - page 31)

first degree by consanguinity or affinity or legal adoption; (ii) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and (iii) corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or firm, amount to one percent (1%) or more of the total subscribed capital stock of the bank.

d. *Substantial stockholder* shall mean a person, or group of persons whether natural or juridical, owning such number of shares that will allow such person or group to elect at least one (1) member of the board of directors of a bank or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

e. *Related interest* shall refer to any of the following:

(1) Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the bank;

(2) Partnership of which a director, officer, or stockholder of a bank or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;

(3) Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner s undivided interest;

(4) Corporation, association, or firm of which a director or officer of the bank, or his spouse is also a director or officer of

such corporation, association or firm, except (a) where the securities of such corporation, association or firm are listed and traded in the big board or commercial and industrial board of domestic stock exchanges and less than fifty percent (50%) of the voting stock thereof is owned by any one (1) person or by persons related to each other within the first degree of consanguinity or affinity; or (b) where the director, officer or stockholder of the bank sits as a representative of the bank in the board of directors of such corporation: *Provided*, That the bank representative shall not have any equity interest in the borrower corporation except for the minimum shares required by law, rules and regulations, or by the by-laws of the corporation, or (c) where the corporation is at least ninety-nine percent (99%) owned by a non-stock corporation as defined in Section 87 of the Corporation Code of the Philippines: *Provided*, That the purpose of the loan is to finance hospitals and other medical services: *Provided, further*, That the loan is fully secured: *Provided, furthermore*, That in the case of Items (a), (b) and (c) above, the borrowing corporation is not among those mentioned in Items (5), (6), (7) and (8) of this Section;

(5) Corporation, association or firm of which any or a group of directors, officers, stockholders of the lending bank and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;

(6) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in Items (2), (4) and (5) of this Section;

(7) Corporation, association or firm which owns or controls directly or indirectly

X326.1
12.12.31

whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the lending bank or which controls majority interest of the bank pursuant to Subsec. X303.1;

(8) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the lending bank; and

(9)Non-governmental organizations (NGOs)/foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers of related banks.

The general principles and standards that will govern the business relationships between banks and their related NGOs/ foundations engaged in retail microfinance are found in *Appendix 27*.

f. *Subsidiary* shall refer to 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 its parent corporation.

g. *Unencumbered deposits* shall refer to savings, time and demand deposits,

which are not subject to an assignment or hold-out agreement or any other encumbrance.

h. *Book value of the paid-in capital contribution* shall mean the proportional amount of the bank s total capital accounts (net of such unbooked valuation reserves and other capital adjustments as may be required by the Bangko Sentral) as the corresponding paid-in capital contribution of each of the bank s directors, officers, stockholders and their related interests bear to the total paid-in capital of the bank: *Provided*, That as a basis for determining the individual ceiling referred to in Sec. X330, the corresponding book value of the shares of stock of said directors, officers, stockholders and their related interests which are the subject of pledge, assignment or any other encumbrance shall be deducted therefrom.

i. *Net worth* shall mean the total of the unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the Bangko Sentral.

(No pages 33 to 34)
(Next page is Part III page 35)

j. *Total loan portfolio* shall refer to the sum of all loan accounts outstanding, gross of valuation reserves, as reflected in the bank's consolidated statement of condition, excluding outstanding loans financed by special/specific funds from the government FIs.

k. *Secured loan, borrowing or other credit accommodation* shall refer to any loan, or credit accommodation or portion thereof referred to in Sec. X327 which is secured by:

(1) Real estate mortgage, chattel mortgage on tangible assets, and pledge of jewelry, precious stones and other valuable articles¹;

(2) Assignment of intangible assets such as patents, trademarks, trade names and copyrights;

(3) Unconditional payment guarantees such as standby letters of credit and letter of indemnity issued by banks/multilateral FIs;

(4) Assignment of, or hold-out on, deposits or deposit substitutes maintained in the lending bank;

(5) Cash margin deposits; or assignment or pledge of government securities or readily marketable bonds and other high-grade debt securities and *blue-chip* stocks, except those issued by the lending entity, or by its parent company which owns more than fifty percent (50%) of its outstanding shares of stocks, subject to the additional provision that the issuer corporation has a net worth of at least P1.0 billion and with annual net earnings during the immediately preceding five (5) years;

(6) Customer's liability under import bills outstanding for not more than thirty (30) days from date of original entry;

(7) Sales contract receivables arising from sale of real property on credit where title to

the property is retained by the bank; and

(8) Customer's liability-import bills under trust receipts outstanding for not more than thirty (30) days from date of booking: *Provided*, That the booking under trust receipts shall have been made not later than the thirty-first day from the date of original entry referred to in Item ¶(6) above.

l. *Unsecured loan, borrowing or other credit accommodation* shall refer to any loan, or other credit accommodation or portion thereof referred in Sec. X327 which is not secured in accordance with Item k above.

(M-2012-016 dated 27 March 2012, As amended by Circular Nos. 725 dated 16 June 2011, M-2011-33 dated 15 June 2011, Circular No. 695 dated 22 October 2010 and 560 dated 31 January 2007)

Sec. X327 Transactions Covered. The terms *loans, other credit accommodations and guarantees* as used herein shall refer to transactions of the bank which involve the grant of any loan, advance or other credit accommodation in any form whatsoever, whether renewal, extension or increase, and shall include:

a. Any advance by means of an incidental or temporary overdraft, cash item, vale , etc.;

b. Any advance of unearned salary or other unearned compensation for periods in excess of thirty (30) days;

c. Any advance by means of DAUDs;

d. Outstanding availments under an established credit line;

e. Drawings against an existing letter of credit;

f. The acquisition of any note, draft, bill of exchange or other evidence of indebtedness upon which the bank's DOSRIs may be liable as makers, drawers, acceptors, endorsers, guarantors or sureties;

¹ The real estate mortgage must be registered with the Registry of Deeds and the chattel mortgage on tangible assets must be registered with the Registry of Deeds or other appropriate registry (e.g., Land Transportation Office, in case of motor vehicles, or Maritime Industry Authority, in case of vessels) in order for the loan, borrowing or other credit accommodation to be considered secured under the said regulation.

¶¶ X327 - X328.1
08.12.31

- g. Indirect lending such as loans or other credit accommodations granted by another financial intermediary to said DOSRIs from funds of the bank invested in the other institution's trust or other department when there is a clear relationship between the transactions;
- h. The increase of an existing indebtedness, as well as additional availments under a credit line or additional drawings against a letter of credit;
- i. The sale of assets, such as shares of stock, on credit; and
- j. Any other transactions as a result of which the bank's DOSRIs become obligated or may become obligated to the lending bank, by any means whatsoever to pay money or its equivalent.

Sec. X328 Transactions Not Covered. The terms *loans, other credit accommodations and guarantees* as used herein shall not refer to the following:

- a. Advances against accrued compensation, or for the purpose of providing payment of authorized travel, legitimate expenses or other transactions for the account of the bank or for utilization of maternity and other leave credits;
- b. The increase in the amount of outstanding credit accommodations as a result of additional charges or advances made by the bank to protect its interest such as taxes, insurance, etc.;
- c. The discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, including, but not limited to, the acquisition by a domestic bank of export bills from any of its DOSRI which are drawn in accordance with the terms and conditions of the covering letters of credit:

Provided, That the transaction shall automatically be subject to the ceilings as herein provided once the DOSRI who is a party to the transaction becomes directly liable to the bank;

- d. Transactions with a foreign bank which has stockholdings in the local bank where the foreign bank acts as guarantor through the issuance of letters of credit or assignment of a deposit in a currency eligible as part of the international reserves and held in a bank in the Philippines to secure other credit accommodations granted to another person or entity: *Provided*, That the foreign bank stockholder shall automatically be subject to the ceilings as herein provided in the event that its contingent liability as guarantor becomes a real liability; and
- e. Interbank call loan transactions.

¶ **X328.1 Applicability to credit card operations.** The credit card operations of banks shall not be subject to these regulations where the credit cardholders are bank's DOSRI: *Provided*, That (a) the privilege of becoming a credit cardholder is open to all qualified persons on the basis of selective criteria which are applied by the bank to all applicants thereof; and (b) the bank's DOSRIs reimburse/pay the bank for the billed amount in full on or before the payment due date in the billing or statement of account, as set by the bank for all other qualified credit card holders on availments made for the same period on their credit cards. However, the transaction shall be subject to applicable DOSRI regulations if the bank's DOSRIs:

- a. fail to reimburse/pay the bank within the period mentioned herein; or
- b. on the outset, opt for deferred payment scheme, and the availment is booked by the bank.

For purposes of this Section, *stockholders and related interests* refer to individual credit card holders.

§§ X328.2 - X328.4 (Reserved)

§ X328.5 Loans, other credit accommodations and guarantees granted to subsidiaries and/or affiliates

a. *Statement of policy.* Dealings of a bank with its subsidiaries and/or affiliates shall be in the regular course of business and upon terms not less favorable to the bank than those offered to others.

b. *Ceilings.* The total outstanding loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed ten percent (10%) of the net worth of the lending bank: *Provided*, That the unsecured loans, other credit accommodations and guarantees to each of said subsidiaries and affiliates shall not exceed five percent (5%) of such net worth: *Provided, further*, That the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed twenty percent (20%) of the net worth of the lending bank: *Provided, finally*, That these subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the lending bank, except where such director, officer or stockholder sits in the board of directors or is appointed officer of such corporation as representative of the bank.

Loans, other credit accommodations and guarantees granted by a bank to its subsidiaries and affiliates engaged in energy and power generation consistent with the medium-term Philippine development plan/ medium-term public investment program of the National Government duly certified as such by the Secretary of the Socio-economic Planning shall be subject to a separate individual limit of twenty-five percent (25%) of the net worth of the lending bank: *Provided*, That the unsecured portion thereof shall not exceed twelve and one-half percent (12.5%) of such net worth: *Provided*,

further, That these subsidiaries and affiliates are not related interests of any of the director, officer, and/or stockholder of the lending bank, except where such director, officer or stockholder sits in the board of directors or is appointed officer of such corporation as representative of the bank.

c. *Exclusions from the ceilings.* Loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations as well as interbank call loans shall be excluded in determining compliance with the ceilings prescribed under Item "b" above.

d. *Procedural requirements.* The following provisions shall apply if a bank grants a loan, other credit accommodation or guarantee to any of its subsidiaries and affiliates.

(1) *Approval of the board, when to obtain.* Except with prior written approval of the majority of all the members of the board of directors, no loan, other credit accommodation and guarantee shall be granted to a subsidiary or affiliate.

(2) *Approval by the board, how manifested.* The approval shall be manifested in a resolution passed by the board of directors during a meeting and made of record.

(3) *Determination of majority of all the members of the board of directors.* The determination of the majority of all the members of the board of directors shall be based on the total number of directors of the bank as provided in its articles of incorporation and by-laws.

(4) *Contents of the resolution.* The resolution of the board of directors shall contain the following information:

- (a) Name of the subsidiary or affiliate;
- (b) Nature of the loan or other credit accommodation or guarantee, purpose, amount, credit basis for such loan or other

§§ X328.5 - X329
09.12.31

credit accommodation or guarantee, security and appraisal thereof, maturity, interest rate, schedule of repayment and other terms;

(c) Date of resolution;

(d) Names of the directors who participated in the deliberation of the meeting; and

(e) Names in print and signatures of the directors approving the resolution: *Provided*, That in instances where a director who participated in the board meeting and who approved such resolution failed to sign, the corporate secretary may issue a certification to this effect indicating the reason for the failure of the said director to sign the resolution.

(5) *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 department of the SES 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 be duly certified by the corporate secretary that it is a reproduction of the original written approval.

e. *Reportorial requirements.* Each bank shall maintain a record of loans, other credit accommodations and guarantees covered by these regulations in a manner and form that will facilitate verification of such transactions by BSP examiners.

The appropriate department of the SES may require banks to furnish such data or information as may be necessary for purposes of implementing the provisions of the foregoing rules.

f. *Sanctions.* Without prejudice to the criminal sanctions under Section 36 of R.A. No. 7653 (The New Central Bank Act), any violation of the provisions of the foregoing rules shall be subject to any or all

of the following sanctions:

(1) Restriction or prohibition on the bank from declaring dividends for non-compliance with the herein prescribed ceilings until the outstanding loans, other credit accommodations and guarantees have been reduced to within the herein prescribed ceilings;

(2) For the duration of each violation, imposition of a fine of one tenth (1/10) of one percent (1%) of the excess over the ceilings per day but not to exceed P30,000 a day on the following:

(a) The lending bank;

(b) Each of the directors voting for the approval of the loan, other credit accommodation or guarantee in excess of any of the ceilings prescribed above.

g. *Transitory provisions.* Outstanding loans, other credit accommodation and guarantees to subsidiaries/affiliates that will exceed the ceilings mentioned above shall not be subject to penalty until 09 April 2007 or until said accommodations become past due, or are extended, renewed or restructured, whichever comes later.

(Circular No. 560 dated 31 January 2007, as amended by 654 dated 12 May 2009)

Sec. X329 Direct or Indirect Borrowings

Loans, other credit accommodations and guarantees to DOSRI shall be considered direct or indirect borrowings in accordance with the following criteria:

a. *Direct borrowing.* If the director, officer or stockholder of the lending bank is a party to any of the transactions enumerated in Sec. X327 for himself, or as the representative or agent of others, or if he acts as a guarantor, endorser or surety for loans from the bank, or if the loan or other credit accommodation to another party is secured by a property interest or right of the director, officer or stockholder.

b. *Indirect borrowing.* If in any of the transactions in Sec. X327 the borrower, guarantor, endorser or surety is a related

interest as defined in Item e¶, Subsec. X326.1.

Other cases of direct/indirect borrowing shall be resolved on a case-to-case basis.

It shall be the responsibility of the bank concerned to ascertain whether the borrower, guarantor, endorser or surety is related or connected with the bank or with any of the directors, officers or stockholders of the bank in any of the capacities mentioned in Item e¶ of Subsec. X326.1.

In determining indirect borrowings, as enumerated above, only those cases involving living relatives shall be considered.

Sec. X330 Individual Ceilings. The total outstanding loans, other credit accommodations and guarantees to each of the bank's DOSRI shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank: *Provided, however,* That unsecured loans, other credit accommodations and guarantees to each of the bank's DOSRI shall not exceed thirty percent (30%) of their respective total loans, other credit accommodations and guarantees.

¶ **X330.1 Exclusions from individual ceiling.** The following loans, other credit accommodations and guarantees shall be excluded in determining compliance with the individual ceiling.

a. Loans, other credit accommodations and guarantees secured by assets considered as non-risk by the Monetary Board;

Assets considered as non-risk shall refer to the following:

- (1) Cash;
- (2) Debt securities issued by the Bangko Sentral or the Philippine government;
- (3) Deposits maintained in the lending bank and held in the Philippines;

(4) Debt securities issued by the U.S. government;

(5) Debt securities issued by central governments, central banks of foreign countries and multilateral financial institutions such as International Finance Corporation, Asian Development Bank and World Bank, with the highest credit quality given by any two (2) internationally accepted rating agencies; and

(6) Deposits of clients of related non-governmental organizations (NGOs)/ foundations, that are engaged in retail microfinance operations, and are maintained with the related lending bank and held in the Philippines: *Provided,* That all of the following conditions are met:

(i) existing regulations on the opening of deposit accounts and other deposit transactions shall apply except when specifically stated otherwise;

(ii) depositors shall issue waivers of confidentiality of their deposits and enter hold-out agreements with the lending bank;

(iii) interest rates on such deposits shall not be more than those of similar type of deposit accounts;

(iv) 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;

(v) 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

(vi) 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.

b. Loans, other credit accommodations and advances to officers in the form of fringe benefits granted in accordance with existing regulations; and

X330.1 - X334
13.12.31

c. Loans, other credit accommodations and guarantees extended by a Coop Bank to its cooperative shareholders.

The general principles and standards that will govern the business relationships between banks and their related NGOs/foundations engaged in retail microfinance are found in *Appendix 27*.

d. The portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

(As amended by Circular Nos. 785 dated 25 January 2013 and 725 dated 16 June 2011 and M-2011-033 dated 15 June 2011)

Sec. X331 Aggregate Ceiling; Ceiling on Unsecured Loans, Other Credit Accommodations and Guarantees

Except with the prior approval of the Monetary Board, the total outstanding loans, other credit accommodations and guarantees to DOSRI shall not exceed fifteen percent (15%) of the total loan portfolio of the bank or 100% of net worth whichever is lower: *Provided*, That in no case shall the total unsecured loans, other credit accommodations and guarantees to said DOSRI exceed thirty percent (30%) of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the ceiling on unsecured loans, other credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit accommodations and guarantees every week.

In evaluating requests for extension of loans in excess of the aggregate ceiling, the Bangko Sentral shall consider the credit standing of the borrower, viability of the projects financed by such other credit accommodations in relation to national objectives, collateral or security and other pertinent considerations.

Sec. X332 Exclusions from Aggregate Ceiling. The following loans, other credit accommodations and guarantees shall be excluded in determining compliance with the aggregate ceiling:

a. Credit accommodations or portions thereof to the extent secured by assets considered as non-risk by the Monetary Board;

b. Credit accommodations to a corporate stockholder which meets all the following conditions:

(1) The corporation is a non-financial institution;

(2) Its shares are listed and traded in the domestic stock exchanges; and

(3) No person or group of persons related within the first degree of consanguinity or affinity holds/owns more than twenty percent (20%) of the subscribed capital of the corporation.

c. Credit accommodations to government-owned or controlled corporations, in cases where a director, officer or stockholder of the lending bank is a representative of the government in the borrowing corporation and does not hold any proprietary interest in such corporation: *Provided*, That other rules on loans to DOSRI, such as procedural and reportorial requirements under Sections X334 and X335 are followed.

d. Exclusions from individual ceiling mentioned under Items (b), (c) and (d) of Subsec. X330.1.

(As amended by Circular 785 dated 25 January 2013)

Sec. X333 Applicability to Branches and Subsidiaries of Foreign Banks.

The individual and aggregate ceilings as well as ceilings on unsecured credit accommodations prescribed herein shall also apply to branches and subsidiaries of foreign banks in the Philippines.

Sec. X334 Procedural Requirements. The following provisions shall apply if the bank s DOSRI are parties to, or act as representatives

or agents of others in, any of the transactions enumerated under Sec. X327:

a. *Approval of the board, when to obtain.* Except with prior written approval of the majority of the directors, excluding the director concerned, no loan, other credit accommodation and guarantee shall be granted nor shall any of the transactions enumerated under Sec. X327 be entered into.

b. *Approval by the board, how manifested.* The approval shall be manifested in a resolution passed by the board of directors during a meeting and made of record.

c. *Determination of majority of the directors.* The determination of the majority of the directors, excluding the director concerned, shall be based on the total number of directors of the bank as provided in its articles of incorporation and by-laws.

d. *Contents of the resolution.* The resolution of the board of directors shall contain the following information:

(1) Name of the director or officer concerned and his involvement as regards the credit accommodation, such as principal, endorser, spouse of borrower, etc.;

(2) Nature of the loan or other credit accommodation, purpose, amount, credit basis for such loan or other credit accommodation, security and appraisal thereof, maturity, interest rate, schedule of repayment and other terms of the loan or other credit accommodation;

(3) Date of resolution;

(4) Names of the directors who participated in the deliberations of the meeting; and

(5) Names in print and signatures of the directors approving the resolution: *Provided*, That in instances where a director who participated in the board meeting and who approved such resolution failed to sign, the corporate secretary may issue a certification to this effect indicating the reason for the failure

of the said director to sign the resolution.

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 department of the SES 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: *Provided, further*, That such written approval shall not be required for loans, other credit accommodations and advances granted to officers under a fringe benefit plan approved by the Bangko Sentral.

Sec. X335 Reportorial Requirements. Each bank shall maintain a record of loans, other credit accommodations and guarantees covered by these regulations in a manner and form that will facilitate verification of such transactions by Bangko Sentral examiners.

The appropriate department of the SES may require banks to furnish such data or information as may be necessary for purposes of implementing the provisions of the foregoing rules.

Sec. X336 Sanctions. Any violation of the provisions of the foregoing rules shall be subject to any or all of the following sanctions:

a. Restriction or prohibition on the bank from declaring dividends for non-compliance with the prescribed ceiling on DOSRI until the outstanding loans and other credit accommodations have been reduced to within the herein prescribed ceilings;

b. After due notice to the board of directors of the bank, the office of any bank director or officer who violates the

¶ X336 - X338.1
14.12.31

provisions of this Section may be declared vacant and the director or officer shall be subject to the penal provisions of the New Central Bank Act;

c. Application of (1) the borrowing director s or officer s share in the bank s profit sharing program; and (2) the share of the director voting for the approval of the loan or other credit accommodation, against the excess of such loan or other credit accommodation over any of the herein prescribed ceilings; and

d. For the duration of each violation, imposition of a fine of one-tenth of one percent (1/10 of 1 %) of the excess over the ceilings per day but not to exceed P30,000 a day on the following:

- (1) The lending bank;
- (2) The director, officer or stockholder whose borrowing exceeds his individual ceiling; and
- (3) Each of the directors voting for the approval of the loan or other credit accommodation in excess of any of the ceilings prescribed in Secs. X330 and X331.

The penalty for exceeding the individual ceiling, aggregate ceiling and ceiling on unsecured loans shall be computed on the average amount of loans in excess of said ceilings during the same week.

Sec. X337 Waiver of Secrecy of Deposit

Any director, officer or stockholder who, together with his related interest, contracts a loan or any form of financial accommodation from:

- a. his bank; or
- b. from a bank
 - (1) which is a subsidiary of a bank holding company of which both his bank and the lending bank are subsidiaries; or
 - (2) 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, in excess of five percent (5%) of the capital and surplus of the bank, or in the maximum amount permitted by

¹ See Appendix 89

law, whichever is lower, shall be required by the lending bank to waive the secrecy of his deposits of whatever nature in all banks in the Philippines. Any information obtained from an examination of his deposits shall be held strictly confidential and may be used by the examiners only in connection with their supervisory and examination responsibility or by the Bangko Sentral in an appropriate legal action it has initiated involving the deposit account.

Sec. X338 Financial Assistance to Officers and Employees. Banks may provide financial assistance to their officers and employees, as part of their fringe benefits program, to meet the housing, transportation, household and personal needs of their officers and employees. Financing plans and amendments thereto, shall be with prior approval of the Bangko Sentral¹.

(M-2014-039 dated 01 October 2014, M-2014-031 dated 08 August 2014, M-2014-006 dated 12 February 2014, M-2013-050 dated 15 November 2013, M-2013-046 dated 30 October 2013, M-2013-045 dated 23 October 2013, M-2013-040 dated 03 September 2013, M-2013-001 dated 14 January 2013, 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-2011-056 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-2009-040 dated 30 October 2009, M-2009-037 dated 15 October 2009, M-2009-038 dated 08 October 2009 and M-2009-036 dated 07 October 2009)

¶ **X338.1 Mechanics.** The mechanics of such financing plan shall have the following minimum features:

- a. Participation shall be limited to fulltime and permanent officers and employees of the bank;
- b. Financial assistance shall only be for the following purposes:
 - (1) The acquisition of a residential house and lot, or the construction, renovation or repair of a residential house on a lot owned and to be occupied by the officer or

¶ X338.1
12.12.31

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| employee; | personal use of the officer or employee or |
| (2) The acquisition of vehicles, | his immediate family; or |
| household equipment and appliances for the | (3) To meet expenses for the medical, |

(Next Page is Part III- Page 43)

maternity, education, emergency and other personal needs of the officer or employee or his immediate family;

c. Financial assistance for purposes mentioned in Items “b(1)” and “b(2)” of this Subsection shall be granted in the form of a loan, advance or other credit accommodation, installment sale, lease with option to purchase or lease-purchase arrangement where the lessee is obliged to purchase the real estate or equipment;

d. The amount and maturity of financial assistance for each purpose shall be determined by the bank in consonance with the normal requirements thereof: *Provided*, That the maximum amount shall be stated as percentage or multiple of the total monthly compensation of the officer or employee and shall be within the paying capacity of the borrowing officer or employee.

Total monthly compensation shall include the basic salary and all fixed and regular monthly allowances of the officer or employee. Payments for sickness benefits and other special emoluments which are not fixed or regular in nature, or the commutation into cash of unused leave credits shall not be included in the computation of total monthly compensation;

e. The amortization payment shall include amounts necessary to cover mortgage redemption insurance and fire insurance premiums, taxes, special assessments, and other related fees and charges;

f. Availment of the financing plan to construct or acquire a residential house and lot shall be allowed only once during the officer’s or employee’s tenure with the bank, except where the right over the real estate previously acquired or constructed under the financing plan is absolutely transferred or assigned to another officer or employee of the bank or to a third party: *Provided*, That the bank must be fully paid or reimbursed for the outstanding availment

on the financing plan before the officer/employee is allowed to re-avail him self of the same financing plan.

An officer or employee (or his spouse) who already owns a residential house and lot shall not be qualified to avail himself of financial assistance for purposes of acquiring a residential house and/or lot.

These prohibitions notwithstanding, financial assistance for the repair or renovation of a residential house may be allowed subject to such limitation as may be prescribed by the bank pursuant to Item “d” of this Subsection;

g. Availment of the financing plan for the acquisition of a specific type of equipment or appliance shall be allowed not oftener than once every three (3) years: *Provided*, That re-availment shall be allowed only after previous obligations in connection with the acquisition of the same type of equipment or appliances have been fully liquidated; and

h. The bank shall adopt measures to protect itself from losses such as by incorporating in the plan or contract provisions requiring co-makers or co-signor, chattel, or real estate mortgages, fire insurance, mortgage redemption insurance, assignment of money value of leave credits, pension or retirement benefits.

§ X338.2 (Reserved)

§ 1338.2 Funding by foreign banks. In the case of local branches of foreign banks, financial assistance for their officers and employees may be funded, through any of the following means:

a. Through a local affiliate by special arrangement with the head office abroad in any of the following forms:

(1) Inward remittance from the head office of the affiliate; or

(2) Assignment to the affiliate of equivalent amounts of profits otherwise remittable abroad under existing

§§ 1338.2 - X339
08.12.31

regulations; or

(3) Direct loans by the foreign bank to the affiliate; or

b. Through the local branch itself by:

(1) Segregation or transfer of undivided profits normally remitted to the head office abroad equivalent to the loans to officers and employees which shall be lodged under “*Other Liabilities-Head Office Accounts*”. This account shall at all times have a balance equivalent to the outstanding loans to officers/employees financed under this scheme; or

(2) Inward remittance; or

c. Through the local branch from local sources without earmarking an equivalent amount of undivided profits: *Provided*, That the aggregate ceilings on such loans as provided under existing regulations shall apply.

Loans under Items “*b(1)*” and “*b(2)*” of this Subsection shall be treated in the branch books as loans granted by its head office. The documentation and collection of such loans shall be handled by the branch for the account of the head office.

Loans financed under Items “*a*” and “*b*” shall be excluded from the computation of the capital to risk assets ratio.

§ 2338.2 (Reserved)

§ 3338.2 (Reserved)

§ X338.3 *Other conditions/limitations*

a. The investment by a bank in equipment and other chattels under its fringe benefits program for officers and employees shall be included in determining the extent of the investment of the bank in real estate and equipment for purposes of Section 51 of R.A. No. 8791.

b. The investment by a bank in equipment and other chattels contemplated under these guidelines shall not be for the purpose of profits in the course of business for the bank.

c. The aggregate outstanding loans and other credit accommodations granted under the bank’s fringe benefits program, inclusive of those granted to officers in the nature of lease with option to purchase, shall not exceed five percent (5%) of the bank’s total loan portfolio.

Banks providing financial assistance to their officers/employees shall submit a regular report on “*availments of financial assistance to officers and employees*” to the BSP within fifteen (15) banking days after end of reference semester.

The appropriate department of the SES may further require banks to submit such data or information as may be necessary to facilitate verification of such transactions by BSP examiners.

Sec. X339 *Transitory Provisions*

a. The sanctions contained under Sec. X336 shall not apply to outstanding loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered as DOSRI accounts prior to 10 April 2004, for a period of up to 09 April 2007 or until said loans, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

b. Unsecured outstanding loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered as DOSRI accounts prior to 10 April 2004, shall not be deducted from capital accounts for a period of up to 09 April 2007 or until such time that said loans, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

c. Banks shall, however, disclose the following information in their financial statements, annual report and the reports

being submitted to BSP:

- (1) DOSRI;
 - (i) Loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to 10 April 2004; and
 - (ii) New DOSRI loans, other credit accommodations and guarantees granted starting 10 April 2004.
- (2) Non-DOSRI prior to 10 April 2004 Loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to 10 April 2004 but are allowed a transition period as provided above.

(As amended by Circular No. 532 dated 19 May 2006)

§§ X339.1 - X339.3 (Reserved)

§ X339.4 Reportorial requirements

Financing plans and amendments thereto shall be submitted to BSP within thirty (30) calendar days from approval thereof by the bank's board of directors. The appropriate department of the SES may require the banks concerned to submit a regular report monitoring the various transactions under the bank's financing plans for officers/employees.

All banks providing financial assistance to bank officers/employees shall submit a report on *"Availments of Financial Assistance to Officers and Employees"* to the BSP within fifteen (15) banking days after end of reference semester.

Sec. X340 Applicability of DOSRI Rules and Regulations to Government Borrowings in Government-Owned or - Controlled Banks. The provisions of Secs. X326 to X337 shall also apply to loans, other credit accommodations, and/or guarantees granted to the National Government or Republic of the Philippines, its political subdivisions and instrumentalities as well as GOCCs, subject to the following

clarifications:

- a. Loans, other credit accommodations, and/or guarantees to the Republic of the Philippines and/or its agencies/departments/bureaus shall be considered: (1) non-risk; and (2) not subject to any ceiling;

Investments in GPNs shall be excluded by government financial institutions in determining compliance with DOSRI ceilings;

- b. Loans, other credit accommodations, and/or guarantees to: (1) GOCCs; and (2) corporations where the Republic of the Philippines, its agencies/departments/bureaus, and/or GOCCs own at least twenty percent (20%) of the subscribed capital stock shall be considered indirect borrowings of the Republic of the Philippines and shall form part of the individual ceiling as well as the aggregate ceiling: *Provided*, That the following loans, other credit accommodations, and/or guarantees to GOCCs and corporations where the Republic of the Philippines, its agencies/departments/bureaus, and/or GOCCs own at least twenty percent (20%) of the subscribed capital stock, shall be excluded from the thirty percent (30%) ceiling on unsecured loans under Secs. X330 and X331:

- (1) Loans, other credit accommodations, and/or guarantees for the purpose of undertaking priority infrastructure projects consistent with the Medium-Term Development Plan/Medium-Term Public Investment Program of the National Government, duly certified as such by the Secretary of Socio-Economic Planning;

- (2) Loans, other credit accommodations, and/or guarantees granted to PFIs in the lending programs of the government wherein the funds borrowed are intended for relending to other PFIs or end-user borrowers; and

- (3) Loans, other credit accommodations, and/or guarantees granted for the purpose

§§ X340 - X341.1
11.12.31

of providing (i) wholesale and retail loans to the agricultural sector and micro, small and medium enterprises (MSMEs); and/or (ii) rediscounting and guarantee facilities for loans granted to the said sector or enterprises;

c. Loans, other credit accommodations, and/or guarantees granted to state universities and colleges (SUCs) shall be excluded from the thirty percent (30%) ceiling on unsecured loans under Secs. X330 and X331.

d. In view of the fiscal autonomy granted under R.A. No. 7653 and the independence prescribed under the Constitution, the BSP shall be considered an independent entity, hence, not a related interest of the Republic of the Philippines and/or its agencies/departments/bureaus. Loans, other credit accommodations and guarantees of the BSP shall be considered: (1) non-risk; and (2) not subject to any ceiling;

e. LGUs shall be considered separate from the Republic of the Philippines, other government entities, and from one another due to the full autonomy in the exercise of their proprietary functions and in the management of their economic enterprises granted to them under the Local Government Code of the Philippines, subject to certain limitations provided by law, hence, not a related interest of the Republic of the Philippines and/or its agencies/departments/bureaus;

f. Local Water Districts (LWDs), although GOCCs, shall be considered separate from the Republic of the Philippines, other government entities, and from one another due to their fiscal independence from the national government, hence, not a related interest of the Republic of the Philippines and/or its agencies/department/bureaus, for purposes of these regulations;

g. A director who acts as a government representative in the lending institution shall

not be excluded in the deliberation as well as in the determination of majority of the directors in cases of loans, other credit accommodations, and guarantees to the Republic of the Philippines and/or its agencies/departments/bureaus; and

h. A director of the lending institution shall be excluded in the deliberation as well as in the determination of majority of the directors in cases of loans, other credit accommodations, and guarantees to the borrowing government entity other than the Republic of the Philippines, its agencies, departments or bureaus where said director is also a director, officer or stockholder under existing DOSRI regulations.

(Circular No. 514 dated 06 March 2006 as amended by M-2011-020 dated 30 March 2011, Circular Nos. 635 dated 10 November 2008, 616 dated 30 July 2008, 580 dated 09 September 2007, and 547 dated 21 September 2006)

F. MANDATORY CREDITS

Sec. X341 Agriculture and Agrarian Reform Credit. Pursuant to R.A. No. 10000, The Agri- Agra Reform Credit Act of 2009, the following guidelines shall govern the grant of agrarian reform credit by banks, government or private.

(As amended by Circular No. 736 dated 20 July 2011)

§ X341.1 Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Accredited rural financial institutions (FIs)* shall refer to FIs like RBs, Coop Banks, farmer’s cooperatives and farmer’s cooperative insurance or mutual benefit associations whose portfolios are substantially agri-agra related and have been certified as such either by the BSP, in the case of banks, or by the DA, or by an agency duly-authorized by the DA, in the case of NBFIs.

b. *Agrarian reform beneficiaries* shall refer to farmers who were granted lands under P.D. No. 27 or the “*Emancipation of Tenants from the Bondage of the Soil*,

Transferring to Them the Ownership of the Land They Till and Providing the Instruments and Mechanism Therefor", R.A. No. 6657 or the *"Comprehensive Agrarian Reform Law"* and R.A. No. 9700 or the *"Comprehensive Agrarian Reform Extension with Reforms"* and regular farmworkers who are landless, irrespective of tenurial arrangement, who benefited from the redistribution of lands, regardless of crops or fruits produced, to include the totality of factors and support services designed to lift the economic status of the beneficiaries and all other alternative arrangements to the physical distribution of lands, such as production or profit-sharing, labor administration, and the distribution of shares of stock under the stock distribution option scheme, which will allow beneficiaries to receive a just share of the fruits of the lands they work, which farmers and farmworkers shall be endorsed by the nearest office of the DAR.

The term shall, likewise, include registered agrarian reform beneficiaries' cooperatives/associations/other farm groups respectively endorsed as comprising of agrarian reform beneficiaries by the nearest office of the DAR.

c. *Agrarian reform credit* shall refer to loans granted to agrarian reform beneficiaries for agricultural and agrarian reform purposes.

d. *Agricultural credit* shall refer to loans granted to borrowers for agricultural purposes.

e. *Agricultural lessee* shall refer to any person who, with or without help from his/her immediate farm household, cultivates the land owned by another for a certain price in money, in produce or in both.

f. *Agriculture and agrarian reform credit* shall refer to loans granted for the following activities and purposes:

- (i) agricultural production;
- (ii) promotion of agribusiness and exports;

(iii) acquisition of work animals, farm and fishery equipment and machinery;

(iv) acquisition of seeds, fertilizers, poultry, livestock, feeds and other similar items;

(v) acquisition of lands authorized under the Agrarian Reform Code of the Philippines and its amendments;

(vi) construction, acquisition and repair of facilities for production, processing, storage, and marketing and such other facilities in support of agriculture and fisheries;

(vii) efficient and effective merchandising of agricultural and fishery commodities stored and/or processed by the facilities aforesaid in domestic and foreign commerce; and

(viii) other activities identified in Section 23 of R.A. No. 8435, otherwise known as the *"Agriculture and Fisheries Modernization Act of 1997"*, as follows:

(a) Agriculture and fisheries production including processing of fisheries and agri-based products and farm inputs;

(b) Acquisition of work animals, farm and fishery equipment and machinery;

(c) Acquisition of seeds, fertilizer, poultry, livestock, feeds and other similar items;

(d) Procurement of agriculture and fisheries products for storage, trading, processing and distribution;

(e) Acquisition of water pumps and installation of tube wells for irrigation;

(f) Construction, acquisition and repair of facilities for production, processing, storage, transportation, communication, marketing and such other facilities in support of agriculture and fisheries;

(g) Working capital for agriculture and fisheries graduates to enable them to engage in agriculture and fisheries-related economic activities;

(h) Agribusiness activities which support soil and water conservation and ecology-enhancing activities;

§ X341.1
11.12.31

(i) Privately-funded and LGU-funded irrigation systems that are designed to protect the watershed;

(j) Working capital for long-gestating projects; and

(k) Credit guarantees on uncollateralized loans to farmers and fisherfolk.

g. *Agro-industry Modernization Credit and Financing Program (AMCFP)* refers to the umbrella credit/financing program of the government for the agriculture and fisheries sector created under R. A. No. 8435.

h. *Amortizing owners* shall refer to landowners who still amortize payment for the land to a private individual or to the State.

i. *BSP-accredited rural financial institutions (Fls)* shall refer to banks that are accredited by the BSP in accordance with criteria set forth in Subsec. X341.8.

j. *Compact farmers* shall refer to those farmers with adjoining farms operating as a single unit under one management, farm plan and budget.

k. *Farm to market road* shall refer to roads linking the agriculture and fisheries production sites, coastal landing points and post-harvest facilities to the market and arterial roads and highways.

l. *Farmer* shall refer to a natural person whose primary livelihood is cultivation of land or the production of agricultural crops, agroforest products, livestock and/or fisheries, either by himself/herself, or primarily with the assistance of his/her immediate farm household, whether the land is owned by him/her or by another person under a leasehold or share tenancy agreement or arrangement with the owner thereof.

m. *Farmworker* shall refer to a natural person who renders service for value as an employee or laborer in an agricultural enterprise or farm regardless of whether his/her compensation is paid on a daily, weekly, monthly or “pakyaw” basis. The term includes an individual whose work has ceased as a consequence of, or in connection with, a pending agrarian dispute

who has not obtained a substantially equivalent and regular farm employment.

n. *Farmer’s cooperatives* shall refer to organizations composed primarily of small agricultural producers, farmers, farmworkers, or other agrarian reform beneficiaries who voluntarily organize themselves for the purpose of pooling land, manpower, technological, financial or other economic resources, and operate on the principle of one (1) member, one (1) vote. A juridical person may be a member of a cooperative, with the same rights and duties as a natural person.

o. *Farmer’s and fisherfolk’s organizations or associations* shall refer to farmer’s and fisherfolk’s cooperatives, associations or corporations duly registered with appropriate government agencies and which are composed primarily of small agricultural producers, farmers, farmworkers, agrarian reform beneficiaries or fisherfolk who voluntarily join together to form business enterprises or non-business organizations which they themselves own, control and patronize.

p. *Fisherfolk* shall refer to people directly or personally and physically engaged in taking and/or culturing and processing, fishery and/or aquatic resources.

q. *Fisheries* shall refer to all activities relating to the act or business of fishing, culturing, preserving, processing, marketing, developing, conserving and managing aquatic resources and the fishery areas, including the privilege to fish or take aquatic resource thereof.

r. *Fishworker* shall refer to a person whether or not regularly employed in commercial fishing and related industries, whose income is either from wages, profit sharing or stratified sharing basis, including those working in fishpens, fish corral/traps, fishponds, prawn farms, sea farms, salt beds, fish ports, fishing boat or trawlers, or fish processing and/or packing plants, but excluding administrators, security guards and overseers.

s. *Loanable funds* shall refer to total funds generated from 20 April 2010, the computation of which is described in Subsec. X341.6.

t. *National Food Authority*, otherwise known as the NFA, shall refer to the government entity created through P.D. No. 4 dated 26 September 1972. It is currently vested with the function of ensuring food security and stability of price and supply of staple grain-rice through procurement of paddy from individual bonafide farmers and their organizations, buffer stocking, processing activities, dispersal of paddy and milled rice to strategic locations, distribution of the staple grain to various marketing outlets at appropriate times of the year and other similar activities. As used in these rules, its role shall be limited to the issuance of warehouse receipts, which may be used as collateral for bank loans and loans under the AMCFP value chain financing facility.

As a government non-financial agency, the NFA can not and will not perform any lending function consistent with the provisions of R.A. No. 8435.

u. *Owner-cultivators* shall refer to natural persons who own lands by purchase, inheritance, or land distribution by the State. Owner-cultivators can operate the farm themselves, supervise wage labor or delegate operations to farmers.

v. *Post-harvest activities* shall refer to threshing, drying, milling, grading, storing, and handling of produce and such other activities of a similar nature such as stripping, winnowing, chipping and washing.

w. *Post-harvest facilities* shall refer to threshers, moisture meters, dryers, weighing scales, milling equipment, fish ports, fish landings, ice plants and cold storage facilities, processing plants, warehouses, buying stations, market

infrastructure and transportation facilities supporting post-harvest activities.

x. *Public infrastructure* shall refer to facilities including, but not limited to, market buildings, slaughterhouses, holding pens, warehouses, market information centers, connecting roads, transport and communication, processing plants, ice plants and cold storage facilities, grain dryers, warehouses, grain silos and cold storage used by the farmers and fisherfolk in the production, processing, storage, transportation, communication, marketing of their produce and such other facilities in support of agriculture and fisheries.

y. *Settlers* shall refer to persons who range from the forest-clearing pioneers, including indigenous people, with a subsistence economy to the better equipped and more experienced farmers.

z. *Tenant farmer* shall refer to one (1) who cultivates another's land under a sharing leasehold agreement.

(As amended by Circular No. 736 dated 20 July 2011)

§ X341.2 Qualified borrowers

Qualified borrowers for agriculture and agrarian reform credit shall refer to farmers, fisherfolk, agrarian reform beneficiaries, settlers, agricultural lessees, amortizing owners, farmworkers, fishworkers, owner-cultivators, compact farmers, tenant farmers, as well as farmer's and fisherfolk's cooperatives, organizations and associations in good standing, regardless of capitalization, based on the feasibility of the project and their paying capacity, their estimated production, and/or securities they can provide as well as such assets as may be acquired by them from the proceeds of the loan.

(As amended by Circular No. 736 dated 20 July 2011)

§ X341.3 Required allocation for agriculture and agrarian reform credit
Banks shall set aside at least twenty-five

¶¶ X341.3 - X341.5
11.12.31

percent (25%) of their total loanable funds for agriculture and agrarian reform credit in general, of which at least ten percent (10%) of the total loanable funds shall be made available for agrarian reform beneficiaries.

Excess compliance in the ten percent (10%) agrarian reform credit may be used to offset a deficiency, if any, in the fifteen percent (15%) other agricultural credit, in general, but not vice versa.

(As amended by Circular No. 736 dated 20 July 2011)

¶ **X341.4 Direct compliance.** Total loanable funds as computed under Subsec. X341.6 shall be made available by banks for agriculture and agrarian reform credit.

a. Twenty five percent (25%) mandatory agriculture and agrarian reform credit allocation through the following modes of compliance that are undertaken after 20 April 2010:

(1) Actual extension of loans to qualified borrowers (gross of allowance for probable losses), for purposes of financing agriculture and agrarian reform activities under Item no. ¶f of Subsec. X341.1, other than (1) loans rediscounted with UBs/KBs, or (2) loans to the extent funded by proceeds from any of the following:

(a) Bond issues for the exclusive purpose of on-lending to the agriculture and agrarian reform sector that have been expressly declared as eligible by the DA, or by an agency duly authorized by the DA, in the case of the DBP/LBP,

(b) SDAs maintained for the exclusive purpose of on-lending to the agriculture and agrarian reform sector, in the case of BSP-accredited rural Fls, or

(c) Wholesale lending of other banks for the exclusive purpose of on-lending to the agriculture, fisheries and agrarian reform sector, in the case of BSP-accredited rural Fls, or

(2) Purchase of eligible loans listed in Item no. (1) above on a *without*

recourse basis from other banks and Fls.

b. Ten percent (10%) mandatory agrarian reform credit allocation through the following modes of compliance that are undertaken after 20 April 2010:

(1) Actual extension of loans to agrarian reform beneficiaries (gross of allowance for probable losses), for purposes of financing agriculture and agrarian reform activities under Item no. ¶f of Subsec. X341.1, other than (a) loans rediscounted with UBs/KBs, or (b) loans to the extent funded by proceeds from bonds, in the case of DBP/LBP, and/or SDAs and/or wholesale lending of other banks, in the case of BSP-accredited rural Fls listed under Item nos. ¶a(1)(a) to ¶a(1)(c) above, or

(2) Purchase of eligible loans listed in Item no. ¶b(1) above on a *without recourse* basis from other banks and Fls.

(As amended by Circular No. 736 dated 20 July 2011)

¶ **X341.5 Allowable alternative compliance.** The following alternative modes of compliance to the mandatory agriculture and agrarian reform credit shall be allowed:

a. Twenty five percent (25%) mandatory agriculture and agrarian reform credit

(1) Eligible securities (gross of allowance for probable losses but net of unamortized premium or discount) that are issued after 20 April 2010:

(a) Investment in bonds issued by the DBP and the LBP that have been expressly declared as eligible by the DA, or by an agency duly-authorized by the DA, the proceeds of which shall be used exclusively for on-lending to the agriculture and agrarian reform sector;

(b) Investments in other debt securities that have been declared as eligible by the DA, or by an agency duly-authorized by the DA, the proceeds of which shall be used to finance activities identified under Section 23 of R.A. No. 8435, as defined under Item no. ¶f(viii) of Subsec. X341.1; or

**§§ X341.5
11.12.31**

(c) Paid subscription of shares of stock in the following institutions, subject to existing rules and regulations governing equity investments of banks:

- (i) Accredited rural Fls (preferred shares only);
- (ii) Quedan and Rural Credit Guarantee Corporation (Quedancor); or
- (iii) Philippine Crop Insurance Corporation (PCIC).

The eligibility of securities under Item “a(1)” shall be subject to the following conditions:

(i) Such securities shall neither be hypothecated, encumbered, earmarked for any other purposes, sold/lent in repurchase agreement/securities lending transactions, used as additional collateral in repurchase agreements, nor used as collateral by the borrowing bank in securities borrowing transactions;

(ii) Such securities shall be segregated from the bank’s investment portfolio; and

(iii) The securities under Item nos. “a(1)(a)” to “a(1)(c)” above shall not be funded by proceeds from the issuance of bonds under Item no. “a(1)(a)”, in the case of DBP/LBP, and/or SDAs under Item no. “a(2)(a)” and/or wholesale lending of other banks under Item no. “a(2)(b)”, in the case of BSP-accredited rural Fls.

(2) Loans and other credit (gross of allowance for probable losses) that are granted after 20 April 2010:

(a) Investments in SDAs of BSP-accredited rural Fls, the proceeds of which shall be used exclusively for on-lending to the agriculture and agrarian reform sector;

(b) Wholesale lending granted to accredited rural Fls for the exclusive purpose of on-lending to the agriculture and agrarian reform sector;

(c) Rediscounting facility granted by UBs/KBs to other banks covering eligible agricultural and agrarian reform credits, including loans covered by guarantees of the Quedancor or the PCIC;

(d) Actual extension of loans intended for the construction and upgrading of infrastructure, including, but not limited to, farm-to-market roads, as well as the provision of post harvest facilities and other public infrastructure as defined under Subsec. X341.1, for the benefit of the agriculture and agrarian reform sector;

(e) Actual extension of loans to borrowers for purposes of financing activities identified under Section 23 of R.A. No. 8435, as defined under Item no. “f(viii)” of Subsec. X341.1;

(f) Extension of loans to:

(i) NFA-registered warehousemen/millers/wholesalers for purposes of financing activities identified under Section 23 of R.A. No. 8435, as defined under Item no. “f(viii)” of Subsec. X341.1; or

(ii) The NFA: *Provided*, That the NFA shall not use the proceeds of said loans for relending; or

(g) Purchase of eligible loans listed under Item nos. “a(2)(b)” to “a(2)(f)” on a “without recourse” basis from other banks and Fls:

Provided, That the loans under Item nos. “a(2)(d)” to “a(2)(g)” are not rediscounted with UBs/KBs: *Provided, further*, That the activities identified under Item nos. “a(2)(a)” to “a(2)(g)” shall not be funded by proceeds from the issuance of bonds under Item no. “a(1)(a)”, in the case of DBP/LBP, and/or the acceptance of SDAs under Item no. “a(2)(a)” and/or wholesale lending of other banks under Item no. “a(2)(b)”, in the case of BSP-accredited rural Fls.

b. Ten percent (10%) mandatory agrarian reform credit

(1) Eligible securities (gross of allowance for probable losses but net of unamortized premium or discount) that are issued after 20 April 2010:

(a) Investments in bonds issued by the DBP and the LBP that have been expressly declared as eligible by the DA, or by an agency duly-authorized by the DA, upon

§§ X341.5 - X341.6
11.12.31

due consultation and timely coordination with DAR, the proceeds of which shall be used exclusively for on-lending to agrarian reform beneficiaries; or

(b) Investment in other debt securities that have been declared as eligible by the DA, or by an agency duly-authorized by the DA, upon due consultation and timely coordination with DAR, the proceeds of which shall be used to finance activities identified under Sec. 23 of R.A No. 8435, as defined under Item no. “f(viii)” of Subsec. X341.1: *Provided*, That said activities shall generally benefit agrarian reform beneficiaries.

The eligibility of securities under Item no. “b(1)” shall be subject to the same conditions required for securities under Item no. “a(1)”.

(2) Loans and other credits (gross of allowance for probable losses) that are granted after 20 April 2010:

(a) Investments in SDAs of BSP-accredited rural Fls, the proceeds of which shall be used exclusively for on-lending to agrarian reform beneficiaries;

(b) Wholesale lending granted to accredited rural Fls for the exclusive purpose of on-lending to agrarian reform beneficiaries;

(c) Rediscounting facility granted by UBs/KBs to other banks covering eligible agrarian reform credits, including loans covered by guarantees of the Quedancor or the PCIC;

(d) Actual extension of loans to borrowers, for purposes of financing activities identified under Section 23 of R.A No. 8435, as defined under Item no. “f(viii)” of Subsec. X341.1: *Provided*, That said activities shall generally benefit agrarian reform beneficiaries; or

(e) Purchase of eligible loans listed under Item nos. “b(2)(b)” to “b(2)(d)” on a “without recourse” basis from other banks and Fls:

Provided, That the loans under Item nos. “b(2)(d)” to “b(2)(e)”, are not rediscounted with UBs/KBs: *Provided, further*, That the activities identified under Item nos. “b(2)(a)” to “b(2)(e)” shall not be funded by proceeds from the issuance of bonds under Item no. “b(1)(a)”, in the case of DBP/LBP, and/or the acceptance of SDAs under Item no. “b(2)(a)” and/or wholesale lending of other banks under Item no. “b(2)(b)”, in the case of BSP-accredited rural Fls.

For purposes of implementing the provisions of this Section, the DA, or its duly-authorized agency, shall furnish the BSP with information on the debt securities eligible as alternative compliance with the mandatory agri-agra credit.

(As amended by Circular Nos. 736 dated 20 July 2011, 678 dated 06 January 2010 and M-2008-015 dated 19 March 2008)

§ X341.6 Computation of loanable funds. Loanable funds shall be computed, as follows:

a. The net increase from 20 April 2010 to date of the report of the individual accounts booked under the Regular Banking Unit which represent the following:

(1) Total peso deposit (demand, savings, now, time and negotiable CTD accounts) excluding:

(a) Deposits of banks,

(b) Deposits of the National Government, including its political subdivisions and instrumentalities, such as, but not limited to, the BIR, BOC, and LGUs, and

(c) Deposits of government-owned and-controlled corporations,

(2) Bills payable excluding:

(a) Borrowings from the BSP in the form of the following:

(i) rediscounting,

(ii) emergency advances,

(iii) availment of overdraft facilities, or

(iv) other obligations,

§§ X341.6 - X341.7
 11.12.31

- (b) Interbank loans payable,
- (c) Other deposit substitutes, in the form of the following:
 - (i) Repurchase agreements with the BSP,
 - (ii) Repurchase agreements with banks,
 - (iii) Certificates of assignment/participation with recourse with banks,
 - (iv) Securities lending and borrowing agreements with banks, and
 - (v) Other deposit substitutes with banks,
- (d) Proceeds from special on-lending programs to the agriculture and agrarian reform sector, including SDAs issued by BSP-accredited rural FIs, the proceeds of which shall be exclusively used for on-lending to the agriculture and agrarian reform sector,
- (e) Proceeds from special on-lending programs, other than for agriculture and agrarian reform, including Time Certificates of Deposit-Special Financing, and
- (f) Other deposit substitutes in the form of emergency advances from the PDIC, and
- (3) Bonds payable, net of unamortized premium or discount, other than bond issuances of the DBP and LBP, the proceeds of which shall be used exclusively for on-lending to the agriculture and agrarian reform sector,
- (4) Unsecured subordinated debt, net of unamortized premium or discount,
- (5) Redeemable preferred shares, net of unamortized premium or discount,
- (6) Total equity accounts, as provided under Subsec. X341.7,
 - b. Less/(Add) the net increase/(decrease) from 20 April 2010 to date of the report of the following accounts booked under the Regular Banking Unit (RBU):

- (1) Debt and equity securities acquired in settlement of loans, net,
- (2) Sales contract receivable, net,
- (3) Accrued interest income from financial assets, net,
- (4) Equity investment in subsidiaries, associates and joint ventures, net,
- (5) Bank premises, furniture, fixture and equipment, net,
- (6) Real and other properties acquired (ROPA), net,
- (7) Non-current assets held for sale, net,
- (8) Goodwill, net,
- (9) Other intangible assets, net,
- (10) Deferred tax assets,
- (11) Other assets, net,
- (12) Required reserves against a week ago level of the following accounts:
 - (a) deposits liabilities,
 - (b) deposits substitutes,
 - (c) trust and other fiduciary accounts-others (TOFA), and
 - (d) others, and
- (13)Security deposit for the faithful performance of trust duties,
- c. Less/(Add) provisions for liquidity equivalent to fifteen percent (15%) of the net increase/(decrease) from 20 April 2010 in total peso deposit liabilities as defined under Item no. “a(1)” of this Subsection.
 (As amended by Circular No. 736 dated 20 July 2011)

§ X341.7 *Computation of total equity*
 The computation of total equity for purposes of computing total loanable funds under Subsec. X341.6 shall be, as follows:

| | | |
|---------------------------------|-----|-------|
| Total Equity under RBU | | xxx |
| Less: | | |
| (1)Retained Earnings - Reserves | | |
| (a) Trust Business | xxx | |
| (b) Self-Insurance | xxx | |
| (c) Contingencies, and | xxx | |
| (d) Others | xxx | (xxx) |
| (2) Other Comprehensive Income | | |

§§ X341.7 - X341.8
 11.12.31

| | | |
|--|-----|-------|
| (a) Net Unrealized Gains/Losses on Available for Sale Financial Assets | xxx | |
| (b) Gains/Losses on Fair Value Adjustment of Hedging Instruments | xxx | |
| (c) Cumulative Foreign Currency Translation | xxx | |
| (d) Others | xxx | (xxx) |
| Total Equity, net of exclusions | | xxx |

In the case of foreign bank branches, the total equity for purposes of computing total loanable funds under Subsec. X341.6 shall be, as follows:

| | | |
|--|-----|-------|
| Total Equity, exclusive of Due From/To Head Office/Branches Agencies Abroad, under RBU | | xxx |
| Less: | | |
| (1)Retained Earnings - Reserves | | |
| (a) Trust Business | xxx | |
| (b) Self-Insurance | xxx | |
| (c) Contingencies, and | xxx | |
| (d) Others. | xxx | (xxx) |
| (2) Other Comprehensive Income | | |
| (a) Net Unrealized Gains/ Losses on Available for Sale Financial Assets | xxx | |
| (b) Gains/Losses on Fair Value Adjustments Of Hedging Instruments | xxx | |
| (c) Cumulative Foreign Currency Translation | xxx | |
| (d) Others | xxx | (xxx) |
| (3) Due from Head Office/ Branches/ Agencies Abroad | | (xxx) |
| Add: Due to Head Office/ Branches/ Agencies Abroad | | xxx |
| Total Equity, net of exclusions | | xxx |

(Circular No. 736 dated 20 July 2011)

§ X341.8 *Accreditation of banks as rural financial institutions*

a. *Application for accreditation.* A rural FI applying for accreditation shall submit to the appropriate department of the SES a letter stating its intent to apply for such accreditation together with the following information/documents:

(1) A notarized undertaking, signed by the president and compliance officer or

equivalent, that the bank shall comply with the regulations, directives and instructions of the BSP; and

(2) A notarized certification, signed by the president and compliance officer or equivalent, that the bank’s loan portfolio is substantially agri-agra related.

b. *Qualification requirements.* A certificate of accreditation will be issued by the appropriate supervising department of the SES to the rural FI should the rural FI satisfy the following criteria based on the last four (4) quarters prior to application:

(1) Total loan portfolio is greater than its total investments; and

(2) Average credit exposure to agri-agra is greater than any exposure to the other economic sectors as reported in Schedule 11.d of the FRP.

c. *Certificate of accreditation.* The certificate of accreditation issued to the qualified rural FI will include an accreditation reference number specific to the rural FI, the date of accreditation and a statement that the rural FI has satisfied the above criteria and has sworn to comply with the regulations, directives and instructions of the BSP.

(1) The rural FI, once accredited and issued with the certificate of accreditation, is required to comply with the following:

(a) Provide the lending bank with a copy of the certificate of accreditation with the relevant accompanying details (i.e., accreditation reference number and date of accreditation); and

(b) Submit on an annual basis to the appropriate department of the SES a notarized certification, signed by its president and compliance officer or equivalent, that its loan portfolio remains substantially agri-agra related. Such notarized certification for annual submission by the rural FI shall be reckoned from the original date of accreditation and should be received by the appropriate department of the SES

within ten (10) banking days before the lapse of one (1) year. Non-compliance with the required submission of the annual certification will serve as basis for the BSP to revoke accreditation of the rural FI.

(2) The lending bank, as part of its disclosure to the BSP, is required to include the following in its Agri-Agra report in compliance with the reportorial requirements of the BSP:

(a) Name of rural FI/s and corresponding aggregate amount of exposure to each rural FI; and

(b) For each rural FI in Item “C(2)(a)”, the accreditation reference number date of accreditation.

(3) The exposure of the lending bank to the rural FI shall be eligible for purposes of determining compliance with the mandatory agri-agra credit allocation for as long as the rural FI remains accredited with the BSP.

d. *Purpose of accreditation.* The accreditation is solely for the purpose of ascertaining that the portfolio of the rural FI is substantially agri-agra related pursuant to R.A. No. 10000 and should not serve as an endorsement by the BSP on the soundness of the rural FI. The accreditation is not intended to take the place of the conduct of due diligence and prudent credit underwriting standards required from the lending bank in determining the credit worthiness of the rural FI.

(As amended by Circular No. 736 dated 20 July 2011)

§ X341.9 Syndicated type of agrarian reform credit/agricultural credit. Banks may grant a syndicated type of loan for agrarian reform credit/agricultural credit in general, either between or among themselves. The mechanics, including the recording of such syndicated type of loan transactions, shall follow existing practices and

regulations applicable both to the lead bank and other participating bank(s). Accordingly, the booking of loans shall only be for the amount of actual participation of each syndicate bank concerned. Memorandum entries, references or notations shall be made for the other participating bank(s).

(As amended by Circular No. 736 dated 20 July 2011)

§ X341.10 Interest and other charges Interest, service fees and other charges shall be governed by existing rules and regulations.

(As amended by Circular No. 736 dated 20 July 2011)

§ X341.11 Submission of reports. A quarterly report on the compliance with the mandated credit allocation for agri-agra credit under R.A. No. 10000, which shall be considered a Category A-3 report, shall be submitted to the Supervisory Data Center (SDC) of the SES within fifteen (15) banking days from the end of the reference quarter.

Banks shall submit the revised reportorial starting with the reporting period ending 31 December 2011.

(M-2011-064 dated 15 December 2011, Circular No. 736 dated 20 July 2011)

§ X341.12 Consolidated compliance The compliance with agri-agra mandatory allocation of funds under R.A. No. 10000 shall be allowed on a groupwide basis (i.e., consolidation of parent/foreign bank branch and subsidiary bank/s) so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group: *Provided*, That the subsidiary bank/s is/are at least directly or indirectly majority owned by the parent bank and/or head office, in the case of foreign bank branches: *Provided, further*, That the parent bank/foreign bank branch shall be held responsible for the compliance of the group.

§§ X341.12 - X341.15
11.12.31

The consolidated report shall be submitted by the parent bank/foreign bank branch in the prescribed form and shall be supported by the individual reports of the parent bank/foreign bank branch within the group and subsidiary bank/s duly signed by each bank's authorized signatory.
(As amended by Circular No. 736 dated 20 July 2011)

§§ X341.13 – X341.14 (Reserved)

§ X341.15 Sanctions. The following sanctions shall be applicable for any violation of this Section:

a. Penalties/sanctions applicable to banks:

(1) *Monetary fines*

(a) *For non-compliance/under-compliance*

Annual penalty of one-half of one percent (0.5%) of amount of non-compliance/undercompliance shall be computed on a quarterly basis following this formula:

Penalty = 0.00125 x amount of non-compliance/under-compliance as of the end of the reference quarter

Amount of non-compliance/under-compliance =

(i) ten percent (10%) of total loanable funds less reported amount of compliance with the mandatory agrarian reform credit, plus

(ii) fifteen percent (15%) of total loanable funds less reported amount of compliance with the mandatory other agricultural credit in general:

Provided, That excess compliance in the ten percent (10%) agrarian reform credit may be used to offset a deficiency, if any, in the fifteen percent (15%) other agricultural credit, in general, but not vice versa.

(b) *For delayed/amended reports*

A bank shall be subject to the fines for delayed/amended reports on compliance with the mandated credit allocation for agri-

agra credit under R.A. No. 10000 in accordance with the provisions of Subsec. X192.2, to be reckoned on the day following the due date of submission until the proper report is filed with the BSP: *Provided*, That a bank which fails to submit its agri-agra quarter-end report up to the submission deadline of the succeeding quarter-end report, shall be subject to the monetary penalties applicable to less serious offenses for willful delay in the submission of the agri-agra report under *Appendix 67*, which shall be reckoned on a daily basis from the day following the due date of submission of the report until the report is filed with the BSP.

(c) *For false/misleading statements*

A bank which has been found to have made a false or misleading statement in its required report on compliance with the mandated credit allocation for agri-agra credit shall be subject to the monetary penalties applicable to less serious offenses for willful making of a false or misleading statement under *Appendix 67*, which shall be reckoned on a daily basis from the day following the due date of submission of the affected report until an amended report has been submitted to the BSP.

(2) *Non-monetary fines*

In addition to the above daily monetary fines, any or all of the administrative sanctions, as provided under Section 37 of R.A. No. 7653, may be imposed upon any bank for willful delay or refusal to submit reports or willful making of a false or misleading statement to the BSP, without prejudice to criminal sanctions against culpable persons provided under Sections 34, 35 and 36 of R.A. No. 7653.

b. *Penalties/sanctions applicable to directors/officers concerned of the bank*

Directors/officers of a bank which have been found to have willfully falsely certified/submitted misleading statements

and/or willfully violated any of the provisions of this Section shall be subject to the monetary penalties provided under *Appendix 67* applicable to less serious offenses and/or the other administrative sanctions under Section 37 of R.A. No. 7653.

The imposition of the above sanctions is without prejudice to the filing of appropriate criminal charges against culpable persons as provided under Section 35 of R.A. No. 7653 for the willful making of a false/misleading statement.

c. Disposition of penalties collected
Ninety percent (90%) of the total penalties collected on non-compliance/under-compliance with the mandatory agri-agra credit under Item no. *a(1)(a)* above shall be remitted by the Bangko Sentral to the Agricultural Guarantee Fund Pool (AGFP) and the PCIC, in accordance with the following percentage allocation:

| Recipient | Percent Allocation |
|-----------|--------------------|
| AGFP | 50% |
| PCIC | 50% |

The percentage allocation may be amended by the Secretary of DA in consultation with the Agricultural Credit Policy Council (ACPC), PCIC and the Secretary of DAR, according to the needs of the agri-agra sector.

The remaining, ten percent (10%) of the total penalties collected on non-compliance/under-compliance with the mandatory agri-agra credit under Item no. *a(1)a* shall be retained by the Bangko Sentral to cover its administrative expenses.

(As amended by Circular No. 736 dated 20 July 2011 and 585 dated 15 October 2007)

Sec. X342 Mandatory Allocation of Credit Resources to Micro, Small and Medium Enterprises. The following rules shall govern the mandatory allocation of credit resources to Micro, Small and Medium

Enterprises (MSMEs).

(As amended by Circular No. 625 dated 14 October 2008)

X342.1 Definition of terms. For purposes of this Section, the following definitions shall apply:

a. *Lending institutions* shall refer to all banks, namely: UBs, KBs, TBs and RBs/Coop Banks, including government-owned banks.

b. *Total loan portfolio* shall include all loans and receivables, other than those booked in the FCDU/EFCDU as defined in the Manual of Accounts section of the FRP under Subsec. X191.2 (gross of allowance for credit losses) excluding the following:

(1) Interbank loans receivable, other than (a) wholesale lending of a bank to conduit banks/QBs for on-lending to MSMEs, and (b) rediscounting facility granted to another bank for loans to MSMEs;

(2) Wholesale lending of a bank to conduit non-bank FIs without quasi-banking authority, other than those for on-lending to MSMEs;

(3) Loans granted under special financing programs, other than those for MSMEs;

(4) Loans granted to MSMEs, other than to BMBEs, to the extent funded by wholesale lending of, or rediscounted with, another bank;

(5) Agrarian reform credits/other agricultural loans granted under R.A. No. 10000, other than those eligible for compliance with the mandatory allocation of credit for MSMEs; and

(6) Loans and receivables arising from repo agreements, certificates of assignment/participation with recourse and securities lending and borrowing transactions.

c. *MSMEs* shall refer to any business activity within the major sectors of the economy, namely: industry, trade, services, including the practice of one s profession, the operation of tourism-related establishments, and agri-business, which for

X342.1
14.12.31

this purpose refers to any business activity involving the manufacturing, processing, and/or production of agricultural produce, whether single proprietorship, cooperative, partnership or corporation:
 (1) whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity s

office, plant and equipment are situated, must have a value falling under the following categories:

- Micro : not more than P 3,000,000
- Small : more than P 3,000,000 to P 15,000,000
- Medium : more than P 15,000,000 to P 100,000,000

and

(Next Page is Part III- Page 53)

(2) duly registered with the appropriate agencies as presently provided by law except in the case of microenterprises as defined above.

(As amended by Circular Nos. 858 dated 21 November 2014 and 625 dated 14 October 2008)

¶ **X342.2 Period covered; prescribed portions of loan portfolio to be allocated**

Banks shall for a period of ten (10) years from 17 June 2008 to 16 June 2018, allocate at least eight percent (8%) for micro and small enterprises (MSEs) and at least two percent (2%) for medium enterprises (MEs) of their total loan portfolio based on their balance sheet as of the end of previous quarter, and make it available for MSME credit.

Banks may be allowed to report compliance on a groupwide (i.e., consolidation of parent and subsidiary bank/s) basis so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group: *Provided*, That the subsidiary bank/s is/are at least majority owned by the parent bank: *Provided, further*, That the parent bank shall be held responsible for the compliance of the group.

The consolidated report shall be submitted by the parent bank in the prescribed form and shall be supported by the individual reports of the bank and its subsidiaries duly signed by each bank's authorized signatory.

For purposes of determining compliance with the mandated allocation of credit resources to MSMEs, only eligible credit exposures as enumerated in Subsec. X342.3, other than those booked in the FCDU/EFCDU shall be considered.

(As amended by Circular No. 625 dated 14 October 2008)

¶ **X342.3 Eligible credit exposures**

Funds set aside in accordance with the foregoing requirement shall be made available for any of the following:

a. *For MSEs*

(1) Actual extension of loans to eligible MSEs, other than to BMBEs which are covered in Item ¶c(3)¶ hereof: *Provided, however*, That loans granted to MSEs other than BMBEs, to the extent funded by wholesale lending of, or rediscounted with, another bank shall not be eligible as compliance with the mandatory credit allocation; or

(2) Loans granted to export, import, and domestic micro and small scale traders, other than to BMBEs which are covered in Item ¶c(3)¶ hereof: *Provided, however*, That loans granted to MSEs other than BMBEs, to the extent funded by wholesale lending of, or rediscounted with another bank shall not be eligible as compliance with the mandatory credit allocation; or

(3) Purchase of eligible MSE loans listed in Items ¶(1)¶ and ¶(2)¶ above on a without recourse basis from other banks and FIs; or

(4) Purchase/discount on a with or without recourse basis of MSE receivables, other than BMBE receivables which are covered in Item c(3) hereof; or

(5) Wholesale lending or rediscounting facility granted to PFIs for on-lending to MSEs, other than to BMBEs which are covered in Item c(3) hereof; or

(6) Wholesale lending or rediscounting facility granted to PFIs for on-lending to export, import, and domestic micro and small scale traders, other than to BMBEs which are covered in Item c(3) hereof; or

(7) Commercial letters of credit outstanding, net of margin deposits, issued for the account of MSEs.

b. *For MEs*

(1) Actual extension of loans to eligible MEs: *Provided, however*, That loans granted to MEs to the extent funded by wholesale lending of, or rediscounted with, another bank shall not be eligible as compliance with the mandatory credit allocation; or

X342.3 - X342.7
08.12.31

- (2) Loans granted to export, import, and domestic medium scale traders: *Provided, however,* That loans granted to MEs to the extent funded by wholesale lending of, or rediscounted with, another bank shall not be eligible as compliance with the mandatory credit allocation; or
- (3) Purchase of eligible ME loans listed in Items (1) and (2) above on a without recourse basis from other banks and FIs; or
- (4) Purchase/discount on a with or without recourse basis of ME receivables; or
- (5) Wholesale lending or rediscounting facility granted to PFIs for on-lending to MEs; or
- (6) Wholesale lending or rediscounting facility granted to PFIs for on-lending to export, import, and domestic medium scale traders; or
- (7) Commercial letters of credit outstanding, net of margin deposits, issued for the account of MEs.

c. Alternative compliance for either or both MSEs or/and MEs

- (1) Paid subscription/purchase of liability instruments as may be offered by the SB Corporation; or
- (2) Paid subscription of preferred shares of stock of the SB Corporation; or
- (3) Loans from whatever sources granted to BMBEs as provided under Subsec. X365.5.

(As amended by Circular Nos. 625 dated 14 October 2008 and 570 dated 24 May 2007)

X342.4 Ineligible credit instruments

The purchase of government notes, securities and negotiable instruments other than the instruments offered by SB Corporation, and the granting of loans to MSMEs, other than to BMBEs, to the extent funded by wholesale lending of, or rediscounted with, another bank shall not be deemed compliance with the foregoing requirement.

(As amended by Circular No. 625 dated 14 October 2008)

X342.5 Rights/remedies available to lending institutions not qualified to acquire or hold lands of public domain

Lending institutions which are not qualified to acquire or hold lands of the public domain in the Philippines shall be permitted to bid and take part in sales of mortgaged real property in case of judicial or extra-judicial foreclosure, as well as avail of receivership, enforcement and other proceedings, solely upon default of a borrower, and for a period not exceeding five (5) years from actual possession: *Provided,* That in no event shall title to the property be transferred to such lending institution. If the lending institution is the winning bidder, it may, during said five (5) year period, transfer its rights to a qualified Philippine national, without prejudice to a borrower s rights under applicable laws.

(As amended by Circular No. 625 dated 14 October 2008)

X342.6 Submission of reports. Banks shall submit reports on compliance with the mandatory credit allocation on a quarterly basis within fifteen (15) banking days from the end of reference quarter to SDC of the Bangko Sentral. Said report shall be considered Category A-3 report. It shall become effective starting with the reporting period ending 31 December 2008.

Banks shall maintain appropriate records/details of the reported loans to MSMEs and shall make these available to Bangko Sentral.

(As amended by Circular No. 625 dated 14 October 2008)

X342.7 Sanctions. The following administrative sanctions shall be imposed on banks:

- a. For non-compliance/under compliance with the prescribed portions of loan portfolio to be allocated to MSEs and MEs:
 - (1) For zero compliance for both MSEs and MEs – P500,000;
 - (2) For under compliance:
 - (a) For MSEs – percentage of undercompliance multiplied by P400,000

(b) For MEs – percentage of under-compliance multiplied by P100,000 to be computed as of end of each quarter.

(3) For willful making of a false or misleading statement to the BSP - P500,000 per quarter-end report without prejudice to the sanctions under Section 35 of R.A. No. 7653.

The imposition of the fines in Items “(1)” to “(2)” shall be without prejudice to the other administrative sanctions under Section 37 of R.A. No. 7653.

(b) For non-submission/delayed submission of reports on compliance with both the prescribed portions of loan portfolio to be allocated to MSEs and MEs, respectively:

- (1) UBs/KBs - P1,200
- (2) TBs - 600
- (3) RBs/Coop Banks - 180

per calendar day of delay.

(As amended by Circular No. 625 dated 14 October 2008 and 585 dated 15 October 2007)

§ X342.8 Disposition of penalties collected. Ninety percent (90%) of penalties collected under Subsec. X342.7 above shall be remitted by the BSP to the MSME Development Council Fund, while the remaining ten percent (10%) shall be retained by the BSP to cover its administrative expenses.

(Circular No. 625 dated 14 October 2008)

§§ X342.9 - X342.14 (Reserved)

§ X342.15 Accreditation guidelines for Rural and Thrift Banks under the SME Unified Lending Opportunities for National Growth (SULONG). Without prejudice to the refinements as may be suggested by DTI and DOF, the Twelve (12)-Point Accreditation Guidelines for RBs and TBs, and the lending features of short and long term loans for direct or retail lending by participating government FIs under the SULONG, are shown in Appendix 55.

G. SPECIAL TYPES OF LOANS

Sec. X343 Interbank Loans. Interbank loan transactions shall include, among other things, (a) interbank call loan (IBCL) transactions; (b) interbank term loan transactions; (c) borrowings evidenced by deposit substitute instruments; and (d) purchases of receivables with recourse: *Provided, however,* That only IBCL transactions which are settled through the banks’ respective DDAs with the BSP via PhilPaSS shall be subject to the reserve requirement prescribed for IBCL in Subsec. X253.1: *Provided, further,* That funds borrowed by banks from trust departments of banks or IHS shall be excluded from the herein definition of interbank loan transactions.

(As amended by Circular Nos. 703 dated 23 December 2010 and 689 dated 16 June 2010)

§ X343.1 Systems and procedures for interbank call loan transactions. IBCL transactions of banks shall be governed by the Agreement for the PhilPaSS executed on 12 December 2002 between the BSP and the Bankers Association of the Philippines (BAP)/Chamber of Thrift Banks (CTB)/Rural Bankers Association of the Philippines (RBAP) and any subsequent amendments thereto.

(As superseded by the agreement between the BSP and BAP/CTB/RBAP dated 12 December 2002)

§ X343.2 Accounting procedures

a. Both lending and borrowing banks shall immediately pass the corresponding entries in their books.

b. IBCL transactions shall be recorded by the lending bank as Interbank Call Loans Receivable and by the borrowing bank as *Bills Payable Interbank - Call Loans*.

c. Banks shall reconcile their demand deposit accounts with the BSP

§§ X343.2 - X344.2
10.12.31

against monthly statements of account to be furnished by the BSP Financial Accounting Department, Comptrollership Sub-Sector.

(As amended by Circular No. 689 dated 16 June 2010)

§ X343.3 Settlement procedures for interbank loan transactions. Interbank loan transactions (call and term) among banks shall be settled gross with finality subject to the availability of balances in the deposit reserves maintained by banks in the BSP in accordance with the provisions of the Agreement for the PhilPaSS executed on 12 December 2002 between the BSP and the BAP/CTB/RBAP and any subsequent amendments thereto.

(As superseded by the agreement between the BSP and the BAP/CTB/RBAP dated 12 December 2002)

Sec. X344 Loans to Thrift/Rural/Cooperative Banks

§ X344.1 Loans under Section 12 of R.A. No. 7353, Section 10 of R.A. No. 7906 and Article 102, R.A. No. 6038, as amended by RA. No. 9520. Banks may rediscount papers of TBs/RBs/Coop Banks. Banks shall specify the nature of papers acceptable for rediscounting as well as the rediscount rate.
(As amended by Circular No. 682 dated 15 February 2010)

§ X344.2 Loans under Section 14 of R.A. No. 7353. The following are the guidelines in the grant by the LBP, DBP or any government-owned or controlled bank or FI of a loan to an RB under Section 14 of R.A. No. 7353.

a. *Issuance of certification.* Subject to the qualifications of the RBs prescribed in Item “b” hereof, the Monetary Board shall issue the certification required under Section 14 of R.A. No. 7353, which shall be final, after the Monetary Board has

determined that:

(1) The resources of the RB are inadequate to meet the legitimate credit needs of the locality wherein the RB is established;

(2) There is dearth of private capital in said locality; and

(3) It is not possible for the stockholders of the RB to increase the paid-up capital thereof.

The appropriate department or office of the BSP may prescribe and require the submission by the RB of papers and documents necessary for such determination.

b. *Qualifications for loan.* In order to qualify for the financial assistance under said provision of law, the RB shall first meet the following requirements:

(1) Its capital-to-risk assets ratio during the last six (6) months immediately preceding the loan application should be at least ten percent (10%);

(2) Its past due loans are not more than twenty-five percent (25%);

(3) It has no deficiency in allowance for probable losses on loans and other risk assets;

(4) It must not have incurred deficiency in its reserves against deposit liabilities for the last six (6) months preceding the filing of the application;

(5) It must have been operating profitably for the last three (3) years;

(6) Its arrearages with the BSP or other government FIs, if any, are being liquidated through an approved plan of payment, the conditions of which are being complied with; and

(7) It is operating substantially in accordance with applicable laws and BSP rules and regulations.

c. *Extension of loan.* The LBP, the DBP or any government-owned or controlled bank or FI shall, within sixty (60) days from

issuance by the Monetary Board of the certification, and subject to their loan and investment policies, extend to an RB a loan or loans from time to time, repayable in ten (10) years, with concessional rates of interest, against security/ies which the stockholder or stockholders of the RB may offer.

Secs. X345 - X346 (Reserved)

Sec. X347 Standby Letters of Credit. The following shall govern the issuance of standby letters of credit.

▫ **X347.1 Domestic standby letters of credit.** Domestic standby letters of credit may be issued or used in transactions other than those involving movement of goods under the following guidelines:

- a. The bank's obligation to pay shall be either unconditional (as against presentation of a clean draft) or conditional only upon the presentation of documents and not upon actual existence or non-existence of facts, i.e., the bank must not be called upon to determine disputed questions of facts or law;
- b. The bank's obligation shall be limited to a fixed maximum amount;
- c. The bank's obligation shall have an expressed expiration date;
- d. The standby letters of credit accommodation shall not violate any law or existing Bangko Sentral directives, rules and regulations, such as the SBL and DOSRI ceilings;
- e. The party who opened the standby letters of credit or the ultimate borrower shall not have any past due obligation with the issuing bank for the ninety (90)-day period preceding the date of issuance of the letter of credit; and
- f. The party who opened the letter of credit (borrower or principal obligor) must have an unqualified obligation to

reimburse the bank on the same condition as the bank has paid.

(As amended by Circular No. 536 dated 18 July 2006)

▫ **X347.2 Ceiling**
(Deleted by Circular No. 773 dated 13 November 2012)

▫ **X347.3 Reports**
(Deleted by Circular No. 773 dated 13 November 2012)

Sec. X348 Committed Credit Line for Commercial Paper Issues. The following guidelines shall govern committed credit line agreements as a prerequisite for corporations proposing to issue commercial paper, pursuant to the New Rules on the Registration of Short-Term Commercial Papers (*Appendix 14*).

▫ **X348.1 Who may grant line facility**
A bank with a net worth of at least P1.0 billion as defined in Sec. X111, may provide a committed credit line facility to a commercial paper issuer.

The bank shall exercise proper caution in ascertaining that the party, in whose favor the credit line shall be granted, is capable of fulfilling his commitments to the bank under the credit line agreement.

A bank or a group of banks may enter into a committed credit line agreement with any corporation proposing to issue commercial paper. Where a group of banks is involved, a lead bank shall be designated from among themselves.

▫ **X348.2 Ceilings.** The aggregate commitments under committed credit line agreements entered into by each bank pursuant to this Section shall not exceed an amount equivalent to thirty percent (30%) of its net worth, reckoned as of the date of execution of the latest agreement: *Provided*, That in no case shall a bank extend commitments to a single issuer for more than twenty-five percent (25%) of its

▫▫ **X344.2 - X348.2**
12.12.31

¶¶ X348.2 - X348.5
13.12.31

net worth exclusive of other exposures to the said issuer.

¶ **X348.3 Terms; conditions; restrictions.** The committed credit line agreement shall incorporate the following terms, conditions and restrictions:

a. That the credit line agreement is executed pursuant to the provisions of this Section;

b. That the bank or banks are committed to make available to the issuer funds equivalent to at least twenty percent (20%) of the aggregate of the commercial paper issued and outstanding at any time;

c. That the commitment of the bank or banks shall be firm and irrevocable and effective for as long as the issues under a particular permit are outstanding, subject to renewal by the bank;

d. That availments pursuant to the credit line agreement shall be for the exclusive purpose of meeting obligations arising from commercial paper issues in accordance with the provisions of the Rules on Registration of Commercial Papers, which availments shall be honored not earlier than three (3) banking days prior to the date of payment of obligation arising from outstanding commercial paper;

e. That the request to avail of the credit line agreement shall be addressed to the bank or to the lead bank acting for a group of banks, which request shall be duly signed by a member of the board of directors and a senior ranking officer of the commercial paper issuer duly authorized for the purpose through an appropriate board resolution, which

resolution shall also provide for the designation of the alternate signatories who shall likewise be a member of the board of directors and a senior financial officer of the corporation;

f. That the extent of the commitment of each participant in a group of banks under a credit line agreement shall be stipulated in the agreement; and

g. That the commitment of the bank under the credit line agreement shall be a net risk to the bank and the practice of requiring the commercial paper issuer to maintain a compensating deposit with the bank shall be prohibited.

¶ **X348.4 Reports to the Bangko Sentral.** The bank or the lead bank, as the case may be, shall report to the Bangko Sentral:

a. All commitments entered into with commercial paper issuers within ten (10) banking days after the issuer shall have been authorized by the SEC; and

b. Any availment under the committed credit line agreement within three (3) banking days from date of drawdown.

¶ **X348.5 Loan limit.** The liabilities of a commercial paper issuer to a bank arising from the availment by the issuer of the credit line agreement shall not be counted in determining compliance by the bank with the SBL for a period of ninety (90) calendar days from each availment of the credit line¹: *Provided*, That in no case shall they exceed five percent (5%) of the net worth of the bank beyond the normal applicable SBL. *(As amended by Circular No. 784 dated 25 January 2013)*

¹ This shall cover all new underwritten debt and equity securities issued from 15 February 2013.

Sec. X349 Agriculture and Fisheries Projects with Long Gestation Periods. Pursuant to Section 24 of R.A. No. 8435 (Agriculture and Fisheries Modernization Act of 1997), agriculture and fisheries projects with long gestation periods shall be entitled to longer grace periods in repaying the loan based on the economic life of the project. For purposes of this Section, the following definitions and guidelines shall govern the grant of loans for long-gestating agriculture and fisheries projects.

□ **X349.1 Definition of terms**

a. *Gestation period* shall refer to the span of time from the commencement of the project to the time that it is economically productive and producing revenues; and

b. *Grace period* under this Section shall refer to the period that the initial amortization payment on the loan is deferred. All payments, however, must be made on or before the maturity of the loan.

□ **X349.2 Grace period.** Banks are allowed to extend loans/guarantees with a grace period of up to seven (7) years to viable long-gestating agriculture and fisheries projects.

Suggested gestation and grace periods for some of the long-gestating projects are in *Appendix 36*.

□ **X349.3 Responsibility of lending banks.** Lending banks shall institute the necessary safeguards and precautions to ascertain the viability of the projects financed and the capability of the borrower in fulfilling his commitments.

□ **X349.4 Past due loans.** The rule on past due accounts under Sec.X306 shall apply except that the reckoning date shall be the grace period and not the original maturity of the loan.

□ **X349.5 Non-performing loans.** The rule on non-performing loans under Sec. X309 shall apply except that the reckoning date shall be the grace period and not the original maturity of the loan.

Secs. X350 - X360 (Reserved)

Sec. X361 Microfinance Loans. Pursuant to Sections 40, 43 and 44 of R.A. No. 8791 the following rules, regulations and standards shall govern microfinancing operations of banks.

In the implementation of this Section, banks should be guided by the Notes on Microfinance in *Appendix 45*.

(As amended by Circular Nos. 841 dated 04 July 2014, 782 dated 21 January 2013, 744 dated 28 December 2011, 694 dated 14 October 2010 and 607 dated 30 April 2008)

□ **X361.1 Definition**

a. *Microfinance loans* refer to the amortized cost of loans granted under the bank's microfinance loan products that meet the general features provided under *Appendix 45*, Item *e*.

b. *Past Due/Portfolio-at-Risk (PAR)* is the outstanding principal amount of all loans that have at least one (1) installment past due for one (1) or more days. The amount includes the unpaid principal balance but excludes accrued interest. Under PAR, loans are considered past due if a payment has fallen due and remained unpaid. Loan payments are applied first to any interest due, then to any installment of principal that is due but unpaid, beginning with the earliest installment. The number of days of lateness is based on the due date of the earliest loan installment that has not been fully paid.

c. *Restructured loans* are loans that have been renegotiated or modified to either lengthen or postpone the original scheduled installment payments or substantially alter the original terms of the loans. Any increase in the face amount of the debt resulting from accrued interest and accumulated charges

¶¶ X361.1 - X361.4
14.12.31

which have been capitalized or made part of the principal of restructured loans shall be recorded in the unearned income/deferred credit account *Capitalized Interest and Other Charges - Restructured Loans*. Upon receipt of payment, the realized portion shall be amortized/credited to income.

d. *Refinanced loans* are loans that have been disbursed to enable repayment of prior loans that would not have been paid in accordance with the original installment schedule. Loans granted within a week or less from the date an original loan with more than thirty percent (30%) of the original principal still outstanding had been paid in advance shall be considered as refinanced loans. Refinanced loans shall be classified and reported as restructured loans.

(Circular No. 272 dated 30 January 2001, as amended by Circular Nos. 836 dated 13 June 2014, 694 dated 14 October 2010, 607 dated 30 April 2008, and 409 dated 14 October 2003)

¶ X361.2 Loan limit; amortization; interest

a. The maximum principal amount of microfinance loans shall not exceed P150,000. This is equivalent to the maximum capitalization of a microenterprise under R.A. No. 8425.

b. The schedule of loan amortization shall take into consideration the projected cash flow of the borrowers which is adopted into the terms and conditions formulated. Hence, microfinance loans may be amortized on a daily, weekly, bi-monthly or monthly basis, depending on the cash flow conditions of the borrowers.

c. Interest on such microfinancing loans shall be reasonable and just as may be determined by management to be consistent with its credit policies. The interest rate shall not be lower than the prevailing market rates to enable the lending institution to recover the financial and operational costs incidental to this type of microfinance lending.

d. Interest accrued and/or booked shall

be reversed and no accrual of interest shall be allowed after the microfinance loan has become past due as defined in Subsec. X306.1(h).

¶ X361.3 Credit information exemption

In cases of microfinancing loans which meet the criteria in Subsec X361.2, a bank may not require from its credit applicants, a statement of assets and liabilities, and of their income and expenditures and such information as may be prescribed by law or by rules and regulations of the Monetary Board to enable the bank to properly evaluate the credit application which includes the corresponding financial statements submitted for taxation purposes to the BIR, as prescribed under Section 40 of R.A. No. 8791.

¶ X361.4 Exemptions from rules on unsecured loans.

In view of the unique characteristics of microfinance loans, i.e., small unsecured and based on cash flow of borrowers, these loans may be exempted from rules and regulations which may be issued by the Monetary Board with respect to unsecured loans under Section 41 of the General Banking Law of 2000: *Provided*, That the bank has:

a. well-defined standards, credit policies and procedures for microfinance loans which are in conformity with microfinance international best practices;

b. specific measures to be undertaken to ensure collection such as close supervision of borrowers projects and operations; and

c. Loan Portfolio and Other Risk Assets Review System required under Sec. X302 which would serve as:

(1) An adequate loan tracking system that allows daily monitoring of the status of loan releases, collection and arrearages, any restructuring or refinancing; and

(2) A regular monitoring of past due loans and portfolio at risk.

X361.5
Housing microfinance loan

The Bangko Sentral adopts a holistic approach in addressing social and economic objectives through microfinance. Microfinance has been confined to mean financing for microenterprises or small livelihood activities. It has been proven, however, that clients of microfinance also need a wide range of financial services including housing finance. Further, it is typical that some microfinance clients also use their access to credit for their homes.

Housing microfinance involves the application of microfinance principles and methodologies to the provision of housing finance and consists mainly of loans to existing clients of microfinance institutions and other poor and low-income households. With adequate and appropriate risk management measures, the product will enable institutions to appropriately service the housing needs of those who are unable to access traditional housing finance. The provision of housing microfinance is also seen as a way to improve the living conditions of the enterprising poor and the low-income households which will contribute to better health, productivity and quality of life.

Housing as a shelter is a necessity. As a sector, it spurs economic activity and creates employment through the multiplier effects generated in the downstream industries by the procurement of construction materials. It is therefore important to support this sector.

The following rules and regulations shall govern the granting of housing microfinance products:

(1) *Minimum criteria to determine bank’s capacity to grant housing microfinance* – Banks planning to grant housing microfinance loans shall ensure that the following requirements are complied with:

(a) The bank must have a track record of at least two (2) years in implementing

sustainable microfinance programs, including acceptable portfolio-at-risk (PAR) levels as evaluated against prevailing Bangko Sentral standards.

(b) The bank must have an appropriate housing microfinance product manual where the product will be included in the bank’s microfinance manual as one of the types of services or products offered to prospective clients. Loan/account officers must be trained about the housing microfinance product and that the details of the program can be communicated clearly to the clients.

(c) Appropriate verification of the following prudential requirements:

- (i) latest CAMELS rating of at least 3 and a management score of at least 3 ;
- (ii) CAR of not lower than 12%;
- (iii) no major supervisory concerns as to warrant initiation of Prompt Corrective Action (PCA) under existing regulations;
- (iv) no arrearages in microfinance borrowings; and

d) Appropriate certification of the bank’s commitment to implement the housing microfinance product following the guidelines set forth in the submitted manual.

(2) *Basic product characteristics.* The housing microfinance product shall have the following basic characteristics:

| Subject | Particulars |
|-------------|---|
| Purpose | House construction House and/or lot acquisition Lot acquisition should be for housing/business Home improvement/repairs |
| Eligibility | Existing microfinance clients New clients who will normally be eligible for microfinance loans based on banks’ policies Borrowers who have qualified for the Credit Surety Fund credit enhancement program provided they qualify with the banks’ policies |
| Loan Amount | Up to P300,000 for house construction and/or lot acquisition (must show tenure security) Up to P150,000 for home improvement/repairs incremental loan amounts to support incremental building |

X361.5
14.12.31

| Subject | Particulars |
|------------|--|
| Loan Value | Up to ninety percent (90%) of the appraised value in case of REM Acceptable valuation in cases of usufruct, leases, etc. Capacity to pay based on household cash flow analysis |
| Payment | Frequent amortization With savings component Loan payments should not exceed a reasonable percentage of clients income as determined by cash flow analysis and capacity to pay determined through a clear credit process |
| Terms | Up to fifteen (15) years for house construction and house and/or lot acquisition subject to banks credit policies Up to 5 years for home improvement/repairs |

The product must share the characteristics of the microfinance loan as described under this Section and *Appendix 45* except for the following:

- (a) The maximum loan amount may be P300,000.
- (b) The loans have longer terms with a maximum of five (5) years for home improvement/repairs and fifteen (15) years for house construction and house/lot acquisition.
- (c) For house construction and house/lot acquisition loans, secure tenure instruments will be used as collateral. (See *Appendix 81*)
- (3) *Appropriate risk management.* Due to a risk profile that may be different from the typical microfinance loan, the following risk management elements must be highlighted and embedded in the product:
 - (a) Clients ability to repay based on cash flow analysis and affordability especially the new clients;
 - (b) Opening of a savings account shall be required for clients with no existing savings account;
 - (c) Secure tenure instruments as collateral/collateral substitutes for loans over P150,000;
 - (d) Adequate loan monitoring, collection, control, provisioning which is also to be included in the banks housing

- microfinance manual;
- (e) Additional risk cover may be availed from government guarantee program;
- (f) A lien or mortgage covering the house and/or lot financed by the loan shall be executed by the borrower in favor of the lending bank; and
- (g) Mortgage redemption insurance shall be required to cover against death or permanent disability.
- (4) *Regulatory treatment.* The housing microfinance product will be considered as a microfinance loan and will have the following incentives in addition to existing incentives available for microfinance loans:
 - (a) The loans shall have an assigned risk-weight of fifty percent (50%) when not guaranteed and zero percent (0%) when guaranteed by the HGC.
 - (b) For housing microfinance loans secured by REM, a ninety percent (90%) loan valuation may be allowed for loans with a government guarantee component.
 - (c) Secure tenure instruments such as freehold, usufruct, leasehold and right to occupy and/or build shall be recognized as collateral/collateral substitute subject to approved loan valuations (*Appendix 81*).
- Banks that will offer housing microfinance shall also comply with the following:
 - (1) The bank must maintain a subcontrol ledger for the housing microfinance product.
 - (2) The housing microfinance loans shall not exceed thirty percent (30%) of the total loan portfolio.
 - (3) Recording of PAR and the provisioning requirements shall be strictly in accordance with applicable Bangko Sentral regulations.
 - (5) *Notarized certificate of compliance.* The bank president or officer or equivalent rank and the compliance officer shall submit a notarized certificate of compliance, attesting that the bank meets the minimum prudential requirements and that the housing microfinance loan complies with the prescribed product characteristics/features. (*Appendix 102*)

The notarized certificate shall be submitted within fifteen (15) banking days from the date of meeting of the board of directors approving the housing microfinance loan product.

(6) *Sanctions.*

(a) In case the submitted certificate of compliance is found later, during on-site examination, to be erroneous and/or untrue, the bank may be sanctioned under Sec. 37 of R.A. No. 7653 for willful making of a false or misleading statement.

(b) In addition to the above-mentioned penalty, subject bank is not allowed to grant any new housing microfinance loan and its transaction shall be limited only to the collection of outstanding microfinance housing loan receivables. This prohibition shall remain until bank's compliance with the prescribed regulations are verified to be in order by the appropriate department/group of the SES.

(c) Banks, with certificates of compliance, found to be in order shall continue to comply with the prescribed prudential requirements. If found later on that the bank is non-compliant with any or all of the requirements, it shall be given one examination-cycle to correct any deficiency. If the bank remains non-compliant after the lapse of one examination-cycle, the granting of housing microfinance loan shall be deemed suspended effective on the day after the corrective period has expired. While the suspension is in effect, the bank's transactions shall be limited to the collections of outstanding housing microfinance loan receivables.

For the purpose of this provision, one (1) examination-cycle is defined as the period commencing from the date the bank is formally informed of the findings/exceptions of the last general examination up to the date of the exit conference of the immediately succeeding general examination.

(d) Other sanctions. The imposition of

the foregoing sanctions shall be without prejudice to the imposition of other administrative sanctions, as provided in other regulations in this Manual.

(Circular No. 736 dated 20 July 2011, M-2008-015 dated 19 March 2008, as amended by Circular Nos. 825 dated 07 February 2014, 817 dated 06 November 2013 and 678 dated 06 January 2010)

□ X361.6 (*Reserved*)

□ X361.7 *Micro-agri loans*

Statement of policy. The Bangko Sentral adopts a holistic approach in addressing social and economic objectives through microfinance. Microfinance utilizes an innovative technology and methodology that has proven successful in providing the appropriate financing for microentrepreneurs who were previously underserved by the formal financial system. Through the years, it has been evident that the microfinance technology and methodology can be appropriately utilized to deliver other types of financial services in a sound, prudent and sustainable manner, including credit for small farming activities.

A. *Minimum criteria to determine bank's capacity to grant micro-agri loans.* Banks planning to grant micro-agri loans shall ensure that the following requirements are complied:

1. To ensure that the banks have the financial capacity, managerial and technical capabilities to offer micro-agri loans; the following prudential requirements must be complied at all times:

- a) CAMELS rating of at least 3 and a Management score of at least 3 ;
- b) CAR of not lower than twelve percent (12%);
- c) no major supervisory concerns as to warrant initiation of prompt corrective action under existing regulations; and
- d) no arrearages on microfinance borrowings (bills payable) from Bangko Sentral or other creditors.

Banks authorized to offer a micro-agri

X361.7
13.12.31

loan product shall continually comply with the above-mentioned prudential requirements. Banks found to be non-compliant with any or all of the requirements shall be given one (1) examination cycle to correct non-compliance with any or all of the prudential requirements, provided the bank submits a viable plan to rectify pertinent non-compliance. If the bank remains non-compliant after the lapse of one (1) examination cycle, its authority to offer micro-agri loan shall be deemed suspended effective on the day after the corrective period has expired. While the suspension is in effect, bank s micro-agri loan transactions shall be limited to collections of outstanding receivables.

For the purpose of this Subsection, one (1) examination-cycle is defined as the period commencing from the date of the exit conference of the last general examination up to the date of the exit conference of the immediately succeeding general examination.

2. The bank must have a track record of at least two (2) years in implementing sustainable microfinance programs, including acceptable portfolio-at-risk (PAR) levels as evaluated against prevailing Bangko Sentral standards; and

3. The bank must have well-defined policies covering the micro-agri loan product to be included in the bank s microfinance manual as one of the types of services or products to be granted to prospective clients. Loan/account officers must be trained about the micro-agri loan product and that the details of the program can be communicated clearly to the clients.

B. *Basic product characteristics.* The micro-agri loan product shall have the criteria/characteristics of a microfinance loan as provided in existing regulations in addition to the following product characteristics:

| Subject | Particulars |
|--------------|---|
| Purpose/Term | - Short term purposes only (up to 12 months) whether it is for farm activities, agri-business, agri-related |

| Subject | Particulars |
|-------------|--|
| Eligibility | fixed assets, among others - Multiple income generation activities (farm and off-farm) - Farm activities at least 2 years in operation - Existing borrowers with good track record based on banks |
| Loan Amount | policies - Up to P150,000 - Loans to start small and increase incrementally based on banks |
| Loan Value | policies - Capacity to pay based on |
| Payment | household cash flow analysis - Frequent amortization (weekly, semi-monthly, monthly) - Lump sum payment may be considered an option of up to 40% |
| Security | of loan amount - Like microfinance loans, collateral substitutes may be required |

C. *Appropriate risk management.* Micro-agri loans shall be subject to the same risk management mechanisms required for microfinance loans including, but not limited to the following:

1. Clients ability to repay based on cash flow analysis and affordability especially the new clients. The prospective client must have other sources of income sufficient for the periodic payment of the loan while the loan project is not yet generating income, evaluated through household cash flow analysis;

2. Adequate management information and loan tracking systems, loan monitoring, collection, control, provisioning consistent with existing Bangko Sentral regulations;

3. The loan product is included in the banks microfinance manual as one (1) of the types of services or products offered to prospective clients; and

4. The micro-agri loans must have a subcontrol ledger.

D. *Other micro-agri products.* No provision in the micro-agri product inconsistent with this Subsection shall be allowed except upon prior Bangko Sentral approval. The Bangko Sentral shall allow deviation from the provisions of this Subsection provided appropriate risk

management system compensates for the additional risks involved.

E. *Regulatory treatment.* The micro-agri loan product will be considered as microfinance loan and will have the same regulatory treatment as provided by existing microfinance regulations.

F. *Reportorial requirement.* Notarized certificate of compliance. The bank president or officer of equivalent rank and the compliance officer shall submit a notarized certificate of compliance, attesting that the bank meets the minimum prudential requirements and that the micro-agri loan complies with the prescribed product characteristics/features. (Appendix 102)

The notarized certificate shall be submitted within fifteen (15) banking days from the date of meeting of the board of directors approving the micro-agri loan product.

G. *Sanctions.* In case of non-compliance, the bank shall be subject to the following:

1. In case the submitted certificate of compliance is found later, during on-site examination, to be erroneous and/or untrue, the bank may be sanctioned under Sec. 37 of R.A. No. 7653 for willful making of a false or misleading statement.

2. In addition to the above-mentioned penalty, subject bank shall not be allowed to grant any new micro-agri loan and its transaction shall be limited only to the collection of outstanding micro-agri loan receivables. This prohibition shall remain until bank's compliance with the prescribed regulations are verified to be in order by the appropriate department/group of the SES.

3. Banks, with certificates of compliance, found to be in order shall continue to comply with the prescribed prudential requirements. If found later on that the bank is non-compliant with any or all of the requirements, it shall be given one examination cycle to correct any deficiency. If the bank remains non-compliant

after the lapse of one examination cycle, the granting of micro-agri loan shall be deemed suspended effective on the day after the exit conference, during which the management shall be informed of its failure to make proper corrective actions within the prescribed period. While the suspension is in effect, the bank's transactions shall be limited to the collections of outstanding micro-agri loan receivables.

For the purpose of this provision, *one examination-cycle* is defined as the period commencing from the date the bank is formally informed of the findings/exceptions of the last general examination up to the date of the exit conference of the immediately succeeding general examination.

4. *Other sanctions.* The imposition of the foregoing sanctions shall be without prejudice to the imposition of other administrative sanctions, as provided in other regulations in this Manual.

(Circular No. 680 dated 03 February 2010, as amended by Circular Nos. 817 dated 06 November 2013 and 748 dated 13 February 2012)

□ X361.8 (Reserved)

□ 1361.8 (Reserved)

□ **2361.8 Marketing, sale and servicing of microinsurance products by thrift banks.** A TB including its authorized branch/es, extension office/s and OBOs shall comply with Sec. 2172 for the presentation, marketing and sale of micro insurance products.

(Circular No. 683 dated 23 February 2010)

□ **3361.8 Marketing, sale and servicing of microinsurance products by rural and cooperative banks.** An RB/Coop banks including its authorized branch/es, extension office/s and OBOs shall comply with Sec. 3172 for the presentation, marketing and sale of micro insurance products.

(Circular No. 683 dated 23 February 2010)

¶¶ X361.9 - X365.2
14.12.31

¶ **X361.9 Required Reports.** Banks, with retail microfinance operations, shall be required to submit the Report on Microfinance Products on a monthly basis, and the Income Statement on Retail Microfinance Operations on a quarterly basis. Both reports shall be submitted within fifteen (15) banking days after the end of the reference month and quarter, respectively.

Banks with no microfinance operations, either retail or wholesale, are expected to fill up only Item 3.1.B , Other Microenterprises Loans , under Additional Information of the Report on Microfinance Products . On the other hand, banks engaged solely in wholesale microfinance operations are expected to fill up only Item 2 , Wholesale Microfinance Operations , and its related sub-accounts under Additional Information of the Report on Microfinance Products . These banks, however, are required to submit the quarterly Income Statement on Retail Microfinance Operations , indicating that the required data are not applicable. Otherwise, these banks will be sanctioned for incomplete submission of reports.

Late and/or erroneous reporting of said reports shall be subject to penalties prescribed for category A-2 report under Subsec. X192.2.

(Circular No. 836 dated 13 June 2014)

¶ **X361.10 Sanctions.** Violations of the provisions of this Section shall be subject to any or all of the following sanctions:

- a. Disqualification of the bank concerned from the credit facilities of the Bangko Sentral except as may be allowed under Section 84 of R.A. No. 7653;
- b. Prohibition of the bank concerned from the extension of additional microfinance loans; and

c. Penalties and sanctions provided under Sections 36 and 37 of R.A. No. 7653.

Secs. X362 - X364 (Reserved)

Sec. X365 Loans to Barangay Micro Business Enterprises. The following are the rules and regulations to implement Section 9 and the second paragraph of Section 13 of R.A. No. 9178, otherwise known as the Barangay Micro Business Enterprises (BMBEs) Act of 2002 .

¶ **X365.1 Credit delivery.** The LBP, the DBP, the SBGFC, and the Peoples Credit and Finance Corporation (PCFC) shall set up a special credit window that will service the financing needs of duly registered BMBEs consistent with Bangko Sentral policies, rules and regulations. Said special credit window shall service the credit needs of BMBEs either through retail or wholesale lending, or both, as the concerned FIs may deem consistent with their corporate policies and objectives. The GSIS and the SSS shall likewise set up special credit window that will serve the financing needs of their respective members who may wish to establish a BMBE.

Said FIs are encouraged to wholesale funds to accredited private FIs including community based organizations such as cooperatives, NGOs and people s organizations engaged in granting credit, for relending to BMBEs.

Private banking and other FIs are encouraged to lend to BMBEs.

¶ **X365.2 Interest on loans to Barangay Micro Business Enterprises.** Interest on BMBE loans shall be just and reasonable as may be determined by management of the concerned entity to be consistent with its credit policies.

¶ **X365.3 Amortization of loans to Barangay Micro Business Enterprises.** The schedule of loan amortization shall take into consideration the projected cash flow of the borrowers. Thus, loans granted to BMBEs may, at the discretion of the lender, be amortized daily, weekly, monthly or at such interval as the conditions of the business of the BMBEs may warrant.

¶ **X365.4 Waiver of documentary requirements.** Banks and other FIs shall not require from duly registered BMBE borrowers the submission of ITR as a condition to the grant of loans considering that BMBEs are exempted from income tax for income arising from their operations. They may, at their discretion, also waive the requirement of submission of financial statements from BMBEs: *Provided*, That before granting any loan, banks shall undertake reasonable measures to determine that the borrower is capable of fulfilling his/its commitments.

¶ **X365.5 Incentives to participating financial institutions.** To encourage BMBE lendings, the following incentives shall be granted to banks and other FIs as may be applicable:

a. All loans from whatever sources granted to BMBEs under R.A. No. 9178 (BMBEs Act) shall be considered as part of alternative compliance to R.A. No. 6977, as amended.

For purposes of compliance with R. A. No. 6977, as amended, loans granted to BMBEs under the BMBEs Act shall be computed at twice the amount of the outstanding balance of the loans: *Provided*, That funds loaned by or rediscounted with government-owned banks and other government FIs to accredited private banking and other FIs for on-lending to

BMBEs shall be eligible as part of alternative compliance for R.A. No. 6977, as amended, of the government-owned banks and the accredited private banks at the maximum amount of 100% of their outstanding balance each:

Provided, further, That loans used as alternative compliance with R.A. No. 6977, as amended, computed at either twice their outstanding balance or their maximum amount of 100% may be used as alternative compliance for either or both the prescribed portions of loan portfolio to be allocated to MSEs and MEs, respectively, as long as the aggregate amount used does not exceed twice their outstanding balance or their maximum amount of 100%, as the case may be.

b. Any existing laws to the contrary notwithstanding, interests, commissions and discounts derived from the loans by the LBP, DBP, PCFC, SBGFC granted to BMBEs as well as loans extended by the GSIS and SSS to their respective member-employees under BMBEs Act and this Section shall be exempt from gross receipt tax (GRT).

(As amended by Circular Nos. 736 dated 20 July 2011 and 625 dated 14 October 2008)

¶ **X365.6 Credit guarantee.** The SBGFC and the Quedancor under the DA, in case of agri-business activities, shall set up a special guarantee window to provide credit guarantee to BMBEs under their respective guarantee programs.

¶ **X365.7 Record.** The LBP, DBP, PCFC and SBGFC shall maintain separate records of loans granted to BMBEs and the GSIS and SSS shall maintain records of loans extended to their respective members who wish to establish BMBEs.

¶ **X365.8 Reports to Congress.** The LBP, DBP, PCFC, SBGFC, SSS, GSIS and

X365.8 - X376.5
09.12.31

Quedancor shall report annually to the appropriate Committees of both Houses of Congress, the status of their implementation of the provisions of Section 9 of R.A. No. 9178.

X365.9 Administrative sanctions
Any violation by the concerned government FI of the provisions of Section 9 of R.A. No. 9178 shall be subject to a fine of not less than P500 thousand to be imposed by the Bangko Sentral and which shall be payable to the BMBE Development Fund. In case of a banking institution, the foregoing fine shall be without prejudice to the administrative sanctions provided for under Section 37 of R.A. No. 7653.

Secs. X366 - X375 (Reserved)

H. EQUITY INVESTMENTS

Sec. X376 Scope of Authority. The following rules shall govern the investment of banks in the equities of allied undertakings, whether financial or non-financial, and non-allied undertakings, as well as the establishment/acquisition of subsidiaries and affiliates abroad.

X376.1 Conditions for investment in equities. A bank shall not invest in the equity of any enterprise, if the investing bank is in any of the following situations:

- a. Its capital is impaired, whether by actual losses or unbooked valuation reserves required by the Bangko Sentral;
- b. Its lending operations had been suspended on account of reserve or capital deficiency, until such suspension shall have been lifted for at least one (1) year and sufficient reserves or capital shall have been maintained;
- c. It incurred losses from its operations during the preceding year;
- d. It has not fully booked the valuation reserves and other capital adjustments required by the Bangko Sentral;

- e. It has exceeded the individual and aggregate ceilings as well as the ceiling on unsecured credit accommodations to DOSRI; and
- f. Its ratio of past due loans to total loan portfolio exceeds twenty percent (20%).

X376.2 - X376.4 (Reserved)

X376.5 Guidelines for major investments. The following are the guidelines for major acquisitions or investments by a bank including corporate affiliations or structures to implement Section 50 of R.A. No. 8791.

- a. *Definition.* Major investments are those investments in allied or non-allied undertakings including corporate affiliations or structures that give the bank significant interest and/or control, such as stockholdings sufficient to elect one (1) member to the acquired entity s board of directors.
- b. *Criteria for major investments.* Any major investment by a bank should be approved by the bank s board of directors. In acting on such investments the Board shall consider the following:
 - (1) Such investment must be in accordance with the bank s business plan and management objectives, taking into consideration the economic developments and future prospects. The interests of the different stakeholders of the bank - shareholders, depositors and creditors - should always be considered before any investment is made.
 - (2) Such investments will complement/ support the main business of the banks. Extra caution should be taken when investing in activities where the bank has no managerial or technical expertise, or businesses/industries, which are high-risk.
 - (3) Bank management shall provide for an efficient and effective exit mechanism or contingency plan in case the investee s operations fail or do not prosper.

c. *Prior Bangko Sentral approval; information/ documents required.* Subject to prior approval of the Bangko Sentral, banks may invest in allied or non-allied undertakings, including corporate affiliations or structures. A bank intending to make such investment shall submit the following information/ documents to the appropriate department of the SES for evaluation:

- (1) Name of the company;
- (2) Type of business activities;
- (3) Board of directors' approval on such investments;
- (4) Certification from the bank's board of directors that the criteria enumerated in Item *b* are complied with;
- (5) Management contract;
- (6) Financial information and other information about financial strengths, e.g., projected balance sheet and income statements for the first three (3) years;
- (7) Members of the board and senior management;
- (8) Interest to be held by the bank and the manner in which such interest will be held; and
- (9) Conformity of the investee company for Bangko Sentral to examine its books.

The Bangko Sentral may impose conditions on any approval, including conditions to address financial, managerial, safety and soundness, compliance, or other concerns. Further, the Bangko Sentral may disapprove a proposed investment if it finds that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Monetary Board directive, or any condition imposed by, or written agreement with, the Bangko Sentral.

The Bangko Sentral may prescribe other guidelines/regulations as it may consider necessary to ensure that banks' major investments do not expose the banks to undue risks or hinder effective supervision.

d. *Examination and inspection.* Whenever deemed necessary, Bangko Sentral shall have the authority to examine investee companies or to verify information provided by other supervisory authorities such as the SEC.

The Bangko Sentral shall have the authority to seek corrective action, to issue orders to terminate activities with or divest an interest in an investee company, if it believes that such action is necessary to prevent or redress unsafe or unsound practice by such company that poses a material risk to the financial safety, soundness or stability of a bank.

(As amended by Circular No. 671 dated 27 November 2009)

Sec. X377 Financial Allied Undertakings

With prior Bangko Sentral approval, banks may invest in equities of the following financial allied undertakings, subject to the limits prescribed under Sec. X378:

- a. Leasing companies including leasing of stalls and spaces in a commercial establishment: *Provided*, That bank investment in/acquisition of shares of such leasing company shall be limited/ applicable only in cases of conversion of outstanding loan obligations into equity;
- b. Banks;
- c. IHSs;
- d. Financing companies;
- e. Credit card companies;
- f. FIs catering to small and medium scale industries including venture capital corporation (VCC), subject to the provisions of Sec. X379 and its subsections;
- g. Companies engaged in stock brokerage/securities dealership; and
- h. Companies engaged in foreign exchange dealership/brokerage.

In addition, UBs may invest in the following as financial allied undertakings:

- (1) Insurance companies; and
- (2) Holding company: *Provided*, That the investments of such holding company are confined to the equities of allied undertakings and/or non-allied undertakings of UBs allowed under Bangko Sentral regulations.

The Monetary Board may declare such other activities as financial allied undertakings of banks.

The determination of whether the corporation is engaged in a financial allied undertaking shall be based on its primary purpose as stated in its articles of incorporation and the volume of its principal business.

Sec. X378 Limits on Investment in the Equities of Financial Allied Undertakings. The equity investment of a bank in a single financial allied undertaking shall be within the following ratios in relation to the total subscribed capital stock and to the total voting stock of the allied undertaking:

To promote competitive conditions, the Monetary Board may further limit the equity investments in QBs of UBs and KBs to forty percent (40%).

A publicly-listed UB or KB may own up to 100% of the voting stock of only one (1) other UB or KB. Otherwise, it shall be limited to a minority holding.

The guidelines in determining compliance with ceilings on equity investments in financial allied undertakings are shown in *Appendix 79*.
(As amended by Circular Nos. 858 dated 21 November 2014, 710 dated 19 January 2011, 671 dated 27 November 2009, 581 dated 14 September 2007 and 530 dated 19 May 2006)

Sec. X379 Investments in Venture Capital Corporations. The following rules and regulations shall implement Presidential Decree No. 1688 entitled Authorizing Banks to Invest in the Equity of Venture

| ACTIVITIES | INVESTOR | | | | | | |
|------------------------------|-----------------|------------|-----------------|------------|-----|-----|------------|
| Allied Enterprises | UB | | KB | | TB | RB | Coop Banks |
| Financial Allied Undertaking | Publicly-listed | Not listed | Publicly-listed | Not listed | | | |
| UBs | 100% | 49% | 100% | 49% | 49% | 49% | 49% |
| KBs | 100 | 49 | 100 | 49 | 49 | 49 | 49 |
| TBs | 100 | | 100 | | 49 | 49 | 49 |
| RBs | 100 | | 100 | | 49 | 49 | 100 |
| Coop Banks | NA | | NA | | NA | NA | 30 |
| Insurance Companies | 100 | | NA | | NA | NA | NA |
| VCCs | 60 | | 60 | | 60 | 49 | 49 |
| Trust Corporation | 100 | | 49 | | 40 | 40 | 40 |
| Others | 100 | | 49 | | 40 | 40 | 40 |

(Next Page is Part III- Page 67)

Capital Corporations to Assist Small and Medium- Scale Enterprises”.

For purposes of this Section, a VCC shall refer to an entity organized jointly by private banks, the National Development Corporation and the Technology Livelihood and Resource Center and/or such other government agency as may be authorized by the appropriate authority, the primary purpose of which is to develop, promote and assist, thru debt or equity financing or any other means, any small and medium-scale enterprise in the country.

§ X379.1 Requirements for investors

Banks may invest in a VCC organized to assist small and medium-scale enterprises, subject to the following conditions:

a. The bank shall have a minimum capital of P100.0 million as defined in Sec. X111;

b. Two (2) or more banks may own up to sixty percent (60%) of the total voting equity and of the total equity of a VCC. A bank shall not be allowed to invest in the equity of more than one VCC;

c. The initial paid-in capital of VCC shall not exceed P5.0 million. Any subsequent increase in paid-in capital of the VCC in which a bank owns equity shall be subject to prior approval of the Monetary Board;

d. Loans which the investor-bank may grant to a VCC shall be limited to such amounts as would enable the VCC to promote equity financing to viable small and medium scale enterprise: *Provided, however, That unless otherwise authorized by the Monetary Board, the aggregate outstanding loans of such bank to a VCC shall not exceed twice the amount of its equity investment in the VCC: Provided, further, That loans to the VCC, or the small and medium-scale enterprises shall not be subject to the ceilings on DOSRI, except where bank DOSRI are likewise stockholders in the VCC or in the small and medium-scale enterprise;*

e. The combined equity investments in, and loans of, the bank to its VCC shall not exceed fifteen percent (15%) of the bank's net worth; and

f. The aggregate investments in equities by a bank, including equity investments in a VCC, shall not exceed the prescribed ceilings under Sec. X383 on other limitations and restrictions.

The guidelines in determining compliance with ceilings on equity investments in a VCC are shown in *Appendix 79*.

Banks with acquired shares of stock of VCCs in excess of limits provided in this Subsection which have not been previously confirmed by the Monetary Board shall seek confirmation of the Monetary Board of such acquisition not later than ninety (90) banking days from 20 December 2009: *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 the date of acquisition thereof.*

(As amended by Circular Nos. 671 dated 27 November 2009 and 581 dated 14 September 2007)

§ X379.2 Equity investments of venture capital corporations. Equity investment of a VCC in small and medium-scale enterprises shall be subject to the following conditions:

a. Equity financing by a VCC may be extended to a small and medium-scale enterprise engaged in an industry certified as desirable by the Department of Trade and Industry; and

b. The total assets of the enterprises shall not exceed P4.0 million, including the VCC's equity investment. Should the total assets of the small and medium-scale enterprise subsequently exceed the prescribed P4.0 million maximum, the VCC equity investment therein made before the total assets of the enterprise

§§ X379.2 - X380
 09.12.31

exceeded P4.0 million, may be maintained but shall not be increased.

§ X379.3 *Business name of venture capital corporations.* A VCC shall be known by any name not otherwise appropriated: *Provided, however,* That the words “venture capital corporation” are made a part thereof.

§ X379.4 *Reportorial requirements; examination by Bangko Sentral.* A VCC in which a bank owns equity shall be subject to BSP reportorial requirements prescribed for non-bank financial intermediaries and may be subject to examination by the BSP.

§ X379.5 *Interlocking directorships and/or officerships.* Subject to prior approval of the Monetary Board, a person may concurrently hold the position of a director or officer in a bank and a VCC.

Sec. X380 *Non-Financial Allied Undertakings*
 A bank may acquire up to 100% of the equity of a non-financial allied undertaking: *Provided,* That the equity investment of a TB/RB in any single enterprise shall remain less than fifty percent (50%) of the voting shares in that enterprise: *Provided, further,* That prior Monetary Board approval is required if the investment is in excess of forty percent (40%) of the total voting stock of such allied undertaking.

The determination of whether the corporation is engaged in a non-financial allied undertaking shall be based on the primary purpose as stated in its articles of incorporation and the volume of its principal business.

- a. *UBs/KBs/TBs*
 UBs/KBs and TBs may invest in equities of the following non-financial allied undertakings:
- (1) Warehousing companies;
 (2) Storage companies;

- (3) Safe deposit box companies;
 (4) Companies primarily engaged in the management of mutual funds but not in the mutual funds themselves;
 (5) Management corporations engaged or to be engaged in an activity similar to the management of mutual funds;
 (6) Companies engaged in providing computer services;
 (7) Insurance agencies/brokerages;
 (8) Companies engaged in home building and home development;
 (9) Companies providing drying and/ or milling facilities for agricultural crops such as rice and corn;
 (10) Service bureaus, organized to perform for and in behalf of banks and NBFIs the services allowed to be outsourced enumerated in Sec. X162: *Provided,* That data processing companies may be allowed to invest up to forty percent (40%) in the equity of service bureaus;
 (11) Philippine Clearing House Corporation (PCHC), Philippine Central Depository, Inc. and Fixed Income Exchange; and
 (12) Such other similar activities as the Monetary Board may declare as non-financial allied undertakings of banks.
- UBs may further invest in health maintenance organizations (HMOs).
 In addition, TBs may also invest in the equities of companies enumerated in Item “b” of this Section.
- b. *RBs/Coop Banks*
 RBs/Coop Banks may invest, as a non-financial undertaking, in the equities of companies engaged in the following:
- (1) Warehousing and other postharvest facilities;
 (2) Fertilizer and agricultural chemical and pesticides distribution;
 (3) Farm equipment distribution;
 (4) Trucking and transportation of agricultural products;
 (5) Marketing of agricultural products;
 (6) Leasing;

(7) Automated Teller Machine (ATM) networks; and

(8) Other undertakings as may be determined by the Monetary Board.

The guidelines in determining compliance with ceilings on equity investments in non-financial allied undertakings are shown in *Appendix 79*.

(As amended by Circular Nos. 671 dated 27 November 2009, 581 dated 14 September 2007 and 563 dated 16 March 2007)

Sec. X381 (Reserved)

Sec. 1381 Investments in Non-Allied or Non-Related Undertakings. Only UBs may invest in the equity of an enterprise engaged in non-allied or non-related activities.

The guidelines in determining compliance with ceilings on equity investments in non-allied or non-related undertakings are shown in *Appendix 79*.

(As amended by Circular Nos. 671 dated 27 November 2009, 581 dated 14 September 2007)

§ 1381.1 Non-allied undertakings eligible for investment by universal banks

The broad category of non-allied undertakings in which a UB may invest directly or through its subsidiary shall require prior approval of the Monetary Board: *Provided*, That individual equity investments in the following broad categories shall not require prior Monetary Board approval, except as may be required in Subsec. X376.5:

a. Enterprises engaged in physically productive activities in agriculture, mining and quarrying, manufacturing, public utilities, construction, wholesale trade and community and social services following the industrial groupings in the Philippine Standard Industrial Classification (PSIC) as enumerated in *Appendix 22*;

b. Industrial park projects and/or industrial estate developments;

c. Financial and commercial complex projects (including land development and buildings constructed thereon) arising from

or in connection with the Government’s privatization program; and

d. Such other broad categories as the Monetary Board may declare as appropriate: *Provided, further*, That the bank shall submit within thirty (30) banking days after the investment, the following information/documents to the appropriate department of the SES:

- (1) The amount of investment;
- (2) The name of investee company; and
- (3) The nature of business, accompanied by such pertinent documents as articles of incorporation, articles of partnership or registration certificate, whichever may be applicable.

(As amended by Circular No. 671 dated 27 November 2009)

§ 1381.2 Limits on investments in non-allied enterprises

a. The equity investment of a UB, or of its wholly or majority-owned subsidiaries, in a single non-allied enterprise shall not exceed thirty-five percent (35%) of the total equity in that enterprise nor shall it exceed thirty-five percent (35%) of the voting stock in that enterprise.

For the purpose of determining compliance with the ceiling prescribed in the preceding paragraph, (i) the equity investment of the bank; and (ii) the equity investment of the bank’s subsidiaries, shall be combined.

b. In no case shall the total equity investments in a single non-allied enterprise of UBs, NBFIs performing QB functions and their 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: *Provided, however*, That equity investments in excess of the ceilings prescribed herein as of 01 April 1980 may be maintained but may not be increased and if reduced, shall not be increased thereafter beyond the ceiling prescribed herein.

(As amended by Circular No. 671 dated 27 November 2009)

§§ 1381.3 - X382.3
10.12.31

§ 1381.3 Report on outstanding equity investments in and outstanding loans to non-allied enterprises.

(Deleted by Circular No. 671 dated 27 November 2009)

Sec. X382 Investments in Subsidiaries and Affiliates Abroad. The establishment or acquisition of subsidiaries or affiliates abroad shall require prior approval of the BSP.

§ X382.1 Application for authority to establish or acquire subsidiaries and affiliates abroad. The application for such authority shall be signed by the president of the bank and shall be accompanied, as a minimum, by the following information/documents:

- a. Certified true copy of the resolution of the bank's board of directors authorizing the establishment or acquisition of a subsidiary or an affiliate abroad;
- b. Economic justification for such establishment, indicating the services to be offered, the minimum outlay for furniture, fixture and equipment, rental and other expenses;
- c. A certification that an application for such establishment has been filed with the appropriate government agency of the host country;
- d. Organizational set-up of the proposed banking office showing the proposed positions and the names, qualifications and experience of the proposed manager and other officers; and
- e. Certification signed by the president or the executive vice-president that the bank has complied with all the requirements enumerated under Subsec. X382.2.

§ X382.2 Requirements for establishing subsidiaries or affiliates abroad. In addition to the standard pre-qualification requirements for the grant of banking

authorities in *Appendix 5*, the applicant bank shall comply with the following:

a. The citizenship, ownership ceilings and other limitations on voting stockholdings in banks under existing law and regulations; and

b. The experience and expertise in international banking operations with proof to the effect that:

(1) It must have conducted international banking for at least three (3) years prior to the date of application; and

(2) Its international banking operations must have contributed a substantial portion to its total earnings.

§ X382.3 Conditions for approval of application. The approval of the application to establish or acquire a subsidiary of an affiliate abroad shall be subject to the following conditions:

a. Without prejudice to the qualification requirements of the country where the subsidiary or the affiliate is to be established, the proposed officer(s), at the time of appointment, must be at least:

- (1) Twenty-five (25) years of age;
- (2) A college graduate, preferably with training and experience abroad;
- (3) With three (3) years experience in international banking; and
- (4) Must not be disqualified as an officer under existing regulations.

b. The applicant shall also comply with the licensing requirements of the host country and the necessary license to operate shall be secured from the appropriate government agency of the host country;

c. The outward investment representing initial capital outlay and other outlays shall be subject to existing regulations;

d. All dividends earned shall be inwardly remitted to the Philippines no later

than sixty (60) days after the date of payment. For purposes of this Subsection, re-investment of said dividend proceeds or deposits/placements thereof in accounts of the investor banks with foreign correspondent banks abroad shall be deemed compliance with the requirements of this Subsection;

e. The proposed subsidiary or affiliate shall submit the reports required by the Bangko Sentral;

f. The proposed subsidiary or affiliate shall not carry any of the business of a bank contemplated within the context of the Philippine banking system;

g. The proposed subsidiary or affiliate shall not engage in stock trading activity;

h. The applicant shall submit a certification from the host country that the duly authorized personnel/examiners of the Bangko Sentral will be authorized to examine the proposed subsidiary or affiliate; and

i. The applicant shall defray the necessary cost and expenses to be incurred by the appropriate department of the SES in the examination of the foreign subsidiary.

(As amended by Circular No. 692 dated 23 July 2010)

§§ X382.4 - X382.7 **(Reserved)**

§ X382.8 ***Investment of a bank subsidiary in a foreign subsidiary.*** The following guidelines shall govern the investment in a foreign subsidiary by a bank subsidiary:

a. The investment of a bank subsidiary in the equity of a subsidiary located abroad shall be subject to prior Bangko Sentral approval;

b. The bank subsidiary may invest in a subsidiary if it meets the following pre-qualification requirements:

(1) It has complied with the minimum capital requirement of the host country;

(2) It has booked the required valuation

reserves and other capital adjustments, if any; and

(3) Its operations in the preceding three (3) years were profitable; otherwise, the feasibility study on the proposed subsidiary should show profits in the first two (2) years of operations.

c. The application for authority of a bank subsidiary shall be accompanied by the following:

(1) Certified true copy of the resolution authorizing the investment by the board of directors of the parent bank and the bank subsidiary;

(2) Feasibility studies on the proposed subsidiary indicating, among others, the economic justification, the type of industry and organizational expenses to be incurred, including the capital expenditures; and

(3) Proposed organizational structures, including the proposed officers and their qualifications.

d. The applicant parent subsidiary shall comply with the licensing requirements of the host country and the necessary license to operate shall be secured from the appropriate government agency of the host country;

e. The proposed subsidiary may invest in another subsidiary with prior approval of the Bangko Sentral;

f. Any outward investment representing initial capital and other outlays shall be subject to existing regulations;

g. At least fifty percent (50%) of the yearly net profits of the proposed subsidiary shall be declared and paid as cash dividends to the parent subsidiary;

h. The proposed subsidiary shall be subject to -

(1) the applicable reportorial requirements such as the submission of quarterly SOC and SIE; and

(2) the supervision and examination

X382.8 - X388
13.12.31

by the Bangko Sentral and the cost of such examination shall be charged against the grandparent bank; and

i. Any additional funding or advances of the parent bank in the Philippines to its subsidiaries abroad or the subsidiary will require prior Bangko Sentral approval.

Sec. X383 Other Limitations and Restrictions. The following limitations and restrictions shall also apply regarding equity investments of banks.

a. *In any single enterprise.* The equity investments of UBs and KBs in any single enterprise shall not exceed at any time twenty-five percent (25%) of the net worth of the investing banks as defined in Sec. X111 and Subsec. X105.4.b.

b. *Aggregate limits.* The total amount of investments in equities in all enterprises shall not exceed the following ratios in relation to the net worth of the investing bank:

| | UB | KB | TB | RB | Coop Bank |
|--------|-----|-----|-----|-----|-----------|
| LIMIT: | 50% | 35% | 25% | 25% | 25% |

c. *Exclusion of underwriting exposure from ceiling.* The exposure of a bank with UB authority arising from the firm underwriting of equity securities of enterprises shall not be counted in determining compliance with the ceilings prescribed in this Section and Subsec. 1381.2 for a period of ninety (90) calendar days from the issuance of such equity securities¹.

d. The guidelines in determining compliance with the other limitations and restrictions on equity investments of banks are shown in *Appendix 79*.

Banks with acquired shares of stock in excess of limits provided in this Section which have not been previously confirmed by the Monetary Board shall seek confirmation of the Monetary Board of

such acquisition not later than ninety (90) banking days from 20 December 2009: *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 the date of acquisition thereof.

(As amended by Circular Nos. 822 dated 13 December 2013, 784 dated 25 January 2013, 671 dated 27 November 2009 and 581 dated 14 September 2007)

Sec. X384 (Reserved)

Sec. X385 Sanctions. The following sanctions shall be imposed for equity investments made without prior Monetary Board approval:

a. *First offense* - If the investment is not allowable under existing regulations, divestment of the investment and reprimand on officer/director who recommended/approved the investment.

b. *Subsequent offense* - *On the Bank.* If the investment is not allowable under existing regulations, divestment of the investment.

On the director/officer. Fine of P20,000 for each investment to be imposed on the members of the board and the executive officers who recommended/approved the investment per investment and to be shouldered personally by the officer/director: *Provided*, That if the subsequent offense is an investment in a non-allied enterprise, the fine shall be P40,000.

I. (RESERVED)

Secs. X386 - X387 (Reserved)

J . OTHER OPERATIONS

Sec. X388 Purchase of Receivables and Other Obligations. The following

¹ It shall cover all new underwritten debt and equity securities issued from from 15 February 2013.

regulations shall govern the purchase of receivables and other obligations.

¶ **X388.1 Yield on purchase of receivables.** The rate of yield, including commissions, premiums, fees and other charges, from the purchase of receivables and other obligations, regardless of maturity, that may be charged or received by banks shall not be subject to any regulatory ceiling.

¶ **X388.2 Purchase of receivables on a ¶without recourse¶ basis.** The total exposure of a bank to a maker of

promissory notes resulting from the purchase of receivables on a *without recourse* basis shall be subject to the SBL of the bank: *Provided*, That the bank shall evaluate the credit worthiness of the maker of such promissory notes.

¶ **X388.3 Purchase of commercial paper.** Before purchasing registered commercial paper, banks authorized to engage in quasi-banking functions shall -
a. Require the issuing entity to submit a duly certified true copy of its Certificate of Registration and Authority to Issue Commercial Paper; and

(Next page is Part III - Page 73)

b. Ascertain that the registration number and expiry date indicated in the commercial paper are the same as those in the certificate of registration submitted.

Any violation or failure to comply with the provisions of this Subsection shall subject the erring bank to suspension or revocation of its authority to engage in quasi-banking functions.

▯ **X388.4 Reverse repurchase agreements with Bangko Sentral.** Reverse repo agreements with the Bangko Sentral shall be governed by Subsec. X601.2.

▯ **X388.5 Investment in debt and readily marketable equity securities.** The following rules and regulations shall govern investment in debt securities and marketable equity securities.

a. Banks may invest in the following:

(1) Readily marketable bonds and other debt securities which are of such use or demand as to make them the subject of constant dealings in securities markets, with such frequent quotations of price as to make the price easily and definitely ascertainable, and the security easy to realize upon sale at any time: *Provided*, That the bonds and other debt securities have complied with the new rules on registration of commercial papers: *Provided, further*, That in the case of RBs/Coop Banks, the bonds and other securities have been approved by the Bangko Sentral.

TBs may invest in evidences of indebtedness which are registered with the SEC but are not readily marketable securities: *Provided*, That these evidences of indebtedness shall be acquired with recourse against a bank or a QB.

It shall be the responsibility of the investing bank to undertake the necessary investigation to satisfy itself with regard to the particular security.

(2) Evidences of indebtedness of the Republic of the Philippines or the Bangko

Sentral, and any other evidences of indebtedness or obligations the servicing and repayment of which are guaranteed by the Republic of the Philippines.

b. The classification, accounting procedures, valuation and sales and transfers of investments in all debt securities and marketable equity securities shall be in accordance with the guidelines in *Appendices 33 and 33a*.

*Penalties and sanctions*¹. The following penalties and sanctions shall be imposed on FIs and concerned officers found to violate the provisions of Item ▯b▯:

(1) Fines to be imposed on FIs for each violation, reckoned from the date the violation was committed up to the date it was corrected:

- (i) P20,000/day for UBs;
- (ii) P10,000/day for KBs;
- (iii) P2,000/day for TBs; and
- (iv) P1,000/day for RBs/Coop Banks.

(2) Sanctions to be imposed on concerned officers:

- (i) First offense - reprimand the officers responsible for the violation; and
- (ii) Subsequent offenses - suspension of ninety (90) days without pay for officers responsible for the violation.

Regular banking unit (RBU) of UBs/KBs and TBs are prohibited from purchasing Philippine debt papers representing debt papers of Philippine public sector and private sector obligors which were restructured during the period of moratorium in the payment of external debt. They may, however, invest in, or purchase, other foreign currency denominated debt instruments, subject to applicable rules and regulations, particularly on risk management: *Provided*, That the RBU of TBs may invest only in readily marketable foreign currency denominated debt instrument as defined under Sec. 72 of Part V (MORFXT).

(As amended by Circular Nos. 813 dated 27 September 2013, 761 dated 20 July 2012, 738 dated 11 October 2011, 707 dated

¹The Penalties and Sanctions provided shall be imposed on FIs and officers concerned found to have violated any of the provisions of Secs. 3 and 4 of App. 97

X388.5 - X393
13.12.31

07 January 2011, 670 dated 18 November 2009, 628 dated 31 October 2008, 626 dated 23 October 2008 and 585 dated 15 October 2007, M-2007-006 dated 28 February 2007; Circular Nos. 558 dated 22 January 2007, 546 dated 17 November 2006 and 509 dated 01 February 2006)

Sec. X389 (Reserved)

Sec. 1389 Guidelines on the Investment of Universal Banks and Commercial Banks in Credit-Linked Notes, Structured Products and Securities Overlying Securitization Structures. In line with the policy of encouraging banks to diversify their investment portfolios and to foster the development of a market for new financial products, the Bangko Sentral has issued guidelines on the investment of UBs and KBs in (1) CLNs and similar products (Sec. 1628), (2) foreign currency denominated structured products (Secs. 1635 and 1636) and (3) securities overlying securitization structures (Sec. 1648).

No prior Bangko Sentral approval is required to enter into authorized transactions. However, it shall be the responsibility of UBs/KBs to fully comply with appropriate risk management standards including, as a minimum, those prescribed under relevant Sections. The regulatory requirements enumerated in *Appendix 66* shall be fully complied with by UBs/KBs investing in products allowed under Secs./Subsec. 1628, 1635 and X115.3.

The guidelines on the accounting for investments in CLNs and other SPs, in addition to those prescribed under PAS 39, is provided in *Appendix 66a*.
(As amended by Circular No. 708 dated 01 January 2011 and M-2008-010 dated 07 March 2008)

Sec. 2389 - 3389 (Reserved)

Sec. X390 (Reserved)

Sec. 1390 Prohibition Against Non-Residents from Investing in the Special

Deposit Account (SDA) Facility. 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, which are counterparties of the Bangko Sentral, shall comply with the Guidelines on the Prohibition Against Non-Residents from Investing in the SDA Facility shown in *Appendix 78b*.
(M-2012-034 dated 13 July 2012)

Sec. 2390 Prohibition Against Non-Residents from Investing in the SDA Facility. 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, which are counterparties of the Bangko Sentral, shall comply with the Guidelines on the Prohibition Against Non-Residents from Investing in the SDA Facility shown in *Appendix 78b*.
(M-2012-034 dated 13 July 2012)

Sec. 3390 (Reserved)

Secs. X391 - X392 (Reserved)

K. MISCELLANEOUS PROVISIONS

Sec. X393 Loans-to-Deposits Ratio. The following policies and guidelines shall

govern the loans-to-deposits ratio (LDR) of head offices and branches.
(As amended by Circular No. 613 dated 18 June 2008)

X393.1 *Statement of policy.* It is the policy of the Bangko Sentral to promote healthy competition within the banking system as well as provide enhanced banking statistics necessary for informed decision-making.
(As amended by Circular No. 613 dated 18 June 2008)

X393.2 *Regional loans-to-deposits ratio.* An individual bank's regional LDR is a measure of the extent of its lending activity vis- -vis deposits generated in a region. On an aggregate basis, the regional LDR for the banking system is an indicator of the level of bank deposits which have been transformed into investments in a region. The latter may be used by banks as a benchmark in assessing their regional lending and deposit operations as against that of the industry and their peer group.
(As amended by Circular No. 613 dated 18 June 2008)

X393.3 *Computation of the regional loans-to-deposits ratio.* The individual bank's regional LDR shall be computed by dividing a bank's aggregate loans by its aggregate deposit liabilities on a per region basis as of the same reporting cut-off date. A bank, in computing its regional LDR, shall be guided by the following:
a. Loans shall be reported by a bank in the region where the loan proceeds were utilized or channeled to, i.e., location of the end-users.
b. Deposits, on the other hand, shall be reported by a bank in the region wherein these were generated.
For purposes of this Section, loans shall refer to the amortized cost of a bank's total loan portfolio, excluding Loans to Bangko Sentral , Interbank Loans Receivable and loans granted by a bank's FCDU/EFCDU. Deposits, on the other hand, shall refer to a bank's total deposit liabilities, excluding FCDU/EFCDU deposits.
(As amended by Circular No. 613 dated 18 June 2008)

(Next page is Part III- Page 75)

Sec. X394 Acquired Assets in Settlement of Loans. The following rules shall govern assets acquired in settlement of loans.

□ **X394.1 Posting.** Banks shall post at all times in a conspicuous place in the premises of their head office and each of their branches and other banking offices a list of acquired assets together with the corresponding lowest price at which the bank is willing to sell such property. However, this requirement shall not relieve the bank from the requirement under Section 52 of R.A. No. 8791 to dispose of such acquired assets.

□ **X394.2 Booking**

a. ROPA in settlement of loans through foreclosure or dation in payment shall be booked under the ROPA account as follows:

(1) Upon entry of judgment in case of judicial foreclosure;

(2) Upon execution of the Sheriff's Certificate of Sale in case of extrajudicial foreclosure; and

(3) Upon notarization of the Deed of Dacion in case of dation in payment (*dacion en pago*).

ROPA shall be booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on PAS 39 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PAS 39 provisioning requirements) plus transaction costs incurred upon acquisition (such as non refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property): *Provided*, That if the carrying amount of ROPA exceeds P5.0 million, the appraisal

of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the Bangko Sentral.

b. The carrying amount of ROPA shall be allocated to land, building, other non financial assets and financial assets (e.g., receivables from third party or equity interest in an entity) based on their fair values, which allocated carrying amounts shall become their initial costs.

c. The non financial assets portion of ROPA shall remain in ROPA and shall be accounted for as follows:

(1) Land and buildings shall be accounted for using the cost model under PAS 40 Investment Property ;

(2) Other non financial assets shall be accounted for using the cost model under PAS 16 Property Plant and Equipment ;

(3) Buildings and other non-financial assets shall be depreciated over the remaining useful life of the assets, which shall not exceed ten (10) years and three (3) years from the date of acquisition, respectively; and

(4) Land, buildings and other non-financial assets shall be subject to the impairment provisions of PAS 36 Impairment ¹.

d. Financial assets, shall be reclassified and booked according to intention under HFT, DFVPL, AFS, HTM, INMES, Unquoted Debt Securities Classified as Loans or Loans and Receivable and accounted for in accordance with the provisions of PAS 39, except interests in subsidiaries, associates and joint ventures, which shall be booked under Equity Investments in Subsidiaries, Associates and Joint Ventures and accounted for in accordance with the provisions of PAS 27, 28 and 31, respectively.

e. ROPAs that comply with the provisions of PFRS 5 Non-Current Assets Held for Sale shall be reclassified and accounted for as such.

¹ With additional special regulatory relief in areas affected by Tropical Depression "Yolanda" as provided under Appendix 89a (Circular No. 820 dated 06 December 2013)

¶¶ X394.2 - X394.3
13.12.31

f. Claims arising from deficiency judgments rendered in connection with the foreclosure of mortgaged properties shall be lodged under the real account Deficiency Judgment Receivable ; while probable claims against the borrower arising from the foreclosure of mortgaged properties shall be lodged under the contingent account Deficiency Claims Receivable .

g. *Appraisal of properties.* Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of ROPA to be booked exceeds P5.0 million, the appraisal must be conducted by an independent appraiser acceptable to the Bangko Sentral. An in-house appraisal of all ROPAs shall be made at least every other year: *Provided*, That immediate re-appraisal shall be conducted on ROPAs which materially decline in value.

h. *Non-cash payment for interest.* FIs that accept non-cash payments for interest on their borrowers' loans shall book the acquired assets as ROPA. The amount to be booked as ROPA shall be the booked accrued interest less allowance for credit losses (computed based on PAS 39 provisioning requirements): *Provided*, That if the carrying amount of ROPA exceeds P5.0 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the Bangko Sentral. The carrying amount of ROPA shall be allocated in accordance with Item ¶b¶ and shall be subsequently accounted for in accordance with Item ¶c¶ of this Subsection.

The provisions of this Subsection shall be applied retroactively to all outstanding ROPAs and sales contract receivables: *Provided*: That for properties acquired before 01 January 2005, the carrying amount of the acquired properties when initially booked under ROPA shall be the cost subject to depreciation and impairment

testing, which shall be reckoned from the time of acquisition.

(As amended by Circular Nos. 555 dated 12 January 2007 and 520 dated 20 March 2006)

¶ X394.3 Sales contract receivable

a. Sales Contract Receivable (SCR) shall be recorded based on the present value of the installments receivables discounted at the imputed rate of interest. Discount shall be accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PAS 18 Revenue : *Provided, furthermore*, That SCR shall be subject to impairment provision of PAS 39.

The provisions of this Subsection shall be applied retroactively to all outstanding ROPAs and SCRs: *Provided*: That for properties acquired before 01 January 2005, the carrying amount of the acquired properties when initially booked under ROPA shall be the cost subject to depreciation and impairment testing, which shall be reckoned from the time of acquisition.

b. SCRs which meet all the requirements/conditions enumerated below are hereby considered performing assets and therefore, not subject to classification:

(1) That there has been a downpayment of at least twenty percent (20%) of the agreed selling price or in the absence thereof, the installment payments on the principal had already amounted to at least twenty percent (20%) of the agreed selling price;

(2) That payment of the principal must be in equal installments or in diminishing amounts and with maximum intervals of one (1) year;

(3) That any grace period in the payment of principal shall not be more than two (2) years; and

(4) That there is no installment payment in arrear either on principal or interest: *Provided*, That an SCR account shall be automatically classified Substandard and considered non-performing in case of non-payment of any amortization due: *Provided, further*, That an SCR which has been classified Substandard and considered non-performing due to non-payment of any amortization due may only be upgraded restored to unclassified and/or performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established.

(As amended by Circular No. 520 dated 20 March 2006)

▯▯ X394.4 - X394.9 (Reserved)

▯ **X394.10 *Transfer/sale of non-performing assets to a special purpose vehicle or to an individual.*** The procedures governing the transfer/sale of non-performing assets (NPAs) to a Special Purpose Vehicle (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 an NPL, for the purpose of obtaining the Certificate of Eligibility (COE) which is required to avail of the incentives provided under R.A. No. 9182 are presented in *Appendix 56*.

The accounting guidelines on the sale of NPAs to SPVs and to qualified individuals for housing under the SPV Act of 2002 are presented in *Appendix 56a*.

The significant timelines related to the implementation of R.A. No. 9182, also known as the Special Purpose Vehicle Act as amended by R.A. No. 9343 are presented in *Appendix 56b*.

(As amended by M-2012-036 dated 24 July 2012, M-2008-014 dated 17 March 2008, M-2008-005 dated 04 February 2008, M-2007-013 dated 11 May 2007 and M-2006-001 dated 11 May 2006)

▯▯ X394.11 - X394.14 (Reserved)

▯▯ **X394.15 *Joint venture of banks with real estate development companies***

a. Statement of policy. It is the policy of the Bangko Sentral to encourage banks to dispose of their ROPAs in settlement of loans and other advances either through foreclosure or *dacion en pago* as well as other properties acquired as a consequence of a merger/consolidation which are no longer necessary for their banking operations. Towards this end, banks are hereby authorized to enter into Joint Venture Agreements (JVA) with real estate development companies for the development of said properties, subject to the requirements prescribed under this Subsection.

b. For purposes of this Subsection, *joint venture* shall refer to a contractual arrangement/undertaking between a bank and a duly registered real estate development company (developer) for the purpose of developing the abovementioned properties of the bank. The bank contributes said properties to the undertaking while the developer contributes all the development funds, resources, technical expertise, equipment, personnel and all other requirements desired or needed for the implementation and completion of the undertaking including marketing, where applicable. The bank and the developer shall be bound by the contract that establishes joint control of the undertaking. Although the developer may be designated as operator or manager of the undertaking, it does not, however, absolutely control the undertaking but only acts in accordance with the authorities granted to him under the JVA.

c. Forms of a joint venture. A bank and a developer may undertake a joint venture under the following forms:

(1) A jointly-controlled operation/undertaking, which does not involve the

▯ **X394.15**
08.12.31

establishment of a corporation, partnership or other entity, or a financial structure that is separate from the bank and the developer themselves. Under this form of joint venture, the rights and obligations of the bank and the developer shall be governed primarily by their contract that must clearly specify the following:

- (a) authority of the developer to develop/subdivide the property and subsequently, to sell the individual lots under a special power of attorney;
- (b) sharing in the sales proceeds of the developed ROPAs or in the developed lots;
- (c) sharing in taxes;
- (d) sharing in the assets of the joint venture particularly in the developed/subdivided lots should there still be unsold lots at the time of termination of the joint venture; and
- (e) name under which the subdivided lots shall be registered pending their sale.

(2) A jointly-controlled entity, which involves the establishment of a new juridical entity, preferably a corporation that is separate and distinct from the bank and the developer. A jointly controlled corporation may be established either for the purpose of developing properties of banks for immediate sale or converting them into earning assets such as hotels and shopping malls.

d. *Requirements and limitations in a joint venture.* A bank desiring to enter into a JVA with a developer for the purpose of developing its ROPAs and/or other properties acquired as a consequence of merger/consolidation shall comply with the following:

- (1) The JVA shall be approved by the board of directors of the bank.
- (2) The bank's contribution to the joint venture, in whatever form undertaken, shall be limited to ROPAs and properties acquired as a consequence of the bank's merger/consolidation with another bank/financial institution.

(3) The bank shall not recognize income out of its contribution to the joint venture, regardless of the agreed valuation of said properties.

(4) The bank shall not provide funds to the joint venture either as a loan or capital contribution.

(5) The JVA or contractual arrangement shall clearly stipulate the rights and obligations of the bank and the developer.

(6) The bank shall secure prior Monetary Board approval of the JVA.

e. *Application for authority to enter into JVA.* A bank desiring to enter into a JVA with a developer for the purpose of developing its ROPAs and other properties acquired as a consequence of its merger/consolidation with another bank/FI shall secure prior Monetary Board approval of said agreement. For that purpose, the concerned bank shall submit an application for Monetary Board approval to the appropriate department of the SES. The application shall be signed by the bank's president or officer of equivalent rank and shall be accompanied by the following documents/information:

- (1) The name of the developer;
- (2) Name of the principal stockholders and officers as well as members of the board of directors of said company;
- (3) Relationship of the bank with the developer, if any;
- (4) List and brief description of the properties to be contributed by the bank including their market values, book values and the valuation agreed upon under the proposed JVA;
- (5) Certification by the bank's president or officer of equivalent rank that the JVA is strictly in compliance or will strictly comply with the requirements of this Subsection; and
- (6) Such other documents/information that the concerned department of the SES may require.

f. *Non-financial allied undertaking.* All types of banks are hereby authorized to invest in the equities of companies engaged in real estate development as a non-financial allied undertaking, subject to the following conditions:

(1) Investments shall be limited to ROPAs and other properties acquired as a consequence of a bank's merger/consolidation with another bank/FI;

(2) Investments shall be subject to existing Bangko Sentral requirements applicable to investments in non-financial allied undertakings; and

(3) If there is already an existing subsidiary or affiliate relationship between the bank and the investee corporation prior to the investment, the bank shall not recognize income out of its invested properties. The excess of the value of the capital stock received by the bank over the book value of its invested properties shall be booked as *Deferred Credits*.

g. *Accounting treatment.* Accounting treatment of the properties contributed by a bank to a joint venture or invested in the equities of developers.

(1) In a joint venture in the form of a jointly controlled operations/undertaking, which does not involve the establishment of a corporation or other entity, the bank shall continue to recognize in its books the properties contributed to the undertaking. However, the regular provisioning against probable losses required under existing regulations may be discontinued upon execution and implementation of the JVA.

(2) In a joint venture in which a corporation is created, the bank shall book the properties contributed to the undertaking as investment pursuant to the provisions of PAS 31. It shall also recognize its interest in the corporation using the proportionate consolidation method or the equity method as long as it continues to have joint control over the corporation: *Provided*, That the bank shall not recognize income out of its contribution to the joint venture. The

excess of the value of the capital stock received by the bank over the book value of the contributed properties shall be credited to the account *Deferred Credits*.

(3) Properties invested in equities of developers shall be booked in accordance with the PAS: *Provided*, That the bank shall not recognize income out of the properties invested if there is already an existing subsidiary or affiliate relationship between the bank and the investee corporation prior to the investment, regardless of the agreed valuation of said properties. The excess of the agreed valuation of said properties over their book value shall be booked as *Deferred Credits*.

h. *Coverage.* The provisions of this Subsection shall apply to ROPAs existing, as well as those which may be acquired by banks in settlement of non-performing or past due loans and advances outstanding, as of 09 March 2006 and to properties acquired as a consequence of merger or consolidation which are outstanding in the books of banks as of said date.

i. *Sanctions.* Any violation of the provisions of this Subsection and/or any misrepresentation in the certification and information required to be submitted to the Bangko Sentral under this Subsection shall subject the bank and the officer or officers responsible therefore, to the penalties provided under Sections 35, 36 and 37 of R. A. No. 7653.

(Circular No. 518 dated 09 March 2006)

Sec. X395 Credit Policies of Government-Owned Corporations. Government-owned corporations which perform banking or credit functions shall coordinate their general credit policies with the Schedule of Credit Priorities embodied in *Appendix 23*. Within the provision of their respective charters, these corporations shall limit their credits to the economic activities falling under Priority II of said schedule to fifty percent (50%) of their outstanding loans at any time.

Sec. X396 Parcellary Plans on Crop Loans
 Banks shall require the submission of parcellary plans a requisite for granting crop loans to sugarcane planters.

Sec. X397 (Reserved)

Sec. 1397 Limits on Real Estate Exposures and Other Real Estate Property of UBs/KBs

1. *Real Estate Loan Limit.* Total real estate loans of UB/KBs, excluding Items a to d below, shall not exceed twenty percent (20%) of the total loan portfolio, net of interbank loans:
 - a. Loans extended to individual households for purposes of financing the acquisition, construction, and/or improvement of housing units and acquisition of any associated land that is or will be occupied by the borrower, regardless of amount;
 - b. Loans extended to land developers/ construction companies for the purpose of development and/or construction of socialized and low-cost residential properties as defined under existing guidelines of the HUDCC for the implementation of government housing programs, which are intended for sale to individual households;
 - c. Loans to the extent guaranteed by the HGC; and
 - d. Loans to the extent collateralized by non-risk assets under existing regulations.
 For this purpose, real estate loans shall refer to loans granted to:
 - (1) individual households for the acquisition, construction and/or improvement of housing units and acquisition of any associated land that is or will be occupied by the borrower, including loans granted to bank officers and employees for the same purpose which are covered by bank s fringe benefit plan and which plan was approved by the Monetary Board; and
 - (2) land developers/construction companies and other borrowers for the

- acquisition and development of land and/or construction of buildings and structures, including housing units for sale/lease and/ or for use in retail/wholesale, manufacturing or other income-generating purposes, including loans for the land development and construction of residential properties.
- It shall not include loans for construction of highways, streets, bridges, tunnels, railways, and other infrastructure for public use.
- Purchase by banks of receivables under Contract to Sell (CTS) executed between the real estate developers and home buyers on a with recourse basis shall be considered loans to real estate developers and shall be classified as commercial real estate loans.
- Trust departments of UBs/KBs shall be exempted from the prescribed limit on real estate loans.
- Under existing HUDCC guidelines, socialized and low-cost housing loans are defined as follows:
- | Housing Package | Loan Ceiling |
|------------------------|--------------------------------|
| Low-cost | |
| Level 1-A (Socialized) | 400,000 and below |
| Level 1-B | Above P400,000 to P500,000 |
| Level 2 | Above P500,000 to P1,250,000 |
| Level 3 | Above P1,250,000 to P3,000,000 |
2. *Real Estate Stress Test (REST) Limits*
 A prudential limit is set for real estate exposures and other real estate property of UBs/KBs. *Real estate exposures* shall refer to:
 - a. Real estate loans (RELs), which shall consist of:
 - (1) Residential real estate loans to individual households for occupancy; and
 - (2) Commercial real estate loans, which shall refer to loans granted to the following:

(a) Individuals;
(b) Land developers/construction companies; and
(c) other borrowers, such as
(i) real estate brokers;
(ii) real estate lessors;
(iii) property management companies;
(iv) holding companies; and
(v) others, including other corporate borrowers;
for purposes of financing real estate activities;

b. Investments in debt securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors, property management companies and holding companies, for purposes of financing real estate activities; and

c. Investments in equity securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors and property management companies, for purposes of financing real estate activities. Equity securities issued by holding companies are likewise covered, if proceeds from the issue shall be/has been invested by the holding company in its subsidiary corporation/s that is/are engaged in real estate activities.

Real estate exposures shall not include loans and investments in debt and equity securities for construction of highways, streets, bridges, tunnels, railways, and other infrastructure for public use.

Other real estate property shall include those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale.

For this purpose, a stress test will be undertaken on a UB s/KB s REEs (Real Estate Exposures) and other real estate property under an assumed write-off rate of twenty-five percent (25%).

The prudential REST limits, which shall be complied with at all times by UBs/KBs, are six percent (6%) of Common Equity Tier I (CET1) capital ratio and ten percent (10%) of risk-based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate.

A UB/KB which does not meet either or both the REST limits shall be directed to explain why its exposures do not warrant immediate remedial action. The Monetary Board, upon the report of the appropriate supervising department of the SES, shall determine whether the UB/KB has been able to render sufficient explanation, otherwise, the UB/KB shall be directed to submit an action plan, within thirty (30) calendar days from date of notification, to meet the REST limits within a reasonable time frame.

A UB/KB which fails to submit an action plan or persistently breaches the REST limits due to non-compliance with the commitments in its submitted action plan may be considered to be engaging in unsafe and unsound practice, to be determined in accordance with Section 56 of R.A. No. 8791 as implemented by Section X149, and shall subject the UB/KB to appropriate sanctions.

(As amended by Circular No. 839 dated 27 June 2014, M-2012-046 dated 21 September 2012, M-2011-035 dated 23 June 2011, Circular No. 600 dated 04 February 2008)

Sec. 2397 Limits on Real Estate Exposures and Other Real Estate Property of TBs. A prudential limit is set for real estate exposures as defined under Item 2 of Section 1397, and other real estate property of TBs. Other real estate property shall include those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale. For this purpose, a stress test will be undertaken on a TB s REEs and other real estate property under an assumed write-off rate of twenty five percent (25%).

2397 - X398.5
14.12.31

The prudential REST limits which shall be complied with at all times by TBs are:

- a. six percent (6%) of Common Equity Tier I capital, for TBs that are subsidiaries of UBs/KBs;
- b. six percent (6%) of Tier I capital, for stand-alone TBs¹; and
- c. ten percent (10%) of risk-based capital adequacy ratio for all TBs.

A TB which does not meet either or both the REST limits shall be directed to explain why its exposures do not warrant immediate remedial action. The Monetary Board, upon the report of the appropriate supervising department of the SES, shall determine whether the TB has been able to render sufficient explanation, otherwise, the TB shall be directed to submit an action plan, within thirty (30) calendar days from date of notification, to meet the REST limits within a reasonable time frame.

A TB which fails to submit an action plan or persistently breaches the REST limits due to non-compliance with the commitments in its submitted action plan may be considered to be engaging in unsafe and unsound practice, to be determined in accordance with Section 56 of R.A. No. 8791, as implemented by Section X149, and shall subject the TB to appropriate sanctions.
(Circular No. 839 dated 27 June 2014)

Sec. 3397 (Reserved)

Sec. X398 Monetary Board Opinion on Domestic Borrowings of Government

¶ **X398.1 Domestic borrowings by local government units pursuant to Section 123 of R.A. No. 7653.** This Section shall govern the 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 R.A. No. 7653. The guidelines that will govern the domestic borrowings of LGUs in line with R.A. No. 7653 (The New Central Bank Act), as well as other pertinent laws/regulations is shown in *Appendix 57*.

(Circular No. 769 dated 26 September 2012, as amended by Circular No. 819 dated 12 November 2013)

¶ **X398.2 Debt service limit on local government borrowings.** To ensure the effective implementation of the debt service limit on local government borrowings as stipulated in Section 324 (b) of the Local Government Code of 1991, all banks shall require each borrowing LGU to present a certificate of its debt service and borrowing capacity, duly certified by the Bureau of Local Government Finance – Department of Finance (BLGF DOF).

(CL-2012-030 dated 29 April 2012, Circular No. 769 dated 26 September 2012)

¶ X398.3 - ¶ X398.4 (Reserved)

¶ **X398.5 Enforcement actions.** Banks which will release, in full or partial amounts, borrowings within the Philippines of the Government or any of its political subdivisions or instrumentalities, without the submission by the borrower of the Monetary Board opinion on the probable effects of the proposed borrowings on monetary aggregates, the price level and the balance of payments as required under Section 123 of R.A. No. 7653:

a. *First offense* – Monetary penalty computed in accordance with *Appendix 67*, with stern warning to the bank that subsequent offenses shall be dealt with stiffer non-monetary sanctions;

b. *Second offense* – Suspension of the lending operations of the erring bank to the Government or any of its political

¹ TBs that are not subsidiaries of UBs and KBs

subdivisions or instrumentalities for a period of six (6) months, and written reprimand to the officer/s or members of the committee and/or board of directors who approved the loan; and

c. *Third offense* – Suspension of the lending operations of the erring bank to the Government or any of its political subdivision or instrumentalities, for one (1) year.

(Circular No. 797 dated 22 May 2013)

**L. GENERAL PROVISION
ON SANCTIONS**

Sec. X399 General Provision on Sanctions
Any violation of the provisions of this Part shall be subject to Sections 36 and 37 of R.A. No. 7653.

The guidelines for the imposition of monetary penalty for violations/offenses with sanctions falling under Section 37 of R. A. No. 7653 on banks, their directors and/or officers are shown in *Appendix 67*.

PART FOUR

TRUST, OTHER FIDUCIARY BUSINESS AND INVESTMENT
MANAGEMENT ACTIVITIES

Section X401 Statement of Principles

The cardinal principle common to all trust and other fiduciary relationships is fidelity. Policies predicated upon this principle shall be directed towards observance of the following:

a. *Prudent administration.* The trust, investment management and other fiduciary accounts shall be administered in conformity with the intention and purpose of the client as manifested in the terms of the agreement, and with the skill, care, prudence and diligence necessary under the circumstance then prevailing that a prudent man acting in like capacity and familiar with such matters would exercise in the conduct of an enterprise of like character and with similar aims.

b. *Undivided loyalty and utmost care.* In the discharge of fiduciary responsibility, the interests of clients shall be placed above those of the bank. Clear policies and procedures shall be developed in dealing with conflict of interest situations. The fiduciary assets shall be objectively and fairly administered, invested and distributed giving due regard to the beneficiaries respective interests.

c. *Non-delegation of responsibilities.* The administration of the trust, investment management, or fiduciary responsibilities or the performance of acts that should be personally performed shall not be delegated as the client's confidence is reposed on the trust entity (TE).

d. *Preserving and protecting property.* Reasonable care and diligence shall be observed to preserve and protect the property entrusted. Fiduciary assets shall be kept legally separate and distinct from

proprietary assets and from one (1) fiduciary/ trust/investment management account to another.

e. *Keeping and rendering accounts.* A true and accurate account or record of transactions entered into shall be kept. Reports on the trust, investment management and other fiduciary accounts shall be rendered to the trustor, principal, beneficiary, or other party in interest, or the court concerned, or any party duly designated by a court order, as the case may be, in accordance with Secs. X421 and X425. Likewise, all material facts within the knowledge or reasonably discoverable by the TE, particularly information that would enable clients to make well-informed decisions, shall be promptly transmitted/relayed to clients for them to protect their interests.

Furthermore, practices shall be carried out in accordance with the basic standards (*Appendix 83*) and Risk Management Guidelines (*Appendix 83a*) for trust, other fiduciary and investment management accounts.

A bank authorized to engage in trust and fiduciary business is under no obligation, either legal or moral, to accept any such business being offered nor has it the right to accept if the same is contrary to law, rules, regulations, public order and public policy. It shall advertise its services in a dignified manner and enter such business only when demand for such service is evident, when specially equipped to render such service and upon full appreciation of the responsibilities involved. It shall be ready and willing to give full disclosure of the services being offered and shall conduct its dealing with transparency.

X401 - X403
14.12.31

Harmonious relationship shall likewise be pursued with other professions to achieve the common goal of mutual service to the public and protection of its interest.

Banks may not receive or hold as trustee, agent, administrator, financial manager, or other similar capacity, any fund or money from the Government and government entities, except government financial institutions. Government-owned banks may receive or hold as trustee, agent, administrator, financial manager, or other similar capacity, the following:

a. Funds of local government units (LGUs) which are expected to be available for investment purposes for a relatively long period of time: *Provided, further,* That the amounts held in trust or otherwise managed/advised for and in behalf of the LGUs shall be invested only in government securities, specifically, evidences of indebtedness of the National Government, the Bangko Sentral and other evidences of indebtedness or obligations of government entities, the servicing and repayment of which are fully guaranteed by the National Government; and

b. Funds of government and government entities which are authorized by special laws to be placed in trust.

(As amended by Circular Nos.828 dated 11 March 2014, 766 dated 17 August 2012, 721 dated 13 May 2011 and 618 dated 20 August 2008)

Sec. X402 Scope of Regulations. These regulations shall govern the grant of authority to and the management, administration and conduct of *trust, other fiduciary business and investment management activities* (as these terms are defined in Sec. X403) of banks.

The regulations are divided into three (3) Sub-Parts where:

A. *Trust and Other Fiduciary Business* shall apply to banks authorized to engage in trust and other fiduciary business

including investment management activities;

B. *Investment Management Activities* shall apply to banks without trust authority but with authority to engage in investment management activities; and

C. *General Provisions* shall apply to both.

Sec. X403 Definitions. For purposes of regulating the operations of trust and other fiduciary business and investment management activities, unless the context clearly connotes otherwise, the following shall have the meaning indicated.

a. *Trust entity (TE)* shall refer to a:

(1) bank or an NBFI, through its specifically designated business unit to perform trust functions; or

(2) trust corporation, authorized by the Bangko Sentral to engage in trust and other fiduciary business under Section 79 of R.A. No. 8791 (The General Banking Law of 2000) or to perform investment management services under Section 53 of R.A. No. 8791.

b. *Trust business* shall refer to any activity resulting from a trustor-trustee relationship (trusteeship) involving the appointment of a trustee by a trustor for the administration, holding, management of funds and/or properties of the trustor by the trustee for the use, benefit or advantage of the trustor or of others called beneficiaries.

c. *Other fiduciary business* shall refer to any activity of a trust-licensed bank resulting from a contract or agreement whereby the bank binds itself to render services or to act in a representative capacity such as in an agency, guardianship, administratorship of wills, properties and estates, executorship, receivership, and other similar services which do not create or result in a trusteeship. It shall exclude collecting or paying agency arrangements and similar fiduciary services which are inherent in the use of the facilities of the other operating departments of said bank.

Investment management activities, which are considered as among other fiduciary business, shall be separately defined in the succeeding item to highlight its being a major source of fiduciary business.

d. *Investment management activity* shall refer to any activity resulting from a contract or agreement primarily for financial return whereby the bank (the investment manager) binds itself to handle or manage investible funds or any investment portfolio in a representative capacity as financial or managing agent, adviser, consultant or administrator of financial or investment management, advisory, consultancy or any similar arrangement which does not create or result in a trusteeship.

e. *Trust* is a relationship or an arrangement whereby a person called a trustee is appointed by a person called a trustor to administer, hold and manage funds and/or property of the trust or for the benefit of a beneficiary.

f. *Trust agreement* is an instrument in writing covering the terms and conditions of the trust.

g. *Trustee* is any person who holds legal title to the funds and/or property of a trust.

h. *Trustor* is any person who creates a trust.

i. *Beneficiary* is any person for whose benefit a trust is created.

j. *Fiduciary* shall refer to any person or entity engaged in any of the other fiduciary business as herein defined where no trustor-trustee relation exists.

k. *Agency* shall refer to a contract whereby a person binds himself to render some service or to do something in representation or on behalf of another, with the consent or authority of the latter.

l. *Principal* shall refer to the person who grants authority to another person

called an agent, under a contract to enter into transactions in his behalf.

m. *Agent* shall refer to a person who acts in representation or on behalf of another with the latter's authority.

n. *Trust department* shall refer to then department, office, unit, group, division or any aggrupation which carries out the trust and other fiduciary business of a bank.

o. *Trust officer* shall refer to the designated head or officer-in-charge of the trust department.

p. *Trust account* shall refer to an account where transactions arising from a trusteeship are kept and recorded.

q. *Common trust fund* (CTF) shall refer to a fund maintained by a bank authorized to perform trust functions under a written and formally established plan, exclusively for the collective investment and reinvestment of certain money representing participation in the plan received by it in its capacity as the trustee.

r. *Fiduciary account* shall refer to an account where transactions arising from any of the other fiduciary businesses are kept and recorded.

s. *Investment Manager* shall refer to any person or entity engaged in investment management activities as herein defined.

t. *Investment Management Department* shall refer to the department, unit, group, division or any aggrupation which carries out the investment management activities of a bank that does not have an authority to engage in trust and other fiduciary business.

u. *Investment Management Officer* shall refer to the designated head or officer-in-charge of the investment management department of a bank which does not have the authority to engage in trust and other fiduciary business.

v. *Investment Management Account* shall refer to an account where

¶¶ **X403 - X404.3**
12.12.31

transactions arising from investment management activities are kept and recorded.

(As amended by Circular No.766 dated 17 August 2012)

**A. TRUST AND OTHER
FIDUCIARY BUSINESS**

Sec. X404 Authority to Perform Trust and Other Fiduciary Business. With prior approval of the Monetary Board, banks may engage in trust and other fiduciary business under Chapter VII of R.A. No. 337, as amended.

If a bank is found to engage in unauthorized trust and other fiduciary business and/or investment management activities, whether as its primary, secondary or incidental business, the Monetary Board may impose administrative sanctions against such bank or its principal officers and/or majority stockholders or proceed against them in accordance with law.

The Monetary Board may take such action as it may deem proper such as, but may not be limited to, requiring the transfer or turnover of any trust and other fiduciary and/or investment management account (IMA) to duly incorporated and licensed entities of the choice of the trustor, beneficiary or client, as the case may be.

No bank shall advertise or represent itself as being engaged in trust and other fiduciary business or in investment management activities or represent itself as trustee or investment manager or use words of similar import; and/or use in connection with its business title the words *trust*, *trust corporation*, *trust company*, *trust plan* or words of similar import, without having obtained the required authority to do so.

¶ **X404.1 Application for authority to perform trust and other fiduciary business**
Banks desiring to perform trust and other fiduciary business shall file an application

with the appropriate department of the SES. The application shall be signed by the bank's president or officer of equivalent rank and shall be accompanied by the following documents:

- a. Certified true copy of the resolution of the institution's board of directors authorizing the application; and
- b. A certification signed by the president or the officer of equivalent rank that the institution has complied with all conditions/prerequisites for the grant of authority to perform trust and other fiduciary business.

¶ **X404.2 Required capital.** Banks applying for authority to perform trust and other fiduciary business must have minimum capital accounts as follows:

UBs/KBs. The amount required under Sec. X111 or such amount as may be required by the Monetary Board in the future.

Branches of foreign banks. The amount required under Sec. X105 or such amount as may be required by the Monetary Board in the future.

TBs. P650.0 million or such amounts as may be required by the Monetary Board in the future.

Banks authorized to perform and are actually performing trust and other fiduciary business prior to 20 August 2002 whose capital accounts are lower than the above-prescribed minimum capital accounts shall, before declaring any dividend, carry to surplus at least fifty percent (50%) of their net income from all operations since the last preceding dividend until such time that their capital accounts meet the above requirement.

¶ **X404.3 Prerequisites for engaging in trust and other fiduciary business.** Before it may engage in trust and other fiduciary business, a bank shall comply with the following requirements:

- a. The applicant has been duly licensed or incorporated as a bank or created as such by special law or charter;
- b. 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;
- c. The by-laws of the institution shall include among other things, 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;
- d. The bank s operation during the preceding calendar year and for the period immediately preceding the date of application has been profitable;
- e. The bank is well capitalized whose risk-based capital adequacy ratio is not lower than twelve percent (12%) at the time of filing the application;
- f. It has not incurred net weekly reserve deficiencies during the eight (8)-week period immediately preceding the date of application;
- g. It has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/ or Bangko Sentral 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 Bangko Sentral;
- (3) the ceilings on credit accommodations to DOSRI;
- (4) liquidity floor requirements for government deposits;
- (5) single borrower s limit; and
- (6) investment in bank premises and other fixed assets;
- h. It maintains adequate provisions for probable losses commensurate to the quality of its asset portfolio but not lower than the required valuation reserves as determined by the Bangko Sentral;
- i. 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 Bangko Sentral* account exceeding one percent (1%) of the total resources as of date of application;
- j. It has no past due obligations with the Bangko Sentral or with any government financial institution;
- k. 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;
- l. It has a CAMELS composite rating of at least 3 in the last regular examination with management rating of not lower than 3 ; and
- m. It has neither unpaid assessment due nor past due obligations with the PDIC.

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

X404.3 - 2404
12.12.31

same duration.
(As amended by Circular No. 674 dated 10 December 2009)

X404.4 Pre-operating requirements
A bank authorized to engage in trust and other fiduciary business shall, before engaging in actual operations, submit to the Bangko Sentral the following:
a. Government securities acceptable to the Bangko Sentral amounting to P500,000 as minimum basic security deposit for the faithful performance of trust and other fiduciary duties required under Subsec. X405.1;
b. Organization chart of the trust department which shall carry out the trust and other fiduciary business of the bank; and
c. Names and positions of individuals designated as chairman and members of the trust committee, trust officer and other subordinate officers of the trust department with their respective bio-data and statement of duties and responsibilities.

Sec. 1404 (Reserved)

Sec. 2404 Grant of Authority to Engage in Limited Trust Business to Thrift Banks
a. Statement of policy. It is hereby declared the policy of the Bangko Sentral to promote healthy competition in order to improve the delivery of banking services especially in the countryside. Towards this end, authority to engage in limited trust business shall be granted to qualified TBs which meet the minimum capital required for the grant of such authority, among others.
b. Scope of limited trust business
Limited trust business shall be confined to:
(1) court trusts or trusts under orders of court of competent jurisdiction, such as acting as:
(a) executor or administrator of a will; and
(b) guardian of the estate of a minor or incompetent; and

(2) administration of properties.
c. Application for authority to engage in limited trust business. A TB desiring to engage in a limited trust business shall file an application with the Centralized Application and Licensing Group (CALG) of the SES. The application shall be signed by the bank president or officer of equivalent rank and shall be accompanied by the following documents:
(1) Certified true copy of the resolution of the bank s board of directors authorizing the application; and
(2) Certification signed by the bank president or officer of equivalent rank that the bank has complied with all the conditions/pre-requisites for the grant of authority to engage in a limited trust business.
d. Required capital. A TB applying for authority to engage in limited trust business must have minimum capital accounts under existing regulations or P100.0 million, whichever is higher, or such amounts as may be required by the Monetary Board in the future.
e. Pre-requisites for the grant of authority to engage in limited trust business. A TB applying for authority to engage in limited trust business must comply with the following requirements:
(1) The bank s operation during the preceding calendar year and for the period immediately preceding the date of application has been profitable;
(2) The bank is well capitalized whose risk-based CAR is not lower than twelve percent (12%) at the time of filing the application;
(3) It has not incurred net weekly reserve deficiencies within eight (8) weeks immediately preceding the date of application;
(4) It has generally complied with banking laws, rules and regulations, orders or instructions of the Monetary Board and/

or Bangko Sentral Management in the last two (2) preceding examinations prior to the date of application, more particularly:

- (a) election of at least two (2) independent directors;
 - (b) attendance by every member of the board of directors in a special seminar for board of directors conducted or accredited by the Bangko Sentral;
 - (c) the ceilings on credit accommodations to DOSRI;
 - (d) liquidity floor requirements for government deposits;
 - (e) SBL; and
 - (f) investment in bank premises and other fixed assets;
 - (5) It maintains adequate provisions for probable losses commensurate to the quality of its asset portfolio but not lower than the required valuation reserves as determined by the Bangko Sentral;
 - (6) It 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 date of application;
 - (7) It has no past due obligations with the Bangko Sentral or with any government FI;
 - (8) 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;
 - (9) It has a CAMELS composite rating of at least 3 in the last regular examination with Management rating not lower than 3 ; and
 - (10) It has neither unpaid assessment due nor past due obligations with the PDIC;
- f. *Requirements for engaging in limited*

trust business. A TB authorized to engage in limited trust business shall comply with the following requirements:

- (1) The articles of incorporation of the bank shall include among its powers or purposes, acting as trustee or administering trust or holding property in trust or on deposit for the use, or in behalf of others;
- (2) The by-laws of the bank shall include among others, provisions on the following:
 - (a) The organization plan or structure of the department, office or unit which shall conduct the trust and other fiduciary business of the bank;
 - (b) The creation of a trust committee, to be composed of at least three (3) members who are all members of the board of directors and who are not operating officers of the bank, and at least two (2) of whom are independent directors: *Provided*, That if the bank decides to have a trust committee composed of at least five (5) members, the provisions of Subsec. X406.2 shall apply;
 - (c) The appointment of a trust officer and subordinate officers of the trust department, office or unit: *Provided*, That the trust officer shall have the following:
 - (i) At least two (2) years of actual experience in trust operations; or
 - (ii) At least one (1) year of actual experience in trust operations and:
 - 1) completion of a training program in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
 - 2) completion of a relevant global or local professional certification program; or
 - (iii) At least two (2) years of actual experience as officer of a bank/NBFI or related activities; and
 - 1) completion of a training program in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
 - 2) completion of a relevant global or

2404 - 3404
12.12.31

local professional certification program;
(d) 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. *Administration of properties held in trust.* The properties held in trust or other fiduciary capacity shall be administered in accordance with the terms of the instrument creating the trust and/or order of the court. Unless otherwise directed in writing by the court, investments of fiduciary funds shall be limited to:

- (1) Bank deposits; and
- (2) Evidences of indebtedness of the Republic of the Philippines or of the Bangko Sentral, and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;

h. *Applicability of the rules and regulations on trust, other fiduciary business and investment management activities.* The provision of this Part which are not inconsistent with the provisions of this Section shall apply to TBs authorized to engage in limited trust business.

((Circular No. 583 dated 24 September 2007, as amended by Circular Nos. 766 dated 17 August 2012 and 674 dated 10 December 2009))

Sec. 3404 Grant of Authority to Engage in Limited Trust Business to Rural Banks

a. *Statement of policy.* It is hereby declared the policy of the Bangko Sentral to promote healthy competition in order to improve the delivery of banking services especially in the countryside. Towards this end, authority to engage in limited trust business shall be granted to qualified RBs which meet the minimum capital required for the grant of such authority, among others.

b. *Scope of limited trust business* Limited trust business shall be confined to:

- (1) court trusts or trusts under orders of court of competent jurisdiction, such as

acting as:

- (a) executor or administrator of a will; and
- (b) guardian of the estate of a minor or incompetent; and
- (2) administration of properties.

c. *Application for authority to engage in limited trust business.* An RB desiring to engage in a limited trust business shall file an application with the CALG of the SES. The application shall be signed by the bank president or officer of equivalent rank and shall be accompanied by the following documents:

- (1) Certified true copy of the resolution of the bank s board of directors authorizing the application; and
- (2) Certification signed by the bank president or officer of equivalent rank that the bank has complied with all the conditions/pre-requisites for the grant of authority to engage in a limited trust business.

d. *Required capital.* An RB applying for authority to engage in limited trust business must have minimum capital accounts of P100.0 million, or such amounts as may be required by the Monetary Board in the future.

e. *Pre-requisites for the grant of authority to engage in limited trust business* An RB applying for authority to engage in limited trust business must comply with the following requirements:

- (1) The bank s operation during the preceding calendar year and for the period immediately preceding the date of application has been profitable;
- (2) The bank is well capitalized whose risk-based CAR is not lower than twelve percent (12%) at the time of filing the application;
- (3) It has not incurred net weekly reserve deficiencies within eight (8) weeks immediately preceding the date of application;
- (4) It has generally complied with

banking laws, rules and regulations, orders or instructions of the Monetary Board and/or Bangko Sentral Management in the last two (2) preceding examinations prior to the date of application, more particularly:

- (a) election of at least two (2) independent directors;
- (b) attendance by every member of the board of directors in a special seminar for board of directors conducted or accredited by the Bangko Sentral;
- (c) the ceilings on credit accommodations to DOSRI;
- (d) liquidity floor requirements for government deposits;
- (e) SBL; and
- (f) investment in bank premises and other fixed assets;
- (5) It maintains adequate provisions for probable losses commensurate to the quality of its asset portfolio but not lower than the required valuation reserves as determined by the Bangko Sentral;
- (6) It 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 date of application;
- (7) It has no past due obligations with the Bangko Sentral or with any government FI;
- (8) 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;
- (9) It has a CAMELS composite rating of at least 3 in the last regular examination with Management rating not lower than 3 ; and
- (10) It has neither unpaid assessment due nor past due obligations with the PDIC.

f. *Requirements for engaging in limited trust business.* An RB authorized to engage in limited trust business shall comply with the following requirements:

- (1) The articles of incorporation of the bank shall include among its powers or purposes, acting as trustee or administering trust or holding property in trust or on deposit for the use, or in behalf of others;
- (2) The by-laws of the bank shall include among others, provisions on the following:
 - (a) The organization plan or structure of the department, office or unit which shall conduct the trust and other fiduciary business of the bank;
 - (b) The creation of a trust committee, to be composed of at least three (3) members who are all members of the board of directors and who are not operating officers of the bank, and at least two (2) of whom are independent directors: *Provided*, That if the bank decides to have a trust committee composed of at least five (5) members, the provisions of Subsec. X406.2 shall apply;
 - (c) The appointment of a trust officer and subordinate officers of the trust department, office or unit: *Provided*, That the trust officer shall have the following:
 - (i) At least two (2) years of actual experience in trust operations; or
 - (ii) At least one (1) year of actual experience in trust operations and:
 - 1) completion of a training program in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
 - 2) completion of a relevant global or local professional certification program; or
 - (iii) At least two (2) years of actual experience as officer of a bank/NBFI or related activities and:
 - 1) completion of a training program in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
 - 2) completion of a relevant global or

3404 - X405.2
12.12.31

local professional certification program;
(d) 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. *Administration of properties held in trust.* The properties held in trust or other fiduciary capacity shall be administered in accordance with the terms of the instrument creating the trust and/or order of the court. Unless otherwise directed in writing by the court, investments of fiduciary funds shall be limited to:

- (1) Bank deposits; and
- (2) Evidences of indebtedness of the Republic of the Philippines or of the Bangko Sentral, and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;

h. *Applicability of the rules and regulations on trust, other fiduciary business and investment management activities.* The provision of this Part which are not inconsistent with the provision of this Section shall apply to RBs authorized to engage in limited trust business.

(Circular No. 583 dated 24 September 2007, as amended by Circular Nos. 766 dated 17 August 2012 and 674 dated 10 December 2009)

Sec. X405 Security for the Faithful Performance of Trust and Other Fiduciary Business

▯ **X405.1 Basic security deposit.** A bank authorized to engage in trust and other fiduciary business shall deposit with the Bangko Sentral eligible government securities as security for the faithful performance of its trust and other fiduciary duties equivalent to at least one percent (1%) of the book value of the total volume of trust, other fiduciary and investment management assets: *Provided, That at no time shall such deposit be less than P500,000.*

Scripless securities under the Registry of Scripless Securities (RoSS) System of the

Bureau of Treasury (BTr) may be used as basic security deposit for trust and other fiduciary duties using the Guidelines enumerated in *Appendix 34* of this Manual.

▯ **X405.2 Eligible securities** Government securities which shall be deposited in compliance with the above basic security deposit shall consist of:

a. Evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines; and such other kinds of securities which may be declared eligible by the Monetary Board: *Provided, That such securities shall be free, unencumbered, and not utilized for any other purpose: Provided, further, That such securities shall have remaining maturity of not more than three (3) years from the date of deposit with the Bangko Sentral; and*

b. NDC Agri-Agra ERAP Bonds which are not being used as alternative compliance with P.D. No. 717. The requirement that the securities used shall have a remaining maturity of not more than three (3) years shall not apply.

c. Five (5)- and Ten (10)-year SPTBs to finance the CARP-related expenditures, provided such bonds shall not be hypothecated in any way or earmarked for any other purpose and they meet the three (3)-year remaining maturity requirement to ensure that such bonds are liquid.

d. Securities backed by the unreleased IRAs of LGUs (issued by a Special Purpose Trust administered by the DBP under the IRA Monetization Program of the Union of Local Authorities of the Philippines) the release of which IRA on scheduled date of payment has been certified by the DBM as not being subject to any conditionalities: *Provided, That such securities shall be eligible only to the extent of the present value of the bond computed using the*

original yield to maturity (as of auction/issue date): *Provided, further,* That for reserve for trust and other fiduciary duties, the remaining maturities of the securities shall not exceed three (3) years; and

e. Zero Coupon Bond Issue by the HGC of up to P7.0 billion five (5)-year regular series and up to P3.0 billion seven (7)-year special series to finance its guaranty servicing of socialized and low-cost housing projects: *Provided,* That they meet the three (3)-year remaining maturity requirement to ensure that such bonds are liquid: *Provided, further,* That such bonds shall qualify as eligible reserve for trust and other fiduciary duties only to the extent of the present value of the bond computed using the original yield to maturity (as of auction/issue date).

f. Tobacco Excise Tax Receivable Monetization Program Investment Certificates (TEXTR Certificates) backed by receivables representing the unreleased portion of the obligation of the National Government to its LGUs for their share of the Tobacco Excise Taxes under R.A. No. 7171 amounting to P1.85 billion and covering the years 2001 and 2002: *Provided,* That such securities shall be eligible only to the extent of the present value of the securities computed using the original yield to maturity as of auction/issue date.

g. Securities received, pursuant to the Domestic Debt Exchange Offer of the Republic of the Philippines, in exchange for securities that are eligible reserves for trust duties.
(As amended by Circular No. 509 dated 01 February 2006)

▯ **X405.3 Valuation of securities and basis of computation of the basic security deposit requirement.** For purposes of determining compliance with the basic security deposit under this Section, the amount of securities so deposited shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.

The base amount for the basic security deposit shall be the average of the month-end balances of total trust, investment management and other fiduciary assets of the immediately preceding calendar quarter.

▯ **X405.4 Compliance period; sanctions**
The trustee or fiduciary shall have thirty (30) calendar days after the end of every calendar quarter within which to deposit with the Bangko Sentral the securities required under this Section.

The following sanctions shall be imposed for any deficiency in the basic security deposit for the faithful performance of trust, investment management and other fiduciary duties:

- a. On the bank:
- i. Monetary penalty/ies:

| | Offense | | First | Second | Third and subsequent offense(s) |
|-------------------------|--|---|-----------|-----------|---------------------------------|
| | Trust | Asset Size | | | |
| Policy per calendar day | TBs/RBs with Limited Trust Authority | | P300.00 | P400.00 | P500.00 |
| | | Up to P500 million | P600.00 | P700.00 | P800.00 |
| | UBs/KBs/TBs with Full Trust Authority and with Trust Assets of | Above P500 million but not exceeding P1 billion | P1,000.00 | P1,250.00 | P1,500.00 |
| | | Above P1 billion but not exceeding P10 billion | P2,000.00 | P3,000.00 | P4,000.00 |
| | | Above P10 billion but not exceeding P50 billion | P5,000.00 | P6,000.00 | P7,000.00 |
| | | Above P50 billion | P8,000.00 | P9,000.00 | P10,000.00 |
| | | | | | |
| | | | | | |

X405.4 - X405.5
14.12.31

ii. Non-monetary penalty beginning with the third offense (all banks) - Prohibition against the acceptance of new trust and other fiduciary accounts, and from renewing expiring trust and other fiduciary contracts up to the time the violation is corrected.

b. On the trust officer and/or other officer(s) responsible for the deficiency/non-compliance:

- (1) *First offense* - warning that subsequent violations shall be dealt with more severely;
- (2) *Second offense* - written reprimand with a stern warning that subsequent violations shall be subject to suspension;
- (3) *Third offense* - thirty (30) calendar day-suspension without pay; and
- (4) *Subsequent offense(s)* - sixty (60) calendar day-suspension without pay.

For purposes of determining the frequency of the violation, the bank s compliance profile for the immediately preceding three (3) years or twelve (12) quarters will be reviewed: *Provided*, That for purposes of determining appropriate penalty on the trust officer and/or other responsible officer(s), any offense committed outside the preceding three (3) year or twelve (12) quarter- period shall be considered as the first offense: *Provided, further*, That in the case of trust officer, all offenses committed by him in the past as trust officer of other institution(s) shall also be considered: *Provided, finally*, That if the offense cannot be attributed to any other officer of the bank, the trust officer shall be automatically held responsible since the ultimate responsibility for ensuring compliance with the regulation rests upon him, as evidence may warrant.

(As amended by Circular Nos. 617 dated 30 July 2008 and 585 dated 15 October 2007)

X405.5 *Reserves¹ against peso-denominated common trust funds and trust and other fiduciary accounts - others*

a. *Reserves against peso-denominated CTFs*. In addition to the basic security deposit, a bank authorized to engage in trust and other fiduciary business shall maintain reserves on:

- (1) peso-denominated CTF; and
- (2) such other managed peso funds which partake the nature of collective investment of a peso-denominated CTF as may be indicated by the presence of the following features:

(a) The funds are composed of contributions from two (2) or more investors;

(b) The funds are managed/administered as a vehicle for collective investment and reinvestment;

(c) The trustee/administrator/agent has the exclusive management and control over the funds and the sole right at any time to sell, convert, invest, exchange, transfer or otherwise change or dispose of the assets comprising the funds; and

(d) Investments/contributions to, or withdrawals from, the funds are being allowed at anytime or as of a fixed date in the future, and/or the income, net of all expenses incurred in the management of the fund plus the fee of the trustee/administrator/ agent, are being distributed among the participants of the funds, without the need to liquidate all assets of the funds.

The required reserves against peso-denominated CTFs and such other managed peso funds which partake the nature of a collective investment of peso-denominated CTFs shall be as follows:

¹ Reserve week starting 11 April 2014, the required reserves shall be as follows:

For reserves against peso –denominated CTFs

| | |
|---------|-----|
| UBs/KBs | 19% |
| TBs | 8% |

For reserves against TOFA-Others

| | |
|---------|-----|
| UBs/KBs | 16% |
| TBs | 8% |

Increase in reserve requirements shall take effect on the reserve week starting 30 May 2014.

| | | |
|---------|---|------------------|
| UBs/KBs | - | 20% ¹ |
| TBs | - | 9% ¹ |
| RBs | - | 4% ¹ |

b. *Reserves against TOFA - Others.* In addition to the basic security deposit, banks shall maintain reserves on TOFA - Others, except accounts held under (1) *Administratorship*; (2) *Bond Issues/Other Obligations Under Deed of Trust or Mortgage*; (3) *Custodianship and Safekeeping*; (4) *Depository and Reorganization*; (5) *Employee Benefit Plans Under Trust*; (6) *Escrow*; (7) *Personal Trust (testamentary or living trust)*; (8) *Executorship*; (9) *Guardianship*; (10) *Life Insurance Trust*; and (11) *Pre-need Plans* (institutional/ individual).

The required reserves against TOFA- Others shall be as follows:

| | | |
|---------|---|------------------|
| UBs/KBs | - | 17% ¹ |
| TBs | - | 9% |
| RBs | - | 4% |

(As amended by Circular Nos. 832 dated 27 May 2014, 830 dated 03 May 2014, 753 dated 29 March 2012, 551 dated 17 November 2006 and 539 dated 09 August 2006)

▯ **X405.6 Composition of reserves**

The provisions of Sec. X254 shall govern the composition of reserves against peso-denominated CTFs and such other managed peso funds, as well as TOFA- Others, of banks authorized to engage in trust and other fiduciary business.

For purposes of this Subsection, a separate deposit account shall be maintained by banks with the Bangko Sentral exclusively for trust reserves. Deposits maintained by banks authorized to engage in trust and other fiduciary business with the Bangko Sentral in compliance with the reserve requirement shall no longer be paid interest effective 06 April 2012.

(As amended by Circular No. 753 dated 29 April 2012)

▯ **X405.7 Computation of reserve position.** A bank authorized to engage in trust and other fiduciary business shall calculate daily the required and available reserves on the value per books of its peso-denominated CTFs and such other managed peso funds, as well as on TOFA- Others, based on the seven-day week, starting Friday and ending Thursday including Saturdays, Sundays, holidays, non-banking days or days when there is no clearing: *Provided*, That with reference to holidays, non-banking days and days where there is no clearing, the reserve position at the close of banking day immediately preceding such holidays, non-banking days or days where there is no clearing, shall apply. For the purpose of computing reserve position, the principal office in the Philippines and all branches and agencies located therein shall be treated as a single unit.

The required reserves in the current period (reference reserve week) shall be computed based on the corresponding levels of peso-denominated CTFs and such other managed peso funds, as well as on TOFA- Others of the prior week.

For purposes of computing the required and available statutory and liquidity reserves for peso-denominated CTFs and such other managed peso funds, as well as TOFA- Others, the term *value per books* shall refer to the total volume of CTFs, other managed peso funds, as well as TOFA- Others less booked Allowance for Probable Losses .

(As amended by Circular No. 535 dated 04 July 2006)

▯ **X405.8 Reserve deficiencies; sanctions.** The provisions of Sec. X257 shall govern the computation of reserve deficiencies for peso-denominated CTFs and such other managed peso funds, as well as

¹ Reserve week starting 11 April 2014, the required reserves shall be as follows:
For reserves against peso –denominated CTFs

| | |
|---------|-----|
| UBs/KBs | 19% |
| TBs | 8% |

For reserves against TOFA- Others

| | |
|---------|-----|
| UBs/KBs | 16% |
| TBs | 8% |

Increase in reserve requirements shall take effect on the reserve week starting 30 May 2014.

¶¶ X405.8 - X406.1
08.12.31

TOFA-Others, of banks authorized to engage in trust and other fiduciary business, including the sanctions provided in said Section.

¶ **X405.9 Report of compliance.** Every bank shall submit a report to the Bangko Sentral of its daily required and available reserves on peso-denominated CTFs and such other managed peso funds, as well as TOFA- Others, in such frequency and within the deadline stated in *Appendix 6*.

Sec. X406 Organization and Management

¶ **X406.1 Organization.** A bank authorized to engage in trust and other fiduciary business shall, pursuant to Subsec. X404.1, include in its by-laws, provisions on the organization plan or structure of the department, office or unit which shall conduct such business. The by-laws shall also include provisions on the creation of a trust committee, the appointment of a trust officer and other subordinate officers and a clear definition of their duties and responsibilities as well as their line and staff functional relationships within the organization which shall be in accordance with the following guidelines.

a. Trust and other fiduciary business of a bank shall be carried out through a trust department which shall be organizationally, operationally, administratively and functionally separate and distinct from the other departments and/or businesses of the institution.

A bank which is also engaged in investment management activities, shall conduct the same only through its trust department and the responsibilities of the board of directors, trust committee and trust officer shall be construed to include the proper administration and management of investment management activities.

No bank shall undertake any of the trust and other fiduciary business and, whenever applicable, investment management activities outside the direct control, authority and management of the trust department or through any department or office which is involved in the other businesses of the bank, such as the Treasury, Funds Management or any similar department, otherwise, any such business shall be considered part of the bank's real liabilities.

The bank proper and the trust department may share the following activities: (1) electronic data processing; (2) credit investigation; (3) collateral appraisal; and (4) messengerial, janitorial and security services.

b. The trust department, trust officer and other subordinate officers of the trust department shall only be directly responsible to the bank's trust committee which shall, in turn, be only directly responsible to the bank's board of directors.

No director, officer or employee taking part in the management of trust and other fiduciary accounts shall perform duties in other departments or the audit committee of the bank and vice versa. However, branch managers duly authorized by the board of directors may, for or on behalf of the trust officer, sign predrawn trust instruments such as CTFs.

c. The organization structure and definition of duties and responsibilities of the trust committee, officers and employees of the trust department shall reflect adherence to the minimum internal control standards prescribed by the Bangko Sentral.

d. Provisions shall be made by the bank to have legal assistance readily available in the review of proposed and/or existing trust and fiduciary agreements and documents and in the handling of legal and tax matters related thereto.

¶ **X406.2 *Composition of trust committee.*** The Trust Committee shall be composed of at least five (5) members including the (1) president or any senior officer of the bank; and (2) the trust officer. The remaining committee members, including the chairperson, may be any of the following: (1) non-executive directors¹ or independent directors² who are both not part of the audit committee; or (2) those considered as qualified *independent*

(Next page is Part IV- page 15)

¹ As defined under Subsec. X141.1
² As defined under Subsec. X141.2

professionals: *Provided*, That, the Philippine branch of a foreign bank may appoint its resident manager or chief executive officer in lieu of the president while the positions allotted for members of the board may be filled up by the area manager and/or officers/representatives from the Head Office, or affiliates or subsidiaries of the head office who are not involved in audit-related activities; *Provided, further*, That, in case of more than five (5) trust committee membership, majority shall be composed of qualified non-executive members.

A qualified *independent professional* shall refer to a person who –

- a. is not a director/officer/employee of the bank during the last twelve (12) months counted from the date of committee membership;
- b. is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any executive director or those involved in the day to day management of institution s operations or officer of the bank; and
- c. is not engaged or does not engage in any transactions with the bank whether by himself or with other persons or through a firm of which he is a partner, other than transactions which are conducted at arm s length and could not materially interfere with or influence the exercise of his judgment.

An independent professional may be appointed as a Trust Committee member of other banks that belong to the same financial conglomerate.

For purposes of this Subsection, the definition of *officer* under Subsec. X142.1 shall apply.

(As amended by Circular No. 766 dated 17 August 2012)

§ X406.3 **Qualifications of committee members, officers and staff.** The bank s trust

department shall be staffed by persons of competence, integrity and honesty. Directors, committee members and officers charged with the administration of trust and other fiduciary activities shall, in addition to meeting the qualification standards prescribed for directors and officers of banks or for qualified independent professionals , possess the necessary technical expertise and relevant experience in such business which may be indicated by any of the following:

- a. at least one (1) year of actual experience in trust, other fiduciary business, or investment management activities;
- b. at least three (3) years of professional experience in relevant field such as banking, finance, economics, law, and risk management;
- c. completion of at least ninety (90) training hours on trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
- d. completion of a relevant global or local professional certification program.

A Trust Committee member should be familiar with Philippine laws, rules and regulations on trust business, as well as uphold at all times ethical and good governance standards.

The trust officer who shall be appointed shall possess any of the following:

- a. at least five (5) years of actual experience in trust operations;
- b. at least three (3) years of actual experience in trust operations and must have:
 - (1) completed at least ninety (90) training hours in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
 - (2) completed a relevant global or local professional certification program; or
- c. at least five (5) years of actual experience as an officer of a bank and must have:

¶¶ X406.3 - X406.9
12.12.31

(1) completed at least ninety (90) training hours in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or

(2) completed a relevant global or local professional certification program.

For the purpose of this Subsection, *actual experience* refers to exposures in trust operations either as officer of a trust entity or member of trust committee.

(As amended by Circular Nos. 766 dated 17 August 2012 and 665 dated 04 September 2009)

§ X406.4 Responsibilities of administration

a. Board of Directors (BOD)

The responsibilities of the BOD in relation to trust activities of a bank shall be those set forth under Subsec. X141.3. The BOD shall ensure an appropriate degree of independence between the activities of the bank proper and its trust department.

b. Trust Committee

The trust committee is a special committee which reports directly to the board of directors and is primarily responsible for overseeing the fiduciary activities of the bank. In discharging its function, it shall:

(1) ensure that fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices;

(2) ensure that policies and procedures that translate the board's objectives and risk tolerance into prudent operating standards are in place and continue to be relevant, comprehensive and effective;

(3) oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities;

(4) adopt an appropriate organizational structure/staffing pattern and operating budgets that shall enable the trust department to effectively carry out its functions;

(5) oversee and evaluate performance of the trust officer;

(6) conduct regular meetings at least once every quarter, or more frequently as necessary, depending on the size and complexity of the fiduciary business; and

(7) report regularly to the BOD on matters arising from fiduciary activities.

c. Trust Officer

The management of day-to-day fiduciary activities shall be vested in the trust officer. In this regard, the trust officer shall:

(1) ensure adherence to the basic standards in the administration of trust, other fiduciary and investment management accounts pursuant to *Appendix 83*;

(2) develop and implement relevant policies and procedures on fiduciary activities;

(3) observe sound risk management practices and maintain necessary controls to protect assets under custody and held in trust or other fiduciary capacity;

(4) carry out investment and other fiduciary activities in accordance with agreements with clients and parameters set by the trust committee as approved by the board of directors;

(5) report regularly to the trust committee on business performance and other matters requiring its attention;

(6) maintain adequate books, records and files for each trust or other fiduciary account and provide timely and regular disclosure to clients on the status of their accounts; and

(7) submit periodic reports to regulatory agencies on the conduct of the trust operations.

(As amended by Circular No. 766 dated 17 August 2012)

¶¶ X406.5 - X406.8 (Reserved)

¶ X406.9 Outsourcing services in trust departments

(Deleted by Circular No. 765 dated 03 August 2012)

□ **X406.10 Confirmation of the appointment/designation of trust officer and independent professional.** An independent professional and trust officer must be fit and proper to discharge their respective functions. In determining whether a person is fit and proper for the position, regard shall be given to the following: Integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience.

The appointment or designation of independent professional and trust officer shall be subject to confirmation by the Monetary Board. The bio-data of the proposed independent professional and trust officer shall be submitted to the Bangko Sentral, in a prescribed form indicated in *Appendix 6*, within seven (7) banking days from approval of the board of directors or its functional oversight equivalent which shall include the country head in case of foreign banks. Moreover, the independent professional shall certify that he/she possesses the qualifications as herein prescribed and that all the information thereby supplied are true and correct.

If after evaluation, the Monetary Board shall find grounds for disqualification, the concerned bank shall be informed thereof and the independent professional and trust officer so appointed or delegated shall be removed from office even if he/she has assumed the position to which he/she was appointed or delegated.

(Circular No. 665 dated 04 September 2009 and CL-045 dated 01 July 2011, as amended by Circular Nos. 766 dated 17 August 2012 and 758 dated 11 May 2012)

Sec. X407 Non-Trust, Non-Fiduciary and/or Non-Investment Management Activities

The basic characteristic of trust, other fiduciary and investment management relationship is the absolute non-existence of a debtor-creditor relationship, thus, there

is no obligation on the part of the trustee, fiduciary or investment manager to guarantee returns on the funds or properties regardless of the results of the investment. The trustee, fiduciary or investment manager is entitled to fees/commissions which shall be stipulated and fixed in the contract or indenture and the trustor or principal is entitled to all the funds or properties and earnings less fees/commissions, losses and other charges. Any agreement/arrangement that does not conform to these shall not be considered as trust, other fiduciary and/or investment management relationship.

The following shall not constitute a trust, other fiduciary and/or investment management relationship

a. When there is a preponderance of purpose or of intent that the arrangement creates or establishes a relationship: other than a trust, fiduciary and/or investment management;

b. When the agreement or contract is itself used as a certificate of indebtedness in exchange for money placement from clients and/or as the medium for confirming placements and investment thereof;

c. When the agreement or contract of an account is accepted under the signature(s) of those other than the trust officer or subordinate officer of the trust department or those authorized by the board of directors to represent the trust officer;

d. Where there is a fixed rate or guaranty of interest, income or return in favor of its client or beneficiary: *Provided, however*, That where funds are placed in fixed income-generating investments, a quotation of *income expectation* or like terms, shall neither be considered as arrangements with a fixed rate nor a guaranty of interest, income or return when the agreement or indenture categorically states in bold letters that the quoted *income expectation* or like terms is neither assured nor guaranteed by the trustee

¶¶ X407- X408
09.12.31

or fiduciary and it does not, therefore, entitle the client to a fixed interest or return on his investments: *Provided, further,* That any of the following practices or practices similar and/or tantamount thereto shall be construed as fixing or guaranteeing the rate of interest, income or return:

(1) Issuance of certificates, side agreements, letters of undertaking or other similar documents providing for fixed rates or guaranteeing interest, income or return;

(2) Paying trust earnings based on indicated or expected yield regardless of the actual investment results;

(3) Increasing or reducing fees in order to meet a quoted or expected yield;

(4) Entering into any arrangement, scheme or practice which results in the payment of fixed rates or yield on trust investments or in the payment of the indicated or expected yield regardless of the actual investment results; and

e. Where the risk or responsibility is exclusively with the trustee, fiduciary or investment manager in case of loss in the investment of trust, fiduciary or investment management funds, when such loss is not due to the failure of the trustee or fiduciary to exercise the skill, care, prudence and diligence required by law.

Trust, other fiduciary and investment management activities involving any of the foregoing which are accepted, renewed or extended after 16 October 1990 shall be reported as deposit substitutes and shall be subject to the reserve requirement for deposit substitutes from the time of inception, without prejudice to the imposition of the applicable sanctions provided for in Sections 36 and 37 of R.A. No. 7653.

Sec. X408 Unsafe and Unsound Practices
Whether a particular activity may be considered as conducting business in an

unsafe or unsound manner all relevant facts must be considered. An analysis of the impact thereof on the bank's operations and financial conditions must be undertaken, including evaluation of capital position, asset condition, management, earnings posture and liquidity position.

In determining whether a particular act or omission, which is not otherwise prohibited by any law, rule or regulation affecting banks, may be deemed as conducting business in an unsafe or unsound manner, the Monetary Board, upon report of the head of the supervising or examining department based on findings in an examination or a complaint, shall consider any of the following circumstances:

a. The act or omission has resulted or may result in material loss or damage, or abnormal risk or danger to the safety, stability, liquidity or solvency of the bank;

b. The act or omission has resulted or may result in material loss or damage or abnormal risk to the bank's depositors, creditors, investors, stockholders or to the Bangko Sentral or to the public in general;

c. 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

d. The act or omission involves entering into any contract or transaction manifestly and grossly disadvantageous to the bank, whether or not the director or officer profited or will profit thereby.

The list of activities which may be considered unsafe and unsound is shown in *Appendix 48*.

In line with the statement of principles governing trust and other fiduciary business under Sec. X401, the trustee, fiduciary or

investment manager shall desist from the following unsound practices:

- a. Entering in an arrangement whereby the client is at the same time the borrower of his own fund placement, or whereby the trustor or principal is a borrower of other trust, fiduciary or investment management funds belonging to the same family or business group of such trustor or principal;
- b. Granting loans or accommodations to any trust committee member, officer and employee of the trust department except where such loans are obtained by said persons as members of an employee benefit fund of the trustee s own institution;
- c. Borrowing from, or selling trust, other fiduciary and/or investment management assets to, the bank proper to cover portfolio losses and/or to guarantee the return of principal or income;
- d. Granting new loans to any borrower who has a past due and/or classified loan account with the bank proper or the trust department; and
- e. Requiring clients to sign documents in blank.

(As amended by Circular No. 640 dated 16 January 2009)

□□ **X408.1 - X408.8 (Reserved)**

□ **X408.9 Sanctions.** The Monetary Board may, at its discretion and based on the seriousness and materiality of the acts or omissions, impose any or all of the following sanctions provided under Section 37 of R.A. No. 7653 and Section 56 of R.A. No. 8791, whenever a bank conducts business in an unsafe and unsound manner:

- a. Issue an order requiring the bank to cease and desist from conducting business in an unsafe and unsound manner and may further order that immediate action be taken to correct the conditions resulting from such unsafe or unsound practice;
- b. Fines in amounts as may be

determined by the Monetary Board to be appropriate, but in no case to exceed P30,000 a day on a per transaction basis taking into consideration the attendant circumstances, such as the gravity of the act or omission and the size of the bank, to be imposed on the bank, their directors and/or responsible officers;

- c. Suspension of interbank clearing privileges/immediate exclusion from clearing;
- d. Suspension of rediscounting privileges or access to Bangko Sentral credit facilities;
- e. Suspension of lending or foreign exchange operations or authority to accept new deposits or make new investments;
- f. Suspension of responsible directors and/or officers;
- g. Revocation of quasi-banking license; and/or
- h. Receivership and liquidation under Section 30 of R.A. No. 7653.

All other provisions of Sections 30 and 37 of R.A. No. 7653, whenever appropriate, shall also be applicable on the conduct of business in an unsafe or unsound manner.

The imposition of the above sanctions is without prejudice to the filing of appropriate criminal charges against culpable persons as provided in Sections 34, 35 and 36 of R.A. No. 7653.

Sec. X409 Trust and Other Fiduciary Business. The conduct of trust and other fiduciary business shall be subject to the following regulations.

□ **X409.1 Minimum documentary requirements.** Each trust or fiduciary account shall be covered by a written document establishing such account, as follows:

- a. In the case of accounts created by an order of the court or other competent

▯▯ **X409.1 - X409.2**
13.12.31

authority, the written order of said court or authority.

b. In the case of accounts created by corporations, business firms, organizations or institutions, the voluntary written agreement or indenture entered into by the parties, accompanied by a copy of the board resolution or other evidence authorizing the establishment of, and designating the signatories to, the trust or other fiduciary account.

c. In the case of accounts created by individuals, the voluntary written agreement or indenture entered into by the parties.

The voluntary written agreement or indenture shall include the following minimum provisions:

- (1) Title or nature of contractual agreement in noticeable print;
- (2) Legal capacities, in noticeable print, of parties sought to be covered;
- (3) Purposes and objectives;
- (4) Funds and/or properties subject of the arrangement;
- (5) Distribution of the funds and/or properties;
- (6) Duties and powers of trustee or fiduciary;
- (7) Liabilities of the trustee or fiduciary;
- (8) Reports to the client;
- (9) Termination of contractual arrangement and, in appropriate cases, provision for successor-trustee or fiduciary;
- (10) The amount or rate of the compensation of trustee or fiduciary;
- (11) A statement in noticeable print to the effect that trust and other fiduciary business are not covered by the PDIC and that losses, if any, shall be for the account of the client; and
- (12) Disclosure requirements for transactions requiring prior authority and/or specific written investment directive from the client, court of competent jurisdiction or other competent authority.

▯ **X409.2 *Lending and investment disposition.*** Assets received in trust or in other fiduciary capacity shall be administered in accordance with the terms of the instrument creating the trust or other fiduciary relationship.

When a trustee or fiduciary is granted discretionary powers in the investment disposition of trust or other fiduciary funds and unless otherwise specifically enumerated in the agreement or indenture and directed in writing by the client, court of competent jurisdiction or other competent authority, loans and investments of the fund shall be limited to:

- a. Evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral, 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;
- b. Loans fully guaranteed by the Republic of the Philippines as to the payment of principal and interest;
- c. Loans fully secured by a hold-out on, assignment or pledge of deposits maintained either with the bank proper or other banks, or of deposit substitutes of the bank, or of mortgage and chattel mortgage bonds issued by the trustee or fiduciary;
- d. Loans fully secured by real estate or 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
- e. Investment in the Bangko Sentral special deposit account (SDA) facility made in accordance with the guidelines in *Appendix 78* and subject to the provisions of Sec. 1390 for UBs/KBs and Sec. 2390 for TBs and *Appendices 78a to 78c*.

The specific directives required under this Subsection shall consist of the following information:

- (1) The transaction to be entered into;
- (2) The borrower s name;
- (3) Amount involved; and
- (4) Collateral security(ies), if any.

(As amended by M-2013-021 dated 17 May 2013, M-2012-034 dated 13 July 2012, M-2007-038 dated 29 November 2007 and M-2007-011 dated 08 May 2007)

¶ **X409.3 Transactions requiring prior authority.** A trustee or fiduciary shall not undertake any of the following transactions for the account of a client, unless prior to its execution, such transaction has been fully disclosed and specifically authorized in writing by the client, beneficiary, other party-in-interest, court of competent jurisdiction or other competent authority:

a. Lend, sell, transfer or assign money or property to any of the departments, directors, officers, stockholders or employees of the trustee or fiduciary, or relatives within the first degree of consanguinity or affinity, or the related interest of such directors, officers and stockholders; or to any corporation where the trustee or fiduciary owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity;

b. Purchase or acquire property or debt instruments from any of the departments, directors, officers, stockholders, or employees of the trustee or fiduciary, or relatives within the first degree of consanguinity or affinity, or the related interest of such directors, officers and stockholders; or from any corporation where the trustee or fiduciary owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity;

c. Invest in equities of, or in securities underwritten by, the trustee or fiduciary or a corporation in which the trustee or fiduciary owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity; and

d. Sell, transfer, assign, or lend money or property from one trust or fiduciary account to another trust or fiduciary account except where the investment is in any of those enumerated in Items ¶a¶ to ¶d¶ of Subsec. X409.2.

DOSRIs covered by this Subsection shall be those considered as such under existing regulations on loans to DOSRI in

(Next Page is Part IV - Page 21)

Part III - E of this Manual. The procedural and reportorial requirements in said regulations shall also apply.

The disclosure required under this Subsection shall consist of the following minimum information:

- (1) The transactions to be entered into;
- (2) Identities of the parties involved in the transactions and their relationships (shall not apply to Item “d” of this Subsection);
- (3) Amount involved; and
- (4) Collateral security(ies), if any.

The above information shall be made known to clients in a separate instrument or in the very instrument creating the trust or fiduciary relationship.

§ X409.4 *Ceilings on loans.* Loans funded by trust accounts shall be subject to the SBL and DOSRI ceilings imposed on banks under Secs. X303, X330 and X331. For purposes of determining compliance with said ceilings, the total amount of said loans granted by the trust department and the bank to the same person, firm or corporation shall be combined.

§ X409.5 *Funds awaiting investment or distribution.* Funds held by the trustee or fiduciary awaiting investment or distribution shall not be held uninvested or undistributed any longer than is reasonable for the proper management of the account.

§ X409.6 *Other applicable regulations on loans and investments.* The loans and investments of trust and other fiduciary accounts shall be subject to pertinent laws, rules and regulations for banks that shall include but need not be limited to the following:

- a. Requirements of Sections 39 and 40 of R.A. No. 8791 (The General Banking Law of 2000;

- b. Provisions of Section 4(e) of the New Rules on Registration of Short-Term Commercial Papers and Section 7(f) of the New Rules on Registration of Long-Term Commercial Papers issued by the SEC (*Appendices 13 and 14*).

- c. Criteria for past due accounts; and
- d. Qualitative appraisal of loans, investments and other assets that may require provision for probable losses which shall be booked in accordance with the Financial Reporting Package for Trust Institutions (FRPTI);

- e. Requirements of Sections 3 and 8 of the Securities and Regulation Code (SRC); and

- f. Provisions of Section 44 - Investments by Philippine residents - of the BSP Manual of Regulations on Foreign Exchange Transactions (MORFXT), such that the cross-currency investments of peso trust and other fiduciary accounts, including peso unit investment trust (UIT) funds, shall be subject to the following conditions:

- (1) All cash flows of the trustee or fiduciary shall only be in pesos. In case the foreign exchange acquired or received by the trustee or fiduciary as dividends/earnings or divestment proceeds on such investment are intended for reinvestment abroad, the same proceeds are not required to be inwardly remitted and sold for pesos through authorized agent banks: *Provided*, That such proceeds are reinvested abroad within two (2) banking days from receipt of the funds abroad;

- (2) The trustee or fiduciary shall purchase, invest, reinvest, sell, transfer or dispose foreign currency-denominated financial instruments, including securities as defined in Section 3 of the SRC, through a distributor or underwriter duly authorized or licensed by the government of the issuer of such instruments, or a counterparty FI (seller or buyer) accredited by the trustee or fiduciary: *Provided*, That, the conduct,

§§ X409.6 - X409.8
 09.12.31

documentation, and settlement of any of these transactions shall be outside Philippine jurisdiction;

(3) The trustee of fiduciary shall record cross-currency investment transactions in the peso regular books at their foreign currency amounts and their local currency equivalent using the Philippine Dealing System peso/US dollar closing rate and the New York US dollar/third currencies closing rate; and

(4) The trustee or fiduciary shall comply with the reportorial requirements that may be prescribed by the BSP, which shall include as a minimum, the foreign currency amount and the local currency equivalent of the total cross currency investments with details on: (a) type of investments; and (b) amount of cash flow converted.

For purposes of this Subsection, “resident”, as defined under Section 1 of the FX Manual, shall refer to the (a) trustee or fiduciary that administers the assets received in trust or in other fiduciary capacity; or (b) principal that engages the services of the investment manager under an investment management agreement.

(As amended by Circular No. 676 dated 29 December 2009)

§ X409.7 *Operating and accounting methodology.* Trust and other fiduciary accounts shall be operated and accounted for in accordance with the following:

a. The trustee or fiduciary shall administer, hold or manage the fund or property in accordance with the instrument creating the trust or other fiduciary relationship; and

b. Funds or property of each client shall be accounted separately and distinctly from those of other clients herein referred to as *individual account accounting*.

§ X409.8 *Tax-exempt individual trust accounts.* The following shall be the features/requirements of individual trust accounts which may be exempted 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 trust indentures/agreements contracted on or after 03 January 2000;

b. The trust indenture/agreement shall only be between individuals who are Filipino citizens or resident aliens and banks acting as trustee. The trust indenture/agreement shall be non-negotiable and non-transferable;

c. The trust indenture/agreement shall indicate that pursuant to Section 24(B)(1) of R.A. No. 8424, interest income of the trust fund 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 the fund was held by the trustee-bank for at least five (5) years. If said fund was held for a period less than five (5) years, interest income shall be subject to a final tax based on the following schedule –

| Holding Period | Rate of Tax |
|---|-------------|
| 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 trust indenture/agreement shall clearly indicate the date when the trustee-bank actually received the trust funds which shall serve as basis for determining the holding period of the funds.

d. A trustee may accept additional funds for inclusion in trust accounts which have been established as tax-exempt under R.A. No. 8424. However, the receipt of additional funds shall be properly documented by indicating that they are part of existing tax-exempt trust accounts and that the interest income of the additional

funds derived from investments in interest-bearing instruments shall be exempt from the twenty percent (20%) final tax under the same conditions mentioned in the preceding item. The document shall also indicate the date when the funds were received by the trustee-bank to serve as basis for determining the minimum five (5)- year holding period for tax exemption purposes of the additional funds; and

e. Tax-exempt individual trust accounts established under this Subsection shall be subject to the provisions of Subsecs. X409.1(c) and X409.2 up to X409.7.

§ X409.9 *Living trust accounts.* The guidelines on living trust accounts are as follows:

a. *Definition.* *Living trust* is defined under the Manual of Accounts for Trust, as a personal trust created by agreement. It becomes operational during the lifetime of the trustor as soon as the agreement is accomplished.

Under a living trust, the trustor (also known as settlor) conveys property or a sum of money to be managed by the trustee, as the agreement dictates, for the benefit of the trustor and third person(s) or third person(s) only. However, the trustor/s cannot create a trust with himself/themselves as the sole beneficiary/(ies). The functions and authorities of the trustee as defined in the agreement shall include:

- (1) the purpose or intention of the trust;
- (2) the nature and value of the property or sum of money that comprise the trust;
- (3) the trustee’s investment powers;
- (4) the name(s) of the beneficiaries; and
- (5) the terms and conditions under which the income and/or principal of the trust is to be paid or to be disposed of during the lifetime and ultimately, upon the death of the trustor or upon the occurrence of a specified event(s).

A living trust may either be revocable or irrevocable.

b. *Minimum criteria.* In line with such definition, transactions considered as living trust accounts should meet the following minimum criteria:

- (1) Minimum entry amount and maintaining balance shall at least be P100,000: *Provided*, That living trust accounts with balances of up to P500,000 shall only be invested in deposits and government securities;
- (2) Living trust accounts shall be maintained for a minimum period of six (6) months. The termination of the living trust agreement, for any cause, within the minimum holding period shall render the trustor ineligible from opening a new living trust account within a period of one (1) year from termination date;
- (3) Reversion of any part of the principal to the trustor, except in cases

(Next Page is Part IV - Page 23)

provided under the dispositive portion, shall be allowed only upon termination of the living trust agreement: *Provided*, That in no case can there be a complete or substantial reversion of the principal pursuant to the dispositive portion within the minimum holding period nor can the principal fall below P100,000;

(4) Any living trust account that does not meet the requirement on the minimum entry and minimum maintaining balance or is not invested in qualified outlets shall be considered as other fiduciary accounts subject to applicable reserve and other requirements;

(5) Pre-printed living trust agreements may be allowed for expediency: *Provided*, That the sections for the trust purpose and the dispositive provision are left blank and shall only be filled-up upon the client’s signing thereof. The purpose shall categorically state the real intention of the trustor, which may include, but need not be limited to:

- (a) providing his/her and beneficiary/(ies) present and/or future financial support;
- (b) protecting his/her beneficiary/(ies) against his/her inexperience in business matters;
- (c) preventing him/her from making imprudent expenditures;
- (d) prevent the beneficiary/(ies) from living beyond their means in case of outright disposition of assets in their favor;
- (e) protecting the beneficiary/(ies) against unforeseen contingencies such as incompetency, incapacity, physical disability or similar misfortune; and
- (f) setting aside and segregating particular assets, proceeds or payments for administration and distribution pursuant to a court decree or by agreement.

The dispositive provision should clearly and specifically define the terms and conditions under which the principal and/or income shall be distributed in order to accomplish such purpose/(s), by taking into

consideration the frequency of redemption; the respective interests of each beneficiary; and to whom the proceeds shall be payable. Redemption of funds shall strictly be in accordance with the said terms and conditions; and

(6) A living trust account may be opened jointly under one (1) living trust agreement by related individuals up to the second degree of consanguinity or affinity; *Provided*, That the requirements under Item “5” above are fully complied with. Unrelated individuals or those beyond the second degree of consanguinity or affinity may likewise open a joint living trust account under one (1) living trust agreement: *Provided*, That the minimum contribution of each individual is at least P100,000: *Provided further*, That the trust is for a common purpose and: *Provided finally*, That the requirements under Item “5” are fully complied with.

c. *Marketing*. Officers and personnel of the bank proper, including branch managers, shall not be allowed to market living trust products and sign pre-printed living trust agreements. However, branch managers/officers may be allowed to refer clients to the Trust Department and give short introduction on the living trust products to prospective clients.

d. *Transitory provision*. Outstanding living trust accounts that do not meet the foregoing additional requirements shall be given twelve (12)¹ months from 11 April 2006 to comply with the aforestated requirements; otherwise, such accounts shall be considered as Other Fiduciary Accounts subject to applicable reserve requirements.

e. *Sanctions*. Any violation of the provisions of this Subsection shall be subject to the sanctions provided under Section 37 of R.A. No. 7653 (The New Central Bank Act).

(Circular Nos. 553 dated 22 December 2006 and 521 dated 21 March 2006)

¹ Original 6 months transitory period under Cir. 521 extended by another 6 months under Cir. 553

§§ X409.10 - X409.16
08.12.31

§§ X409.10 - X409.15 (Reserved)

§ X409.16 *Qualification and accreditation of private banks acting as trustee on any mortgage or bond issuance by any municipality, government-owned or controlled corporation, or any body politic*

a. *Applicability.* Private banks duly accredited by the BSP may act as trustee on any mortgage or bond issued by any municipality, GOCC, or any body politic.

b. *Application for accreditation.* A private bank desiring to act as trustee on any mortgage or bond issued by any municipality, GOCC, or any body politic shall file an application for accreditation with the appropriate supervising and examining department of SES. The application shall be signed by the president or officer of equivalent rank of the bank and shall be accompanied by the following documents:

(1) certified true copy of the resolution of the institution’s board of directors authorizing the application;

(2) a certification signed by the president or officer of equivalent rank that the institution has complied with all the qualification requirements for accreditation.

c. *Qualification requirements.* A bank 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 requirements in *Appendix 5b*.

d. *Independence of the trustee.* A bank is prohibited from acting as trustee of a mortgage or bond issuance if any elective or appointive official of the LGU, GOCC, or body politic which issued said mortgage or bond and/or his related interests own such number of shares of the bank that will allow him or his related interests to elect at least one (1) member of the board of directors of such bank or is directly or indirectly the registered or beneficial owner

of more than ten percent (10%) of any class of its equity security.

e. *Investment and management of the funds.* A domestic bank designated as trustee of a mortgage or bond issuance may hold and manage, in accordance with the provisions of the trust indenture or agreement, the proceeds of the mortgage or bond issuance and such assets and funds of the issuing municipality, corporation, or body politic as may be required to be delivered to the trustee under the trust indenture/agreement, subject to the following conditions/restrictions:

(1) Pending the utilization of such funds pursuant to the provisions of the trust indenture/agreement, the same shall only be deposited in any bank, other than the trustee/bank proper, its subsidiary or affiliate authorized to accept deposits from the Government or government entities, or invested in peso-denominated treasury bills acquired/purchased from any securities dealer/entity, other than the trustee or any of its unit/department, its subsidiary or affiliate.

(2) Investments of funds constituting or forming part of the sinking fund created as the primary source for the payment of the principal and interests due the mortgage or bonds shall also be limited to deposits in any bank, other than the trustee/bank proper, its subsidiary or affiliate, authorized to accept deposits from the Government or government entities and investments in government securities that are consistent with such purpose which must be acquired/purchased from any securities dealer/entity, other than the trustee or any of its unit/department, its subsidiary or affiliate.

f. *Waiver of confidentiality.* A bank designated as trustee of any mortgage or bond issued by any municipality, GOCC, or any body politic shall submit to the appropriate supervising and examining department of SES a waiver of the confidentiality of information under Sections 2 and 3 of R.A. No. 1405, as

amended, duly executed by the issuer of the mortgage or bond in favor of the BSP.

g. *Reportorial requirements.* A bank authorized by the BSP to act as trustee of the proceeds of mortgage or bond issuance of a municipality, GOCC or controlled corporation, or body politic shall comply with reportorial requirements that may be prescribed by the BSP.

h. *Applicability of the rules and Regulations on Trust, Other Fiduciary Business and Investment Management Activities.* The provisions of the Rules and Regulations on Trust, Other Fiduciary Business and Investment Management Activities not inconsistent with the provisions of this Subsection shall form part of these rules.

i. *Sanctions.* Without prejudice to the penal and administrative sanctions provided for under Sections 36 and 37, respectively, of the R.A. No. 7653, violation of any provision of this Subsection shall be subject to the following sanctions/penalties depending on the gravity of the offense:

(1) *First offense* –

(a) Fine of up to P10,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and

(b) Reprimand for the directors/officers responsible for the violation.

(2) *Second offense* –

(a) Fine of up to P20,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected;

(b) Suspension for ninety (90) days without pay for directors/officers responsible for the violation; and

(c) Revocation of the authority to act as trustees on any mortgage or bond issuance by any municipality, GOCCs, or body politic.

(3) *Subsequent offense* –

(a) Fine of up to P30,000 a day for the institution for each violation reckoned from

the date the violation was committed up to the date it was corrected;

(b) Suspension or revocation of the trust license;

(c) Suspension for one hundred twenty (120) days without pay of the directors/officers responsible for the violation.

§ X409.17 Trust fund of pre-need companies. The following rules and regulations shall govern the acceptance, management and administration of the trust funds of pre-need companies by banks and other entities authorized to perform trust and other fiduciary functions.

a. *Administration of trust fund.* In line with the policy of providing greater protection to pre-need planholders, prudential measures are hereby laid out in the administration of trust funds of preneed companies. The trust fund, inclusive of earnings, shall be administered and managed by the trustee with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man, acting in the same capacity and familiar with such matters, would exercise in the conduct of an enterprise of a like character and similar aims.

The trustee shall have exclusive management and control over the trust fund and the right at any time to sell, convert, invest, change, transfer or otherwise dispose of the assets comprising the funds.

b. *Trustee.* No trust entity shall act as a trustee or administer or hold a trust fund established by a pre-need company, which is a subsidiary or affiliate, as defined under existing BSP regulations, of such trust entity. Trust entities currently holding or administering trust funds of an affiliate pre-need company may continue to act as trustee of such funds after the transition period provided under Item “g” only upon prior approval of the Monetary Board on the basis of a clear showing that no potential

§§ X409.17 - X410
08.12.31

conflict of interest will arise. An absence of any exception or finding on conflicts of interest during an examination of the trust entity shall be deemed as *prima facie* evidence that no potential conflict of interest will arise.

c. *Investment of the trust fund.* Unless otherwise allowed under existing laws or regulations issued by the agency having jurisdiction and supervision over pre-need companies, or with prior written approval by said agency, loans and investments of the trust funds shall be limited to:

(1) Evidences of indebtedness of the Republic of the Philippines and of the BSP, and any other evidences of indebtedness or obligations wherein the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or loans against such government securities;

(2) Commercial papers duly registered with the SEC with a credit rating of one (1) for short term and “AAA” for long-term or their equivalent;

(3) Loans fully guaranteed by the Republic of the Philippines, as to the payment of principal and interest;

(4) Loans fully secured by a hold-out on, assignment or pledge of deposits maintained either with the bank proper or other banks, and/or of deposit substitutes or of mortgage and chattel mortgage bonds issued by the trustee/fiduciary or by other banks;

(5) Loans fully secured by real estate in accordance with Section 37 and subject to the requirements of Sections 39 and 40 of R.A. No. 8791 and their implementing regulations; and

(6) Loans fully secured by unconditional payment guarantees (such as standby letters of credit and letter of indemnity) issued by banks/multilateral financial institutions.

d. *Transactions with DOSRI.* The trustee shall not, for the account of the trustor or the beneficiary of the trust,

purchase or acquire property from, or sell, transfer, assign or lend money or property to, or purchase debt instruments of, any of the departments, directors, officers, stockholders, employees, subsidiaries and affiliates of the trustee and/or the trustor, and relatives within the first degree of consanguinity or affinity, or the related interests, of such directors, officers and stockholders, without prejudice to any rule that may be issued by the agency having jurisdiction and supervision over such preneed company allowing such transaction with the prior written approval of such agency. Such written approval shall clearly specify the amount of the loan and/or investment including the name of the concerned director, officer, stockholder and their related interests.

e. *Applicability of the Rules and Regulations on Trust, Other Fiduciary Business and Investment Management Activities (Trust Rules).* The provisions of the Trust Rules consistent with the provisions of this Subsection shall supplementarily apply to trust funds of pre-need companies.

f. *Penalties and sanctions.* Any violation of the provisions of this Subsection shall be a ground for prohibiting the concerned entity from accepting, managing and administering trust funds of pre-need companies without prejudice to the imposition of the applicable sanctions prescribed or allowed under the Trust Rules.

g. *Transitory provisions.* Banks which are presently administering and managing trust funds of pre-need companies are hereby given a period of one (1) year from 25 April 2006 to comply with the requirements hereof.

(Memorandum to All Banks and NBFIs dated 28 March 2006)

Sec. X410 Unit Investment Trust Funds/ Common Trust Funds.¹ The following rules and regulations shall govern the creation, administration and investment/s of Unit Investment Trust (UIT) Funds.

¹ The regulations on common trust funds (CTFs) were relocated to *Appendix 60*. UIT Funds regulations took effect on 01 October 2004 (effectivity of Circular 447 dated 03 September 2004).

The rules and regulations on Common Trust Funds (CTFs) are in *Appendix 60*.

□ **X410.1 Definitions**

a. *Unit Investment Trust Funds*. Unit Investment Trust Funds are open-ended pooled trust funds denominated in pesos or any acceptable currency, which are operated and administered by a trust entity and made available by participation. The term Unit Investment Trust Funds is synonymous to CTFs. As an open-ended fund, participation or redemption is allowed as often as stated in its plan rules.

UIT Funds shall not include long term funds designed for the primary purpose of availing the tax incentives/exemption under Section 24(B)(1) of R.A. No. 8424 (The Tax Reform Act of 1997).

b. *Trust entity*. Trust entity as defined under Section X403.

c. *Board of directors*. For this purpose, the term shall include a trust entity's duly constituted board of directors or its functional oversight equivalent which shall include the country head in the case of foreign banks.

d. *Collective investment scheme*. An investment vehicle where funds are solicited from investors for collective investment and which are managed for the account of such investors.

e. *Feeder fund*. A UIT Fund structure that mandates the fund to invest at least ninety percent (90%) of its assets in a single collective investment scheme.

f. *Fund-of-funds*. A UIT Fund structure that mandates the fund to invest at least ninety percent (90%) of its assets in more than one (1) collective investment scheme.

g. *Target fund*. A local or foreign collective investment scheme in which the UIT Fund invests all or a portion of its assets.

h. *Investor fund*. A UIT Fund created to take the form of a feeder fund or a fund-of-funds and is approved by the Bangko Sentral under existing Bangko Sentral regulations.

i. *Multi-class fund*. A UIT fund structure which has more than one (1) class of units in the fund and is invested in the same pool of securities and the same portfolio, investment objectives and policies.

j. *Related party/company*. For the purpose of this Section, the term refers to another entity which is the trust entity's (a) parent or holding company or (b) subsidiary or affiliate, and wholly or majority-owned or controlled-entities of such subsidiaries.

(As amended by Circular Nos. 853 dated 21 October 2014 and 767 dated 21 September 2012)

□ **X410.2 Establishment of a Unit Investment Trust Fund.**

Any trust entity authorized to perform trust functions may establish, administer and maintain one (1) or more UIT Funds subject to applicable provisions under this Section. A UIT Fund may be allowed to operate as a 1) feeder fund, 2) fund-of-funds and/or 3) multi-class fund: *Provided*, That the plan rules and related documents shall state that the UIT Fund is a feeder fund or a fund-of-funds, and/or multi-class fund, and provide an explanation or illustration of such structures.

(As amended by Circular Nos. 853 dated 21 October 2014 and 767 dated 21 September 2012)

□ **X410.3 Administration of a Unit Investment Trust Fund.**

The trustee shall have exclusive management and control of each UIT Fund under its administration, and the sole right at any time to sell, convert, reinvest, exchange, transfer or otherwise change or dispose of the assets comprising the fund: *Provided*, That no participant in a UIT Fund shall have or be deemed to have any

¶¶ X410.3 - X410.6
14.12.31

ownership or interest in any particular account or investment in the UIT Fund but shall have only its proportionate beneficial interest in the fund as a whole.

¶ **X410.4 Relationship of trustee with Unit Investment Trust Fund.** A trustee administering a UIT Fund shall not have any other relationship with such fund other than its capacity as trustee of the UIT Fund: *Provided, however,* That a trustee which simultaneously administers other trust, fiduciary or investment management funds may invest such funds in the trustee's UIT Fund, if allowed under a policy approved by the board of directors.

¶ **X410.5 Operating and accounting methodology.** A UIT Fund shall be operated and accounted for in accordance with the following:

- a. The total assets and accountabilities of each fund shall be accounted for as a single account referred to as *pooled-fund accounting method*. The investments of a multi-class fund shall remain as one (1) pool and are not separately allocated to classes.
- b. Contributions to each fund by clients shall always be through participation in units of the fund and each unit shall have uniform rights and privileges, as any other unit; in the case of multi-class fund, units shall be issued as units in a class of a fund.
- c. All such participations shall be pooled and invested as one (1) account (referred to as collective investments).
- d. The beneficial interest of each participation unit shall be determined under a unitized net asset value per unit (NAVPU) valuation methodology defined in the written plan of the UIT Fund, and no participation shall be admitted to, or redeemed from, the fund or class of a fund, except on the basis of such valuation. To arrive at a fund's NAVPU, the fund's total

Net Assets is divided by the total outstanding units. *Total Net Assets* is a summation of the market value of each investment less fees, taxes, and other qualified expenses, as defined under the plan rules.

When there is a different fee structure for each class, the NAVPU of each class shall be computed by dividing total net assets of a class by the total outstanding units of such class; where the *net assets of each class* shall represent its proportionate share on the net assets of the multi-class fund less the trustee fee and expenses attributable to that class. The *net assets of the multi-class fund* is the summation of the market value of each investment less fees, taxes, and other qualified expenses, but gross of trustee fees and expenses attributable to a particular class, as defined under the plan rules.

(As amended by Circular No. 853 dated 21 October 2014)

¶ **X410.6 Plan rules.** Each UIT Fund shall be established, administered and maintained in accordance with a written trust agreement drawn by the trustee, referred to as the *Plan* which shall be approved by the board of directors of the trustee and a copy of which shall be submitted to the Bangko Sentral for processing and approval prior to its implementation. Each new UIT Fund Plan filed for approval shall be charged a processing fee of ₱10,000.00.

The *Plan* shall contain the following minimum elements:

- a. *Title of the Plan.* This shall correspond to the product/brand name by which the UIT Fund is proposed to be known and made available to its clients. The Plan rules shall state the classification of the UIT Fund (e. g., money market fund, bond fund, balanced fund and equity fund).
- b. *Manner by which the fund is to be operated.* A statement of the fund's investment objectives and policies and limitations and, if applicable, the distinctive

features of the different classes of units such as the level of trustee fees and expenses for each class and other peculiarities which the Bangko Sentral may allow.

c. *Risk disclosure.* The Plan rules shall state both the general risks and risks specific to the type of fund.

d. *Investment powers of the trustee with respect to the fund, including the character and kind of investments, which may be purchased, by the fund.* There must be an unequivocal statement of the full discretionary powers of the trustee as far as the fund's investments are concerned. These powers shall be limited only by the duly stated investment objective and policies of the fund.

e. The unitized NAVPu valuation methodology as prescribed under Subsec. X410.5.d shall be employed. The plan rules shall also provide the method of determining the proportionate share of the classes of units to the value of the assets of the fund.

f. *Terms and conditions governing the admission or redemption of units of participation in the fund.* The Plan rules shall state that the trustee, prior to admission of a client's initial participation in the UIT Fund, shall conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of fund. If the frequency of admission or redemption is other than daily; that is, any business day, the same should be explicitly stated in the Plan rules: *Provided,* That the admission and redemption prices shall be based on the end of day NAVPu of the fund or of the class of a fund, if applicable, computed after the cut-off time for fund participation and redemption for that reference day, in accordance with existing Bangko Sentral regulations on mark to market valuation of investment securities.

g. *Aside from the regular audit requirement applicable to all trust accounts, an external audit of each UIT Fund shall be conducted annually by an independent auditor acceptable to the Bangko Sentral and the results thereof made available to participants.* The external audit shall be conducted by the same external auditor engaged for the audit of the trust entity.

h. *Basis upon which the fund may be terminated.* The Plan rules shall state the rights of participants in case of termination of the fund. Termination of the fund shall be duly approved by the trustee's board of directors and a copy of the resolution submitted to the appropriate department of the Bangko Sentral.

i. *Liability clause of the trustee.* There must be a clear and prominent statement adjacent to where a client is required to sign the participating trust agreement that (1) the UIT Fund is a trust product and not a deposit account or an obligation of, or guaranteed, or insured by the trust entity or its affiliates or subsidiaries; (2) the UIT Fund is not insured or governed by the PDIC; (3) due to the nature of the investment, yields and potential yields cannot be guaranteed; (4) any loss/income 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 client/participant; (5) 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; (6) historical performance, when presented, is purely for reference purposes and is not a guarantee of similar future result; and (7) the trustee is not liable for losses unless upon willful default, bad faith or gross negligence.

j. *Amount of fees/commission and other charges to be deducted from the fund.* The

¶ X410.6- X410.7
14.12.31

amount of fees that shall be charged to a fund shall cover the fund's fair and equitable share of the routine administrative expenses of the trustee such as salaries and wages, stationery and supplies, credit investigation, collateral appraisal, security, messengerial and janitorial services, EDP expenses, Bangko Sentral supervision fees and internal audit fees. However, the trustee may charge a UIT Fund for special expenses in case such expenses are (1) necessary to preserve or enhance the value of the fund, (2) payable to a third party covered by a separate contract, and (3) disclosed to participants. The trustee shall secure prior Bangko Sentral approval for outsourcing services provided under existing regulations. No other fees shall be charged to the fund.

Sales, distribution, marketing and/or other promotional related expenses shall be for the account of the trustee and shall be presumed covered by the trust fee.

In the case of a multi-class fund that have different level of trustee fees and expenses, there shall be a policy on the equitable allocation of any costs, charges, and expenses payable out of the multi-class fund, which are not attributable to any particular class.

k. Such other matters as may be necessary or proper to define clearly the rights of participants in the UIT Fund. The provisions of the Plan shall govern participation in the fund including the rights and benefits of persons having interest in such participation, as beneficiaries or otherwise. The Plan may be amended by a 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 participations within a reasonable time but in no case less than thirty (30) calendar days after the amendments are approved, if they are not in conformity with the

amendments made thereto: *Provided further*, That amendments to the Plan shall be submitted to the Bangko Sentral within ten (10) business days from approval of the amendments by the board of directors. For purposes of imposing monetary penalties provided under Subsec. X192.2 for delayed submission of reports, the amendments to the Plan shall be considered as "Category A-3" report. The amendments shall be deemed approved after thirty (30) business days from date of completion of requirements.

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 the fund or by his authorized representative. Upon request, a copy of the Plan shall be furnished such interested person.

(As amended by Circular Nos. 853 dated 21 October 2014 and 593 dated 08 January 2008)

¶ X410.7 Minimum disclosure requirements

a. *Key Information and Investment Disclosure Statement*. This document shall contain the key features and the prospective and outstanding investments of a UIT Fund. It shall use plain language presented in a concise manner, and shall comply substantially with the format prescribed in *Appendix 62*. This document shall be updated and made available to participants at least every calendar quarter thereof.

For investments of feeder funds/fund of-funds, the trustee shall likewise make available to all UIT Fund clients all relevant information on the target fund/s.

b. *Distribution of investment units*. The trustee may issue such conditions or rules, as may affect the distribution of investment units, subject to the minimum conditions enumerated hereunder.

(1) *Marketing materials.* All marketing materials related to the sale of a UIT Fund shall clearly state:

(a) The designated name and classification of the fund, the fund's trustee, and the classes of a UIT fund, if any

(b) Minimum information regarding:

(i) The general investment policy and applicable risk profile. There shall be a clear description/explanation of the general risks attendant with investing in a UIT Fund, including risk specific to a type of fund. Technical terms should likewise be defined in laymen's terms¹.

(ii) Particulars including administrative and marketing details, such as but not limited to, pricing, cut-off time for participation and redemption, early redemption penalty/ies, and any special features of the UIT fund, as applicable.

(iii) All charges made/to be made against the fund or class of a UIT Fund, including trust fees and other related charges.

(iv) The availability of the Plan Rules governing the fund, upon the client's request and the contact details of the trustee.

(v) Client and Product Suitability Standards. Prior to admission, the trustee shall perform a client profiling process for all UIT Fund participants under the general principles on client suitability assessment to guide the client in choosing investment outlets that are best suited to his objectives, risk tolerance, preferences and experience. The profiling process shall, at the minimum, require the trustee to obtain client information through the Client Suitability Assessment (CSA) form, classify the client according to his financial sophistication and communicate the CSA results to the subject client. The general principles on CSA shall also require the trustee to adopt a notice mechanism whereby clients are advised and/or reminded of the explicit requirement to notify the trustee or its UIT Fund marketing

personnel of any change in their characteristics, preferences or circumstances to enable the trustee to update client's profile at least every three (3) years.

(c) The participation is not a deposit account but a trust product; and that any loss/income is for the account of the participant; that the trustee is not liable for losses unless upon willful default, bad faith or gross negligence.

(d) A balanced assessment of the possible gains and losses of the UIT Fund and that the participation does not carry any guaranteed rate of return, and is not insured by the PDIC.

(e) An advisory that the investor must read the complete details of the fund in the Plan Rules, make his/her own risk assessment, and when necessary, he/she must seek independent/professional opinion, before making an investment.

(2) Evidence of participation. Every UIT Fund participant shall be given -

(a) A participating trust agreement. Such agreement shall clearly indicate that (1) the UIT Fund is a trust product and not a deposit account or an obligation of, or guaranteed, or insured by the trust entity or its affiliates or subsidiaries; (2) the UIT Fund is not insured or governed by the PDIC; (3) due to the nature of the investment, yields and potential yields cannot be guaranteed; (4) any loss/income 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 client/participant; (5) 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; (6) historical performance, when presented, is purely for reference purposes and is not a guarantee of similar future result; and (7) the trustee is not liable for losses unless upon willful default, bad faith or gross negligence.

¹ Example: "Fixed income securities" does not really mean a guarantee of fixed earnings on the investor's participation; "Risk-free" government securities which may be sovereign "risk-free" but not interest rate "risk-free"

¶¶ X410.7
14.12.31

In addition to the agreement, every UIT Fund participant shall be provided with -

(1) CSA form to be accomplished during the profiling process required under the general principles on CSA. This is designed to ensure that based on relevant information about the client, his investment profile is matched against the investment parameters of the UIT Fund. At the minimum, client information shall include personal or institutional data, investment objective, investment horizon, investment experience, and risk tolerance; and

(2) Risk disclosure statement, which in reference to Subsec. X410.6c, shall describe the attendant general and specific risks that may arise from investing in the UIT Fund. This statement shall be accomplished by the client every time he participates in a different fund and shall be substantially in the form as shown in Annex A of *Appendix 62a*.

Both documents shall be signed by the client/participant and the UIT marketing personnel who assessed and explained to the concerned client his/her ability to bear the risks and potential losses.

(b) A confirmation of participation and redemption made to/from the fund that shall contain the following information:

(i) NAVPu of the fund on day of purchase/redemption;

(ii) Number of units purchased/redeemed; and

(iii) Absolute peso or foreign currency value.

No indicative rates of return shall be provided in the trust participating agreement. Marketing materials may present relevant historical performance purely for reference and with clear indication that past results do not guarantee similar future results.

(3) A participating trust agreement or confirmation of contribution/redemption need not be manually signed by the trustee or his authorized representative if the same is in the form of an electronic document that

conforms with the implementing rules and regulations of R.A. No. 8792, otherwise known as the E-Commerce Act.

c. *Regular computation and availability of NAVPu and other information.* The trustee managing a UIT fund shall:

(1) Compute the NAVPu daily;

(2) Publish at least weekly the NAVPu in one (1) or more newspapers of national circulation: *Provided*, That a pooled weekly publication of such NAVPu shall be considered as substantial compliance with this requirement. The said publication, at the minimum, shall clearly state the name of the fund, its general classification, the fund's NAVPu and the moving return on investment (ROI) of the fund on a year-to-date (YTD) and year-on-year (YOY) basis; and

(3) Make available the historical net asset value per unit, declaration of trust or its equivalent document, disclosure documents, and other pertinent information about a UIT Fund via its website or the Trust Officers Association of the Philippines (TOAP)-administered website.

d. *Marketing personnel.* The trustee shall ensure that there are board-approved policies and procedures covering the following:

(1) Duties and responsibilities of all UIT marketing personnel;

(2) Conduct of due diligence check on the fitness and propriety of all UIT marketing personnel which includes monitoring and reviewing on an ongoing basis their performance; and

(3) Conduct of continuing training and education especially on updates relative to the fund products.

For purposes of this Subsection, a UIT Fund may be sold by a bank employee belonging to the same financial conglomerate as the trustee, subject to the provision of the cross-selling framework.

**¶¶ X410.7- X410.9
14.12.31**

To ensure the competence and integrity of all duly designated UIT marketing personnel, all personnel involved in the sales of these funds shall be required to undergo standardized training program in accordance with the guidelines of this Subsection. This training program may be conducted by their respective trust entities in accordance with the minimum training program guidelines provided by the Trust Officers Association of the Philippines (TOAP). Such training program shall however be regularly validated by TOAP.

(As amended by Circular Nos. 852 dated 21 October 2014, 767 dated 21 September 2012 and 593 dated 08 January 2008)

¶ **X410.8 Exposure limits.** The combined exposure of the UIT Fund to any entity and its related parties shall not exceed fifteen percent (15%) of the market value of the UIT Fund: *Provided, That, a UIT Fund invested, partially or substantially, in exchange traded equity securities shall be subject to the fifteen percent (15%) exposure limit to a single entity/issuer: Provided, further, That, in the case of an exchange traded equity security which is included in an index and tracked by the UIT Fund, the exposure of the UIT Fund to a single entity shall be the actual benchmark weighting of the issuer or fifteen percent (15%), whichever is higher.*

This limitation shall not apply to non-risk assets as defined by the Bangko Sentral.

In the case of feeder fund/fund-of-funds, the exposure limit shall be applied on the target fund's underlying investments. Furthermore, the investments in any one (1) target fund shall not exceed ten percent (10%) of the total net asset value of the target fund.

In case the limits prescribed above are breached due to the marking-to-market of certain investment/s or any extraordinary

circumstances, e.g., abnormal redemptions which are beyond the control of the trustee, the trustee shall be given thirty (30) days from the time the limit is breached, or in case of investor funds thirty (30) days from date of receipt of report indicating the net asset value of the fund, to correct the same.

(As amended by Circular Nos. 767 dated 21 September 2012 and 577 dated 17 August 2007)

¶ **X410.9 Allowable investments and valuation.** UIT Fund investments shall be limited to bank deposits and the following financial instruments:

(a) Securities issued by or guaranteed by the Philippine government, or the Bangko Sentral;

(b) Tradable securities issued by the government of a foreign country, any political subdivision of a foreign country or any supranational entity;

(c) Exchange-listed securities;

(d) Marketable instruments that are traded in an organized exchange;

(e) Loans traded in an organized market; and

(f) Loans arising from repo agreements which are transacted through an exchange recognized by the SEC, subject to the condition that the repo contracts may be pre-terminated lawfully by the trust entity administering the UITF and acting as lender, with due notice to its counterparty and the market operator; and

(g) Units/shares in collective investment schemes (CIS), i.e., target fund, shall include exchange traded fund (ETF) and other CIS, subject to the following:

(1) The investment objectives of the target fund are aligned with that of the investor fund;

(2) The underlying investments of target funds are limited to the allowable investment outlets set forth in this subsection;

(Next page is Part IV - Page 33)

¶ X410.9- X410.12
14.12.31

(3) The target fund has no investment in other collective investment schemes; and

(4) The target fund is supervised by a regulatory authority, as follows:

(a) a local target fund shall either be approved by the Bangko Sentral or registered with the SEC.

(b) a target fund constituted in another jurisdiction shall be registered/authorized/approved, as the case may be, and is recognized as a collective investment scheme in its home jurisdiction by a regulatory authority that is a member of the International Organization of Securities Commissions (IOSCO); or any regulatory authority acceptable to the Bangko Sentral to supervise the CIS.

(As amended by Circular Nos. 852 dated 21 October 2014 and 767 dated 21 September 2012, M-2010-033 dated 04 October 2010, Circular Nos. 676 dated 29 December 2009 and 675 dated 22 December 2009)

¶ X410.10 Other related guidelines on valuation of allowable investments

a. In pricing debt securities, the provision of Appendix 33a under the "Other Guidelines" section shall apply for non-benchmark securities.

b. In case outstanding UIT Fund investments may deteriorate in quality, i.e., no longer tradable as defined under Subsec. X410.9, the trustee shall immediately provision to reflect fair value in accordance with generally accepted accounting principles or as may be prescribed by the Bangko Sentral. If no fair value is available, the instrument shall be assumed to be of no market value.

(As amended by Circular No. 813 dated 27 September 2013)

¶ X410.11 Unit Investment Trust Fund administration support

a. *Backroom operations.* Administrative rules on backroom under Sec. X421 shall be applicable to UIT Fund. Adequate systems to support the daily marking-to-market of the fund's financial instruments

shall be in place at all times. In this respect, a daily reconciliation of the fund's resultant marked-to-market value with the unrealized market losses and gains (respective contra asset balance) versus the book value of the fund for investments in financial instruments shall be done and all differences resolved within the day.

b. *Custody of securities.* Investments in securities of a UIT Fund shall be held for safekeeping by Bangko Sentral accredited third party custodians which shall perform independent marking-to-market of such securities.

Investments in target funds of a UIT Fund structured as an investor fund shall be held for safekeeping by an institution registered/authorized/approved by a relevant regulatory authority in its home jurisdiction to act as third party custodian.

(As amended by Circular No. 767 dated 21 September 2012)

¶ X410.12 Counterparties

a. *Dealings with related interests/bank proper/holding company/subsidiaries/affiliates and related companies.* A trustee of a UIT Fund shall be transparent at all times and maintain an audit trail for all transactions with related parties or entities. The trustee shall observe the principle of best execution and no purchase/sale shall be made with related counterparties without considering at least two (2) competitive quotes from other sources.

Consistent with the provisions of Subsec. X410.4, a trustee may invest the funds of a UIT Fund structured as an investor fund in a target fund that is administered by the trustee or its related party/company: *Provided, That:*

(i) there shall be no cross-holding between the investor fund and the target fund, where cross-holding refers to the holding of shares/units of participation in one another by two (2) or more funds;

(ii) all initial charges on the target fund are waived; and

(iii) the trust/management fee shall be charged only once, either at the level of the investor fund or at level of the target fund.

b. *Accreditation of counterparties.* The Fund shall only invest with approved counterparties qualified in accordance with the policy duly approved by the Trust Committee. Counterparties shall be subject to appropriate limits in accordance with sound risk management principles.

(As amended by Circular No. 767 dated 21 September 2012)

□ **X410.13 Foreign currency-denominated unit investment trust funds**

UIT Fund denominated in any acceptable foreign currency provided under existing Bangko Sentral rules and regulations may be established. Such fund may only be invested in allowable investments denominated in pesos or any acceptable foreign currency as expressly allowed under the fund s plan rules and properly disclosed to fund participants.

□ **X410.14 Exemptions from statutory and liquidity reserves, single borrower’s limit, director, officers, stockholders and their related interests.** The provisions on reserves, single borrower s limit and DOSRI ceilings under Subsec. X405.5, and

Secs. X303, X330 and X331, respectively, applicable to trust funds in general shall not be made applicable to UIT Funds.

Sec. X411 Investment Management Activities. The conduct of investment management activities shall be subject to the following regulations.

□ **X411.1 Minimum documentary requirements.** An investment management account shall be covered by a written document establishing such account, as follows:

- a. In the case of accounts created by corporations, business firms, organizations or institutions, the voluntary written agreement or indenture entered into by the parties, accompanied by a copy of the board resolution or other evidence authorizing the establishment of and designating the signatories to, the investment management account.
- b. In the case of accounts created by individuals, the voluntary written agreement or indenture entered into by the parties.

The voluntary written agreement or contract shall include the following minimum provisions:

- (1) Pre-numbered contractual agreement form;

- (2) Title or nature of contractual agreement in noticeable print;
- (3) Legal capacities, in noticeable print, of parties sought to be covered;
- (4) Purposes and objectives;
- (5) The initial amount of funds and/or value of securities subject of the arrangement delivered to the investment manager;
- (6) Statement in underlined noticeable print that:
 - (a) The 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 the arrangement;
 - (b) The arrangement does not guaranty 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; and
 - (c) The investment management agreement is not covered by the PDIC and that losses, if any, shall be for the account of the client;
- (7) Duties and powers of the investment manager;
- (8) Liabilities of the investment manager;
- (9) Reports to the client;
- (10) The amount or rate of the compensation of the investment manager;
- (11) Terms and conditions governing withdrawals from the account;
- (12) Termination of contractual arrangement; and
- (13) Disclosure requirements for transactions requiring prior authority and/or specific written investment directives from the client.

A sample investment management agreement which conforms to the foregoing requirements is shown as *Appendix 24*.

□ **X411.2 Minimum size of each**

investment management account. No investment management account shall be accepted or maintained for an amount less than P1.0 million. An investment management account reduced to less than P1.0 million due to investment losses shall be exempt from this requirement.

□ **X411.3 Commingling of funds.** Two (2) or more individual investment management accounts shall not be commingled except for the purpose of investing in government securities or in duly registered commercial papers: *Provided*, That the participation of each of the aforementioned accounts in the commingled account shall not be less than P1.0 million: *Provided, further*, That such commingling has been duly disclosed and specifically agreed in writing by the clients.

□ **X411.4 Lending and investment disposition.** Assets received in investment management capacity shall be administered in accordance with the terms of the instrument creating the investment management relationship.

When an investment manager is granted discretionary powers in the investment disposition of investment management funds and unless otherwise specifically enumerated in the agreement or indenture and directed in writing by the client, loans and investments of the fund shall be limited to:

- a. Evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral, 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;
- b. Loans fully guaranteed by the Republic of the Philippines as to the payment of principal and interest;
- c. Loans fully secured by a hold-out on,

¶¶ X411.4 - X411.5
08.12.31

assignment or pledge of deposits maintained either with the bank proper or other banks, or of deposit substitutes of the bank, or mortgage and chattel mortgage bonds issued by the investment manager; and

d. Loans fully secured by real estate or chattels in accordance with Sections 37 and 38 of R.A. No. 8791, and subject to the requirements of Sections 39 and 40 of R.A. No. 8791.

The specific directives required under this Subsection shall consist of the following information:

- (1) The transaction to be entered into;
- (2) Borrower s name;
- (3) Amount involved; and
- (4) Collateral security(ies), if any.

¶ X411.5 **Transactions requiring prior authority.** An investment manager shall not undertake any of the following transactions for the account of a client, unless prior to its execution, such transaction has been fully disclosed and specifically authorized in writing by the client:

(Next Page is Part IV- page 35)

a. Lend, sell, transfer or assign money or property to any of the departments, directors, officers, stockholders, or employees of the investment manager, or relatives within the first degree of consanguinity or affinity, or the related interests of such directors, officers and stockholders; or to any corporation where the investment manager owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity;

b. Purchase or acquire property or debt instruments from any of the departments, directors, officers, stockholders, or employees of the investment manager, or relatives within the first degree of consanguinity or affinity, or the related interests of such directors, officers and stockholders; or from any corporation where the investment manager owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity;

c. Invest in equities of, or in securities underwritten by, the investment manager or a corporation in which the investment manager owns at least fifty percent (50%) of the subscribed capital or voting stock in its own right and not as trustee nor in a representative capacity; and

d. Sell, transfer, assign or lend money or property from one trust, fiduciary or investment management account to another trust, fiduciary or IMA except where the investment is in any of those enumerated in Items “a” to “d” of Subsec. X411.4.

Directors, officers, stockholders, and their related interests covered by this Subsection shall be those considered as such under existing regulations on loans to DOSRI in Part III-E of this Manual. The procedural and reportorial requirements in said regulations shall also apply.

The disclosure required under this Subsection shall consist of the following minimum information:

(1) The transaction to be entered into;
(2) Identities of the parties involved in the transaction and their relationships (shall not apply to Item “d” of this Subsection);

(3) Amount involved; and

(4) Collateral security(ies), if any.

The above information shall be made known to clients in a separate instrument or in the very instrument creating the investment management relationship.

§ X411.6 Title to securities and other properties. Securities such as promissory notes, shares of stocks, bonds and other properties of the portfolio shall be issued 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.

§ X411.7 Ceilings on loans. Loans funded by IMAs shall be subject to the DOSRI ceilings imposed on banks and IHs under Secs. X330 and X331. For purposes of determining compliance with said ceilings, the total amount of said loans granted by the trust department and the bank proper to the same person, firm or corporation shall be combined.

§ X411.8 Other applicable regulations on loans and investments. The loans and investments of IMAs shall be subject to pertinent laws, rules and regulations for banks that shall include, but need not be limited to, the following:

a. Requirements of Sections 39 and 40 of R.A. No. 8791 (The General Banking Law of 2000);

b. Provisions of Section 4(e) of the New Rules on Registration of Short-Term Commercial Papers and Section 7(f) of the New Rules on Registration of Long-Term

§§ X411.8 - X411.10
09.12.31

Commercial Papers issued by the SEC (*Appendices 13 and 14*);

- c. Criteria for past due accounts;
- d. Qualitative appraisal of loans, investments and other assets that may require provision for probable losses which shall be booked in accordance with the FRPTI;
- e. Requirements of Sections 3 and 8 of the SRC; and
- f. Provisions of Section 44 – Investments by Philippine Residents – of the FX Manual, such that the cross-currency investments of peso IMAs, shall be subject to the following conditions:

(1) All cash flows of the investment manager shall only be in pesos. In case the foreign exchange acquired or received by the principal as dividends/earnings or divestment proceeds on such investment are intended for reinvestment abroad, the same proceeds are not required to be inwardly remitted and sold for pesos through authorized agent banks: *Provided*, That such proceeds are reinvested abroad within two (2) banking days from receipt of the funds abroad;

(2) The investment manager shall purchase, invest, reinvest, sell, transfer or dispose foreign currency-denominated financial instruments, including securities as defined in Section 3 of the SRC, through a distributor or underwriter duly authorized or licensed by the government of the issuer of such instruments, or a counterparty financial institution (seller or buyer) authorized in writing by the principal and/or accredited by the investment manager: *Provided*, That, the conduct, documentation, and settlement of any of these transactions shall be outside Philippine jurisdiction;

(3) The investment manager shall record cross-currency investment transactions in the peso regular books at their foreign currency amounts and their local currency equivalent using the Philippine Dealing System peso/US dollar

closing rate and the New York US dollar/third currencies closing rate; and

(4) The investment manager shall comply with the reportorial requirements that may be prescribed by the BSP, which shall include as a minimum, the foreign currency amount and the local currency equivalent of the total cross currency investments with details on: (a) type of investments; and (b) amount of cash flow converted.

For purposes of this Subsection, “resident”, as defined under Section 1 of the FX Manual, shall refer to the principal that engages the services of the investment manager under an investment management agreement.

(Circular No. 676 dated 29 December 2009)

§ X411.9 Operating and accounting methodology. IMAs shall be operated and accounted for in accordance with the following:

a. The investment manager shall administer, hold, or manage the fund or property in accordance with the instrument creating the investment management relationship; and

b. Funds or property of each client shall be accounted separately and distinctly from those of other clients herein referred to as individual account accounting.

(As amended by Circular No. 676 dated 29 December 2009)

§ X411.10 Tax-exempt individual investment management accounts. The following shall be the features/requirements of IMAs of individuals which may be exempted 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 investment management agreements contracted on or after 03 January 2000;

b. The investment management agreement shall only be between individuals who are Filipino citizens or resident aliens and investment manager-banks. The

agreement shall be non-negotiable and non-transferable;

c. The minimum amount of investment for an IMA shall be P1.0 million;

d. The investment management agreement shall indicate that pursuant to Section 24(B)(1) of R.A. No. 8424, interest income of the investment management funds 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 the funds are held under investment management by the investment manager for at least five (5) years. If said funds are held by the investment manager for a period less than five (5) years, interest income shall be subject to a final tax which shall be deducted and withheld from the proceeds of the IMA based on the following schedule–

| Holding Period | Rate of Tax |
|---|-------------|
| 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 investment management agreement shall clearly indicate the date when the investment manager actually received the funds which shall serve as basis for determining the holding period of the funds;

e. The investment manager may accept additional funds for inclusion in IMAs which have been established as tax-exempt under R.A. No. 8424. However, the receipt of additional funds shall be properly documented by indicating that they are part of existing tax-exempt IMAs and that the interest income of the additional funds derived from investments in interest-bearing instruments shall be exempt from the twenty percent (20%) final tax under the same conditions mentioned in the preceding item. The document shall also indicate the

date when the additional funds were received by the investment manager-bank to serve as basis for determining the minimum five (5)-year holding period for tax exemption purposes of the additional funds; and

f. Tax-exempt individual IMAs established under this Subsection shall be subject to the provisions of Subsecs. X411.1(b) and X411.2 up to X411.8.

(As amended by Circular No. 676 dated 29 December 2009)

Sec. X412 Foreign Currency Deposit Unit/ Expanded Foreign Currency Deposit Unit Trust Accounts; Other Fiduciary or Investment Management Accounts. Only a bank with authority to operate a foreign currency deposit unit (FCDU) or an expanded foreign currency deposit unit (EFCDU) under R.A. No. 6426, as amended, may accept foreign currency-denominated trust, other fiduciary or IMAs.

(As amended by Circular No. 666 dated 24 September 2009)

¶ **X412.1 Banks with trust authority or investment management authority.** A bank authorized to engage in trust business under Section 79 of R.A. No. 8791, or in investment management activities only under Subsection 53.4 of R.A. No. 8791, which is also authorized to operate an FCDU or EFCDU under R.A. No. 6426, as amended, shall include FCDU/EFCDU trust other fiduciary or IMAs among those managed or administered by its trust/ investment management department under the responsibility of the board of directors, the trust/investment management committee and the trust/investment management officer.

(As amended by Circular No. 666 dated 24 September 2009)

¶ **X412.2 Additional deposit for the faithful performance of trust duties or investment management activities.** A bank authorized to engage in trust business or investment management activities that accepts FCDU/EFCDU trust other fiduciary

¶¶ **X412.2 - X414.1**
12.12.31

or IMAs shall deposit with the Bangko Sentral additional eligible government securities under Subsec. X405.2 as security for the faithful performance of trust duties or investment management activities equivalent to at least one percent (1%) of the value of the FCDU/EFCDU trust or investment management assets based on the average of the month-end balances of such assets during the immediately preceding quarter as converted in the local currency at the prevailing foreign exchange rate. Such securities shall be deposited within thirty (30) banking days after the end of every calendar quarter.

(As amended by Circular No. 666 dated 24 September 2009)

¶ **X412.3 *Applicability of rules and regulations.*** Unless otherwise revised by the provisions of this Section, the rules and regulations governing the administration of trust, other fiduciary or IMAs, including UITFs, shall be observed. Also applicable are rules and regulations on the operations of FCDUs/EFCDUs that include, among other things, regulations on acceptable foreign currencies, eligible and ineligible foreign currency sources; foreign currency cover requirements; and allowable loans and investments.

(As amended by Circular No. 666 dated 24 September 2009)

¶ **X412.4 *Liquidity requirement for foreign currency deposit unit/expanded foreign currency deposit unit common trust funds***

(Deleted by Circular No. 666 dated 24 September 2009)

Sec. X413 Required Surplus. A bank authorized to engage in trust and other fiduciary business shall, before the declaration of dividends, carry to surplus at least ten percent (10%) of its net profits realized out of its trust, investment management and other fiduciary business since the last preceding dividend declaration until the surplus shall amount to twenty percent (20%) of its authorized

capital stock and no part of such surplus shall at any time be paid out in dividends but losses accruing in the course of its business may be charged against surplus.

B. INVESTMENT MANAGEMENT ACTIVITIES

Sec. X414 Authority to Perform Investment Management. Banks may be authorized by the Monetary Board to act as managing agent, adviser, consultant or administrator of investment management/ advisory/consultancy account under Section 53.4 of R.A. No. 8791. However, such authority shall not be construed to include the authority to engage in trust and other fiduciary business under Chapter IX of R.A. No. 8791.

If a bank is found to engage in unauthorized investment management activities, the Monetary Board may impose administrative sanctions against such bank or its principal officers and/or majority stockholders or proceed against them in accordance with law.

The Monetary Board may take such action as it may deem proper such as, but may not be limited to, requiring the transfer or turnover of any IMA to duly incorporated and licensed entities of the choice of the client.

A bank not authorized to engage in investment management activities shall not advertise or represent itself as being engaged in investment management activities or represent itself as investment manager or use words of similar import.

¶ **X414.1 *Required capital.*** Banks applying for authority to perform investment management activities must have minimum capital accounts of not less than P300 million or such amount as may be required by the Monetary Board or other regulatory agency.

(As amended by Circular No. 756 dated 24 April 2012)

□ **X414.2 Prerequisites for engaging in investment management activities.** A bank before it may engage in investment management activities shall comply with the following requirements:

a. The bank has been duly licensed by the Bangko Sentral or created by special law or charter.

b. The articles of incorporation or charter of the bank shall include among its powers or purposes the authority to engage in investment management activities.

c. The by-laws of the bank shall include, among other things:

(1) The organization plan or structure of the department, office or unit which shall conduct the investment management activities of the institution;

(2) The creation of an investment management committee, the appointment of an investment management officer and subordinate officers of the investment management 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.

d. The applicant shall also meet the additional requirements under Subsec. X404.3d to m.

Compliance with the foregoing as well as with other requirements under existing regulations, shall be maintained up to the time the investment management authority is granted. A bank that fails in this respect shall be required to show compliance for another test period of the same duration.
(As amended by Circular No. 756 dated 24 April 2012)

□ **X414.3 Pre-operating requirements**
A bank authorized to engage in investment management activities shall, before engaging in actual operations, submit to the Bangko Sentral the following:

a. Government securities acceptable to the Bangko Sentral amounting to P500,000 as minimum basic security deposit for the

faithful performance of investment management duties required under Subsec. X415.1;

b. Organization chart of the investment management department which shall carry out the investment management activities of the bank; and

c. Names and positions of individuals designated as chairman and members of the investment management committee, investment management officer and other subordinate officers of the investment management department.

(As amended by Circular No. 756 dated 24 April 2012)

Sec. X415 Security for the Faithful Performance of Investment Management Activities

□ **X415.1 Basic security deposit.** A bank authorized to engage in investment management activities shall deposit with the Bangko Sentral eligible government securities as security for the faithful performance of its investment management activities equivalent to at least one percent (1%) of the book value of the total investment management assets: *Provided*, That at no time shall such deposit be less than P500,000.

Scripless securities under the RoSS system of the BTr may be used as basic security deposit for the faithful performance of investment management activities using the guidelines enumerated in *Appendix 33*.

□ **X415.2 Eligible securities.** Securities enumerated in Subsec. X405.2 shall be eligible as security deposit for faithful performance of investment management activities.

□ **X415.3 Valuation of securities and basis of computation of the basic security deposit requirement.** For purposes of determining compliance with the basic security deposit under this Section, the amount of securities so deposited shall be

X415.3 - X415.4
08.12.31

based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization.
 The base amount for the basic security deposit shall be the average of the month-end balances of the total assets of investment management funds of the immediately preceding calendar quarter.

X415.4 *Compliance period; sanctions*
 The investment manager shall have thirty (30) calendar days after the end of every calendar quarter within which to deposit with the Bangko Sentral securities required under this Section.

The following sanctions shall be imposed for any deficiency in the basic security deposit for the faithful performance of investment management activity:
 a. On the bank:
 i. Monetary penalty/ies:

| | | Offense | | First | Second | Third and subsequent offense(s) |
|--------------------------|--|---|-----------|-----------|------------|---------------------------------|
| | | Trust Asset Size | | | | |
| Penalty per Calendar Day | TBs/RBs with Limited Trust Authority | | P300.00 | P400.00 | P500.00 | |
| | UBs/KBs/TBs with Full Trust Authority and with Trust Assets of | Up to P500 million | P600.00 | P700.00 | P800.00 | |
| | | Above P500 million but not exceeding P1 billion | P1,000.00 | P1,250.00 | P1,500.00 | |
| | | Above P1 billion but not exceeding P10 billion | P2,000.00 | P3,000.00 | P4,000.00 | |
| | | Above P10 billion but not exceeding P50 billion | P5,000.00 | P6,000.00 | P7,000.00 | |
| | | Above P50 billion | P8,000.00 | P9,000.00 | P10,000.00 | |

ii. Non-monetary penalty beginning with the third offense (all banks) - Prohibition against the acceptance of new IMAs and from renewing expiring investment management contracts up to the time the violation is corrected.
 b. On the Head of the Investment Management Department and/or other officers responsible for the deficiency/non-compliance:
 (1) *First offense* - warning that subsequent violations shall be dealt with more severely;
 (2) *Second offense* - written reprimand with a stern warning that subsequent violations shall be subject to suspension;
 (3) *Third offense* - thirty (30) calendar day-suspension without pay; and
 (4) *Subsequent offense(s)* - sixty (60) calendar day-suspension without pay.

For purposes of determining the frequency of the violation, the bank s compliance profile for the immediately preceding three (3) years or twelve (12) quarters will be reviewed: *Provided*, That for purposes of determining appropriate penalty on the head of the Investment Management Department and/or other responsible officer(s), any offense committed outside the preceding three (3) year or twelve (12) quarter - period shall be considered as the first offense: *Provided, further*, That in the case of the head of the Investment Management Department, all offenses committed by him in the past as the head of the Investment Management Department of other institution(s) shall also be considered: *Provided, finally*, That if the offense cannot be attributed to any other officer of the bank, the head of the Investment Management Department shall be automatically held responsible since the ultimate responsibility for ensuring compliance with the regulation rests upon him, as evidence may warrant.
 (As amended by Circular Nos. 617 dated 30 July 2008 and 585 dated 15 October 2007)

Sec. X416 Organization and Management

The provisions of Sec. X406 up to Subsec. X406.9 shall govern the organization and management of banks without trust license which are engaged in investment management activities only. The following terms shall, however, be used:

- a. *Investment management activities*, in lieu of trust and other fiduciary business;
- b. *Investment management accounts*, in lieu of trust and other fiduciary accounts;
- c. *Investment management committee*, in lieu of trust committee;
- d. *Investment management officer*, in lieu of trust officer; and
- e. *Investment management department*, in lieu of trust department.

(As amended by M-2007-009 dated 22 March 2007)

Sec. X417 Non-Investment Management Activities.

The provisions of Sec. X407 shall apply in determining non-investment management activities except that the terms *trust*, *other fiduciary*, *trustee* and *fiduciary* shall be disregarded.

Sec. X418 Unsound Practices. The provisions of Sec. X408 shall govern the unsound practices for IMAs.

Sec. X419 Conduct of Investment Management Activities.

The provisions of Secs. X411 and X412 shall govern the conduct of investment management activities of a bank without a trust license.

(As amended by Circular No. 666 dated 24 September 2009)

Sec. X420 Required Surplus. A bank authorized to engage in investment management activities shall, before the declaration of dividends, carry to surplus at least ten percent (10%) of its net profits realized out of its investment management activities since the last preceding dividend declaration until the surplus shall amount to twenty percent (20%) of its authorized capital stock and no part of such surplus shall at any time be paid out in dividends,

but losses accruing in the course of its business may be charged against surplus.

C. GENERAL PROVISIONS

Sec. X421 Books and Records. The bank's trust department or investment management department shall keep books and records on trust, other fiduciary and IMAs separate and distinct from the books and records of its other businesses and shall follow the FRPTI prescribed by the BSP.

Each trust, other fiduciary or IMA shall have a record separate from all other accounts except only in the case of CTFs where the trustee can maintain common records utilizing *pooled fund accounting* method for each fund: *Provided*, That the trustee shall clearly indicate in the records the trustors owning participation in the CTF and the extent of the interest of such trustors.

Books and records shall contain full information relative to each trust, other fiduciary or IMA and shall be supported by duplicate signed copies of related documents. Said records and duplicate signed copies of related documents shall be compiled and kept as to allow inspection by BSP examiners and submission of information or reports as may be required by competent authorities.

The bank's trust department or investment management department shall maintain separate general ledger accounts and other relevant sub-accounts for tax-exempt individual trust accounts, CTFs and individual management accounts established under Section 24(B)(1) of R.A. No. 8424 and Subsecs. X409.8, X411.9, and Item "8" of *Appendix 60*. The bank's trust department or investment management department shall also adopt appropriate systems, internal control procedures and audit trail mechanisms to ensure that the correct amount of final tax is withheld or exempted from such accounts.

(As amended by Circular No. 653 dated 05 May 2009)

§§ X422 - X424
08.12.31

Sec. X422 Custody of Assets. All moneys, properties or securities received by a bank in its capacity as trustee, fiduciary, or investment manager shall be kept physically separate and distinct from the assets of its other businesses and shall be under the joint custody of at least two (2) persons, one of whom shall be an officer of the trust or investment management department, designated for that purpose by the board of directors.

The investment of each trust, other fiduciary or investment management account shall be kept physically separated from those of other trust, other fiduciary or IMAs, and adequately identified as the assets or property of the relevant account.

Sec. X423 Fees and Commissions. A bank acting as trustee, fiduciary or investment manager shall be entitled to reasonable fees and commissions which shall be determined on the basis of the cost of services rendered and the responsibilities assumed: *Provided*, That where the trustee, fiduciary or investment manager is acting as such under appointment by a court, the compensation shall be that allowed or approved by the court: *Provided, further*, That in the case of CTFs, the fee which a trustee may charge each participant shall be fully disclosed by the trustee in the CTF plan, prospectus, flyers, posters and in all forms of advertising materials to market the funds and in the documents given to clients as proof of participation in the fund. In no case shall such fees and commissions be based on the excess of the income of the trust, other fiduciary or investment management funds over a certain amount or percentage.

No trustee, fiduciary or investment manager shall solicit or receive rebates on commissions, fees and other payments for the services rendered to the trust, other fiduciary or IMA or beneficiaries of the trust, other fiduciary or IMA by stockbrokers, real estate brokers, insurance agents and similar

persons or entities unless the rebates, fees and other payments shall accrue to the benefit of the trust, other fiduciary or IMA or the beneficiaries thereof.

Officers and employees of the trust department or investment management department of banks, while serving as such, shall be prohibited from retaining any compensation for acting as co-trustee or fiduciary in the administration of a trust, other fiduciary or IMA.

No bank shall collect, for its own account, referral and/or arrangement fees, or any other fees that take the nature of payment to the bank from whatever source, in connection with loans sourced from trust funds managed by its trust department: *Provided*, That if such fees are collected, the same shall be properly disclosed to the trustor, and shall accrue to the benefit of the trust, in accordance with the provisions of Secs. X401 and X407.

(As amended by Circular No. 541 dated 30 August 2006)

Sec. X424 Taxes. The terms and conditions of trust, other fiduciary or investment management agreements including CTF plans shall contain provisions regarding the applicability of regulations governing taxation on the income of trust, other fiduciary or IMAs. For this purpose, the trustee, fiduciary or investment manager shall maintain adequate records and shall include information such as the amount of final income tax withheld at source and the amount withheld by the trustee, fiduciary or investment manager in the periodic reports submitted to trustors, beneficiaries, principals and other parties in interest.

With respect to tax-exempt CTFs, individual trust and IMAs established under Section 24(B)(1) of R.A. No. 8424, the bank's trust department or investment management department shall be responsible for obtaining the tax-exemption certifications which may be required by the BIR for the interest-bearing instruments

where the CTFs, individual trust funds and investment management funds will be invested. Likewise, the banks shall ensure that the correct amount of final tax on the interest income on the interest-bearing instruments is withheld/deducted from the proceeds from the CTF participation, trust or IMA and remitted to the BIR in the event said tax becomes due such as when funds are withdrawn before the required five (5)-year holding period or when corporations happen to invest in the tax-exempt trust instruments created within the purview of R.A. No. 8424.

Sec. X425 Reports Required

¶ **X425.1 To trustor, beneficiary, principal.** A bank acting as trustee, fiduciary or investment manager shall render reports on the trust, other fiduciary or IMAs to the trustor, beneficiary, principal or other party in interest or the court concerned or any party duly designated by the court order, as the case may be, under the following guidelines:

a. The reports shall be in such forms as to apprise the party concerned of the significant developments in the administration of the account and shall consist of:

- (1) A balance sheet;
- (2) An income statement;
- (3) A schedule of earning assets of the account; and
- (4) An investment activity report.

b. Items (3) and (4) above shall include at least the following:

- (1) Name of issuer or borrower;
- (2) Type of instrument;
- (3) Collateral, if any;
- (4) Amount invested;
- (5) Earning rate or yield;
- (6) Amount of earnings;
- (7) Transaction date; and
- (8) Maturity date;

c. The reports shall be prepared in such frequency as required under the agreement but shall not in any case be longer than once every quarter; and

d. The reports shall be made available to clients not later than twenty (20) calendar days from the end of the reference date/period in Item ¶c¶ above.

¶ **X425.2 To the Bangko Sentral.** A bank acting as trustee, fiduciary or investment manager shall submit periodic reports prescribed by the appropriate department of the SES on the bank's trust and other fiduciary business and investment management activities within the deadlines indicated in *Appendix 6*.

¶ **X425.3 Audited financial statements**
The trust/investment management department shall adopt the provisions of the Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS) in all respect, for purposes of preparing the AFS of its trust and other fiduciary and investment management activities. The following guidelines shall likewise be observed in the preparation of the AFS:

(a) The provisions of PFRS/PAS shall be adopted effective the annual financial statements beginning 01 January 2008;

(b) A complete set of financial statements shall comprise of the following:

- (1) Balance sheet as of the end of the period;
- (2) Income statement for the period;
- (3) Statement of changes in accountabilities, which shall show a reconciliation of the net carrying amount at the beginning and end of the period of the following accounts:

- (i) principal;
- (ii) accumulated income; and
- (iii) net unrealized gains/(losses) on available for sale financial assets, separately

¶¶ X425.3 - X426.1
12.12.31

disclosing the changes in each of the foregoing accounts;

(4) Notes, which shall comprise of a summary of significant accounting policies and other disclosure requirements provided under PFRS/PAS: *Provided*, That for purposes of complying with the disclosure of the nature and extent of risks arising from financial instruments as required under PFRS 7, disclosure statements may be made based on the general categories of contractual relationships (i.e., UITF-trust, institutional-trust, and individual-trust; other fiduciary; institutional-agency, and individual-agency; and special purpose trust) of the trust/investment management department of a bank with its clients; and

(5) Balance sheet as at the beginning of the earliest comparative period when a trust/investment management department applies an accounting policy retrospectively or when it makes a retrospective restatement of items in the financial statements, or when it reclassifies items in the financial statements.

(c) The balance sheet, income statement and statement of changes in accountabilities shall be presented for each of the general categories of contractual relationships (i.e., UITF-trust, institutional-trust, and individual-trust; other fiduciary; institutional-agency, and individual-agency; and special purpose trust) of the trust/investment management department of a bank with its clients;

(d) Comparative information for periods before 01 January 2008 need not be presented in the AFS for the financial reporting period beginning 01 January 2008: *Provided*, That disclosure statements on the end-2007 balances of total assets of the general categories of contractual relationships of the trust/investment management department of a

bank with its clients prepared based on the Generally Accepted Accounting Principles (GAAP) previously applied, shall be presented in the notes to financial statements: *Provided, further*, That comparative periods shall be presented in the AFS for the financial reporting period beginning 01 January 2009 and thereafter.

(e) The following transitory rules and regulations shall govern the accounting treatment of specific items for purposes of preparing the AFS for the financial reporting period beginning 01 January 2008:

(1) The provisions of PFRS/PAS shall only be applied to accounts outstanding as of end-December 2008;

(2) Reclassification of previously recognized financial instruments shall no longer be allowed except as allowed under existing regulations;

(3) The fair value of ROPA and Investment Properties as of the date of transition to PFRS/PAS may be used as the deemed cost of said properties as of that date: *Provided*, That said ROPA and Investment Properties shall be subsequently accounted for in accordance with the provisions of the FRPTI.

(Circular No. 653 dated 05 May 2009)

¶ X425.4 **Post-bond flotation report**

(Superseded by Circular No.769 dated 26 September 2012)

Sec. X426 Audits

¶ X426.1 **Internal audit.** The bank's internal auditor shall include among his functions, the conduct of periodic audits of the trust department or investment management department at least once every twelve (12) months. The board of directors, in a resolution entered in its minutes, may also require the internal auditor to adopt a suitable continuous audit system to

**§§ X426.1 - X428
09.12.31**

supplement and/or to replace the periodic audit. In any case, the audit shall ascertain whether the institution's trust and other fiduciary business and investment management activities have been administered in accordance with laws, BSP rules and regulations, and sound trust or fiduciary principles.

§ X426.2 External audit. The trust and other fiduciary business and investment management activities of a bank shall be included in the annual financial audit by independent external auditors required under Subsec. X190.1.

The audit of the assets and accountabilities of the trust department/ investment management department of a bank authorized to engage in trust and other fiduciary business, investment management activities, which shall cover at the minimum a review of the trust investment management operations, practices and policies, including audit and internal control system, shall be subject to auditing standards to the extent necessary to express an opinion on the financial statements.

The audit of the trust/investment management department of a bank authorized to engage in trust and other fiduciary business/investment management activities shall be covered by a separate supplemental audit report to be submitted to the bank's board of directors and to the BSP within the prescribed period containing, among other things, the complete set of financial statements of the trust/ investment management department of a bank prepared in accordance with the provisions of Subsec. X425.3 together with the other information required by the BSP to be submitted under Subsec. X190.1: *Provided*, That a reconciliation statement of the balance sheet in the AFS and the FRPTI shall be prepared for each of the general categories of contractual relationships (i.e., UITF-trust, institutional-trust, and individual trust; other

fiduciary; institu tional-agency, and individual-agency; and special purpose trust) of the trust/investment management department of a bank with its clients following the format in *Appendix 87*.

(As amended by Circular No. 653 dated 05 May 2009)

§ X426.3 Board action. A report of the foregoing audits, together with the actions thereon, shall be noted in the minutes of the board of directors of the bank.

Sec. X427 Authority Resulting from Merger or Consolidation. In merger of FIs, the authority to engage in trust and other fiduciary business and in investment management activities shall continue to be in effect if the surviving institution has such authority and the same has not been withdrawn by the BSP. In case the surviving institution does not have previous authority but desires to engage in trust and other fiduciary business and in investment management activities, it shall secure the prior approval of the Monetary Board to engage in such business as part of its application for merger to enable it to incorporate such among its powers or purpose clause in its articles of incorporation, articles of merger, by-laws and such other pertinent documents.

In the consolidation of FIs where the resulting entity is an entirely new one, it shall secure from the Monetary Board an authority to engage in trust and other fiduciary business or in investment management activities before it may engage in such business.

Sec. X428 Receivership. Whenever a receiver is appointed by the Monetary Board for a bank which is authorized to engage in trust and other fiduciary business or in investment management activities, the receiver shall, pursuant to the instructions of the Monetary Board, proceed to close the trust, other fiduciary and IMAs promptly

§§ X428 - X441.4
11.12.31

and/or transfer all other accounts to substitute trustees, fiduciaries or investment managers acceptable to the trustors, beneficiaries, principals or other parties in interest: *Provided*, That where the trustee, fiduciary or investment manager is acting as such under appointment by a court, the receiver shall proceed pursuant to the instructions of said court.

Sec. X429 Surrender of Trust or Investment Management License. Any bank which has been authorized to engage in trust and other fiduciary business or in investment management activities and which intends to surrender said authority shall file with the BSP a certified copy of the resolution of its board of directors manifesting such intention. The appropriate department of the SES shall then conduct an examination of the bank’s trust, other fiduciary business and investment management activities. If the bank is found to have satisfactorily discharged its duties and responsibilities as trustee, fiduciary or investment manager, and has provided for the orderly closure or transfer of its trust, fiduciary or investment management accounts, the Monetary Board, on the basis of the recommendation of the examining department, shall order the withdrawal of the bank’s authority to engage in trust and other fiduciary management activities.

Secs. X430 – X440 (Reserved)

Sec. X441 Securities Custodianship and Securities Registry Operations. The following rules and regulations shall govern securities custodianship and securities registry operations of banks.

The guidelines to implement the delivery by the seller of securities to the buyer or to his designated third party custodian are shown in *Appendix 68*.

Violation of any provision of the

guidelines in *Appendix 68* shall be subject to the sanctions/penalties under Subsec. X441.29.

(As amended by Circular No. 714 dated 10 March 2011, M-2007-002 dated 23 January 2007, M-2006-009 dated 06 July 2006, M-2006-002 dated 05 June 2006 and Circular No. 524 dated 31 March 2006)

§ X441.1 Statement of policy. It is the policy of the BSP to promote the protection of investors in order to gain their confidence and encourage their participation in the development of the domestic capital market. Therefore, the following rules and regulations are promulgated to enhance transparency of securities transactions with the end in view of protecting investors.

§ X441.2 Applicability of this regulation

This regulation shall govern securities custodianship and securities registry operations of banks and NBFIs under BSP supervision. It shall cover all their transactions in securities as defined in Section 3 of the Securities Regulation Code (SRC), whether exempt or required to be registered with the SEC, that are sold, borrowed, purchased, traded, held under custody or otherwise transacted in the Philippines where at least one (1) of the parties is a bank or an NBFI under BSP supervision. However, this regulation shall not cover the operations of stock and transfer agents duly registered with the SEC pursuant to the provisions of SRC Rule 36-4.1 and whose only function is to maintain the stock and transfer book for shares of stock.

§ X441.3 Prior Bangko Sentral approval. Banks may act as securities custodian and/or registry only upon prior Monetary Board approval.

§ X441.4 Application for authority

A bank desiring to act as securities custodian and/or registry shall file an application with the appropriate supervising

and examining department of the Bangko Sentral. The application shall be signed by the highest ranking officer of the bank and shall be accompanied by a certified true copy of the resolution of the bank's board of directors authorizing the bank to engage in securities custodianship and/or registry and, in the case of a branch of a foreign bank, approval by its highest ranking regional officer with proof of delegated authority from the bank's board of directors.

□ **X441.5 Pre-qualification requirements for a securities custodian/registry**

a. The securities custodian must be a bank that is authorized to engage in investment management or trust business. The securities registry must be a bank.

b. It must have complied with the minimum capital accounts required under existing regulations, as follows:

(1) *Domestic banks.* The minimum capital required under Subsec. X111.1 or the minimum capital required for TBs operating in Metro Manila, whichever is higher.

(2) *Branches of foreign banks.* The minimum capital required under Subsec. X105.4.b.

c. Its risk-based capital adequacy ratio is not lower than twelve percent (12%) at the time of filing the application;

d. It must have a CAMELS composite rating of at least 4 (as rounded off) in the last regular examination;

e. It must have in place a comprehensive risk management system approved by its board of directors (or equivalent management committee in the case of foreign bank branches) appropriate to its operations characterized by a clear delineation of responsibility for risk management, adequate risk measurement systems, appropriately structured risk limits, effective internal control and complete, timely and efficient risk reporting systems. In this connection, a manual of operations (which includes custody and/or registry

operations) and other related documents embodying the risk management system must be submitted to the appropriate supervising and examining department at the time of application for authority and within thirty (30) days from updates;

f. It must have adequate technological capabilities and the necessary technical expertise to ensure the protection, safety and integrity of client assets, such as:

(1) It can maintain an electronic registry dedicated to recording of accountabilities to its clients; and

(2) It has an updated and comprehensive computer security system covering system, network and telecommunication facilities that will:

(a) limit access only to authorized users;

(b) preserve data integrity; and

(c) provide for audit trail of transactions.

g. It has complied, during the period immediately preceding the date of application, with the following:

(1) ceilings on credit accommodation to DOSRI; and

(2) single borrower's limit.

h. It has no reserve deficiencies during the eight (8) weeks immediately preceding the date of application;

i. It has set up the prescribed allowances for probable losses, both general and specific, as of date of application;

j. It has not been found engaging in unsafe and unsound practices during the last six (6) months preceding the date of application;

k. It has generally complied with laws, rules and regulations, orders or instructions of the Monetary Board and/or Bangko Sentral Management;

l. It has submitted additional documents/information which may be requested by the appropriate supervision and examination department, such as, but not limited to:

¶¶ **X441.5 - X441.8**
13.12.31

- (1) Standard custody/registry agreement and other standard documents;
- (2) Organizational structure of the custody/registry business;
- (3) Transaction flow; and
- (4) For those already in the custody or registry business, a historical background for the past three (3) years;
- m. It shall be conducted in a separate unit headed by a qualified person with at least two (2) years experience in custody/registry operations;
- n. It can interface with the clearing and settlement system of any recognized exchange in the country capable of achieving a real time gross settlement of trades; and
- o. A securities custodian which provides the value-added service of securities lending involving securities that are sold, offered for sale or distributed within the Philippines must be a duly-licensed lending agent registered with the SEC.

(As amended by Circular Nos. 822 dated 13 December 2013 and 714 dated 10 March 2011)

- ¶ **X441.6 Functions and responsibilities of a securities custodian.** A securities custodian shall have the following basic functions and responsibilities:
- a. Safekeeps the securities of the client;
 - b. Holds title to the securities in a nominee capacity;
 - c. Executes purchase, sale and other instructions;
 - d. Performs at least a monthly reconciliation to ensure that all positions are properly recorded and accounted for;
 - e. Confirms tax withheld;
 - f. Represents clients in corporate actions in accordance with the direction provided by the securities owner;
 - g. Conducts mark-to-market valuation and statement rendition;
 - h. Does earmarking of encumbrances or liens such as, but not limited to, Deeds of Assignment and court orders; and
 - i. Acts as a collecting and paying agent

in respect of dividends, interest earnings or proceeds from the sale/redemption/maturity of securities held under custodianship: *Provided*, That the custodian shall immediately make known to the securities owner all collections received and payments made with respect to the securities under custody.

j. In addition to the above basic functions, it may perform the value-added service of securities lending as agent: *Provided*, That it complies with the pre-qualification requirements under Item ¶o¶ of Subsec. X441.5: *Provided, further*, That the securities lending service shall be covered by a Securities Lending Authorization Agreement (SLAA) which shall be attached to the custody contract.

A securities custodian which renders the value-added service of securities lending involving securities that are sold, offered and distributed within the Philippines shall comply with all other pertinent rules and regulations of the SEC on securities lending and borrowing operations.

(As amended by Circular No. 714 dated 10 March 2011)

- ¶ **X441.7 Functions and responsibilities of a securities registry**
- a. Maintains an electronic registry book;
 - b. Delivers confirmation of transactions and other documents within agreed trading periods;
 - c. Issues registry confirmations for transfers of ownership as it occurs;
 - d. Prepares regular statement of securities balances at such frequency as may be required by the owner on record but not less frequent than every quarter; and
 - e. Follows appropriate legal documentation to govern its relationship with the Issuer.

¶ **X441.8 Protection of securities of the customer.** A custodian must incorporate the following procedures in the discharge of its functions in order to protect the securities of the customer:

a. *Administration of securities custodianship accounts of banks.*¹ Securities custodianship accounts shall be administered in the Trust Unit of a bank.

As an exception, however, a custodian bank may be allowed to administer custodianship accounts in the Bank Proper: *Provided*, That this is limited to custodianship accounts wherein the securities custodian performs the basic functions and responsibilities provided under Subsec. X441.6: *Provided, further*, That the custodian bank secures prior MB approval on this arrangement: *Provided, finally*, That a custodian bank that is seeking exemption from the general requirement should be able to demonstrate that it has instituted adequate risk management systems and prudential controls in the Bank Proper to ensure the protection of client assets, maintain proper segregation of functions and prevent conflict of interest situations that may arise in the administration of securities custodianship accounts

b. *Accounting and recording for securities.* Custodians must employ accounting and safekeeping procedures that fully protect customer securities. It is essential that custodians segregate customer securities from one another and from its proprietary holdings to protect the same from the claims of its general creditors.

Securities held under custodianship shall be recorded in the books of the custodian at the face value of said securities in the off-balance sheet account “*Securities Held Under Custodianship by Bank Proper*”, if booked in the Bank Proper, or the other fiduciary sub-account “*Custodianship*”, if booked in the Trust Department.

Securities held under custodianship where the custodian performs the value-added service of securities lending as agent shall be booked in the Trust Department.

c. *Documentation.* The appropriate documentation for custodianship shall be made and it shall clearly define, among others, the authority, role, responsibilities, fees and provision for succession in the event the custodian can no longer discharge its functions. It shall be accepted in writing by the counterparties.

The governing custodianship agreement shall be pre-numbered and this number shall be referred to in all amendments and supplements thereto.

d. *Confirmation of custody.* The custodian shall issue a custody confirmation to the purchaser or borrower of securities to evidence receipt or transfer of securities as they occur. It shall contain, as a minimum, the following information on the securities under custody:

- (1) Owner of securities;
- (2) Issuer;
- (3) Securities type;
- (4) Identification or serial numbers;
- (5) Quantity;
- (6) Face value; and
- (7) Other information, which may be requested by the parties.

e. *Periodic reporting.* The custodian shall prepare at least quarterly (or as frequent as the owner of securities will require) securities statements delivered to the registered owner’s address on record. Said statement shall present detailed information such as, but not limited to, inventory of securities, outstanding balances, and market values.

(As amended by Circular No. 714 dated 10 March 2011)

§ X441.9 Independence of the registry and custodian. A BSP-accredited securities registry must be a third party with no subsidiary/affiliate relationship with the issuer of securities while a BSP-accredited custodian must be a third party with no subsidiary/affiliate relationship with the issuer or seller of securities. A bank accredited by BSP as securities custodian

¹ Existing BSP-accredited custodian banks which intend to administer their securities custodianship business in the bank proper shall be given thirty (30) banking days from 01 April 2011 to comply with the provisions of this Subsection.

¶¶ X441.9 - X441.13
11.12.31

may, however, continue holding securities it sold under the following cases:

a. where the purchaser is a related entity acting in its own behalf and not as agent or representative of another;

b. where the purchaser is a non-resident with existing global custody agreement governed by foreign laws and conventions wherein the bank is designated as custodian or sub-custodian; and

c. upon approval by the BSP, where the purchaser is an insurance company whose custody arrangement is either governed by a global custody agreement where the bank is designated as custodian or sub-custodian or by a direct custody agreement with features at par with the standards set under this Subsection drawn or prepared by the parent company owning more than fifty percent (50%) of the capital stock of the purchaser and executed by the purchaser itself and its custodian.

Purchases by non-residents and insurance companies that are exempted from the independence requirement of this Section shall, however, be subject to all other provisions of this Subsection.

¶ **X441.10 Registry of scripless securities of the Bureau of the Treasury**

The Registry of Scripless Securities (RoSS), operated by the Bureau of the Treasury, which is acting as a registry for government securities is deemed to be automatically accredited for purposes of this Section and is likewise exempted from the independence requirement under Subsec. X441.9. However, securities registered under the RoSS shall only be considered delivered if said securities were transferred by means of book entry to the appropriate securities account of the purchaser or his designated custodian. Book entry transfer to a sub-account for clients under the primary account of the seller shall not constitute delivery for purposes of this Section and of Subsecs. X235.5 and X238.1.

¶ **X441.11 Confidentiality.** A BSP-accredited securities custodian/registry shall not disclose to any unauthorized person any information relative to the securities under its custodianship/registry. The Management shall likewise ensure the confidentiality of client accounts of the custody or registry unit from other units within the same organization.

¶ **X441.12 Compliance with anti-money laundering laws/regulations.** 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, record keeping and reporting of suspicious transactions, a BSP-accredited custodian may rely on referral by the seller issuer of securities: *Provided*, That it maintains a record of such referral together with the minimum identification, information/documents required under the law and its implementing rules and regulations.

A BSP-accredited custodian must maintain accounts only in the true and full name of the owners of the security. However, said securities owners may be identified by number or code in reports and correspondences to keep his identity confidential.

Securities subject of pledge and/or deed of assignment as of 14 October 2004 (date of Circular 457), may be held by a lending bank up to the original maturity of the loan or full payment thereof, whichever comes earlier.

¶ **X441.13 Basic security deposit**

Securities held under custodianship whether booked in the Trust Department or carried in the regular books of the bank shall be subject to a security deposit for faithful performance of duties at the rate of 1/25 of one percent (1%) of the total face value or P500,000 whichever is higher.

However, securities held under custodianship where the custodian also performs securities lending as agent shall be subject to a higher basic security deposit of one percent (1%) of the total face value.

Compliance shall be in the form of government securities deposited with the Bangko Sentral eligible pursuant to existing regulations governing security for the faithful performance of trust and other fiduciary business.

(As amended by Circular No. 714 dated 10 March 2011)

§ X441.14 **Reportorial requirements**

An accredited securities custodian shall comply with reportorial requirements that may be prescribed by the Bangko Sentral, which shall include as a minimum, the face and market value of securities held under custodianship.

§§ X441.15 § X441.28 (Reserved)

§ X441.29 **Sanctions.** Without prejudice to the penal and administrative sanctions provided for under Sections 36 and 37, respectively, of the R.A. No. 7653, violation of any provision of this Section shall be subject to the following sanctions/penalties:

a. *First offense* §

(1) Fine of up to P10,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and

(2) Reprimand for the directors/officers responsible for the violation.

b. *Second offense* -

(1) Fine of up to P20,000 a day for the institution for each violation reckoned from the date the violation was committed up to the date it was corrected; and

(2) Suspension for ninety (90) days without pay of directors/officer responsible for the violation.

c. *Subsequent offenses* §

(1) Fine of up to P30,000 a day for the institution for each violation from the date the violation was committed up to the date it was corrected;

(2) Suspension or revocation of the authority to act as securities custodian and/or registry; and

(3) Suspension for one hundred twenty (120) days without pay of the directors/officers responsible for the violation.

Secs. X442 § X498 (Reserved)

D. GENERAL PROVISION ON SANCTIONS

Sec. X499 Sanctions. Any violation of the provisions of this Part shall be subject to Sections 36 and 37 of R.A. No. 7653 without prejudice to the imposition of other sanctions as the Monetary Board may consider warranted under the circumstances that may include the suspension or revocation of a bank's authority to engage in trust and other fiduciary business or in investment management activities, and such other sanctions as may be provided by law.

In the case of non-compliance with the requirements of Secs. X401, 2404 Items (i) § (iii) and 3404 Items (i) § (iii)§ and Subsecs. X406.2 to X406.4 and X406.10 additional sanction may be imposed, which may include but not limited to, curtailment of fiduciary activities and/or introduction of new business.¹

The guidelines for the imposition of monetary penalty for violations/offenses with sanctions falling under Section 37 of R.A. No. 7653 on banks, their directors and/or officers are shown in *Appendix 67*.

(As amended by Circular No. 766 dated 17 August 2012)

¹ Trust entities of banks that do not meet the requirements shall be given twelve (12) months from 10 September 2012 to comply.

PART FIVE

**MANUAL OF REGULATIONS ON
FOREIGN EXCHANGE TRANSACTIONS**

For the updated version of the Manual of Regulations on Foreign Exchange Transactions,
please refer to <http://www.bsp.gov.ph/downloads/Regulations/MORFXT/MORFXT.pdf>

PART SIX

TREASURY AND MONEY MARKET OPERATIONS

A. OPEN MARKET OPERATIONS

Section X601 Open Market Operations

The following rules and regulations shall govern the buying and selling of government securities in the open market, pursuant to Section 91 of R.A. No. 7653.

a. The BSP may buy and sell in the open market for its own account:

(1) Evidences of indebtedness issued directly by the Government of the Philippines or its political subdivisions; and

(2) Evidences of indebtedness issued by government instrumentalities and fully guaranteed by the Government.

The above evidences of indebtedness must be freely negotiable and regularly serviced. Purchases and sales in the open market shall be made through banks, QBs and accredited government securities dealers.

b. Outright purchases and sales of government securities shall be effected at prevailing market prices.

c. Repo agreements shall be open to banks (except RBs), QBs, and accredited government securities dealers and shall be made under the terms provided for in Subsec. X601.1 and the following:

(1) The repo agreement may be paid at any time before maturity, subject to mutual agreement of both parties;

(2) In the event the securities covered by the repo agreement are not repurchased by the issuer of such agreement, the same may be sold in the open market or transferred to the BSP portfolio; and

(3) Should an issuer of a repo agreement become no longer qualified as such, its outstanding repo agreement shall immediately become due and payable. If settlement of the amount due is not made within three (3) days from the date of its

disqualification, the BSP shall proceed to collect said amount in accordance with the preceding paragraph.

d. Reverse repo agreements covering the sale of portion of the security holdings of the BSP portfolio may be made under the terms provided for in Subsec. X601.2.

e. The purchase and sale of government securities by the National Treasury and government-owned or controlled corporations shall be made only with (a) the BSP; (b) the DBP, the LBP, the SSS, the GSIS, the Al-Amanah Islamic Investment Bank of the Philippines and banks that are wholly-owned or controlled by these institutions; and (c) the Philippine Veterans Bank. Transactions shall be done with the bank proper and not through its trust department.

§ X601.1 Repurchase agreements with Bangko Sentral

a. Repo agreements may be effected with the BSP subject to the following terms and conditions:

(1) *Rate.* The rates on the repo agreement facility shall be set by the Treasury Department, with the concurrence of the Governor, taking into account prevailing liquidity/market conditions.

(2) *Term.* At the option of the Treasury Department, availments may be for a minimum of one (1) day (overnight) and a maximum of ninety-one (91) days.

(3) *Security.* Only obligations of the National Government and its instrumentalities and political subdivisions, which are fully guaranteed by the Government, with a remaining maturity of not more than ten (10) years and which are freely negotiable and regularly serviced, shall be eligible as underlying instruments

§§ X601.1 - X601.2
09.12.31

for repo agreements subject to the collateral requirement prescribed by the BSP.

(4) *Delivery.* Delivery of the underlying instruments shall be made to the BSP at the prescribed time. For overnight repo agreements, delivery of the underlying instruments shall be made not later than 12:00 noon of the date of transaction.

Government securities which are held by the issuer of the repo agreement under the book-entry system with the BSP may be used as underlying instruments only with the conformity of the BSP.

(5) Upon termination of the repo agreement, the issuer of such agreement shall claim and take delivery of the underlying instruments at the Treasury Department, BSP. Failure to claim and take delivery of the underlying instruments immediately upon such termination shall relieve the BSP of any liability or responsibility for the loss or misplacement of said instruments.

b. US dollar (USD) denominated repo agreement facility may likewise be effected with the BSP, subject to the following terms and conditions, and as may be provided under the repo agreement facility:

(1) *Eligible borrowers.* The USD denominated repo agreement facility shall only be available to banks with legitimate foreign currency denominated funding needs as may be provided under the repo agreement facility: *Provided,* That the borrowing shall be for the account of the applicant bank and shall not be used to fund liquidity requirements of foreign branches, affiliates, or subsidiaries.

(2) *Collateral.* Only USD denominated obligations of the National Government of the Republic of the Philippines shall be eligible as collateral.

(3) The guidelines on the availment of USD denominated repo agreement with the BSP are shown in *Appendix 86*.

The Monetary Board may, at its discretion, impose any or all of the following

sanctions to a bank and/or its director/s or officer/s found to be responsible for violation of the provisions on the terms and conditions of the USD denominated repo agreement with the BSP:

(1) Termination of eligibility and pre-termination of any outstanding balance through repayment and/or sale of the collateral;

(2) Fine of up to P30,000 per transaction per day of violation reckoned from the time the violation was committed up to the date it is corrected;

(3) Suspension of interbank clearing privileges/immediate exclusion from clearing;

(4) Suspension of access to BSP rediscounting facilities;

(5) Suspension of lending or foreign exchange operations or authority to accept new deposits or make new investments;

(6) Revocation of authority to perform trust operations;

(7) Revocation of quasi-banking license;

(8) Suspension for 120 days without pay of the officers and/or directors responsible for the violation; and

(9) Other sanctions as may be provided by law.

(As amended by Circular Nos. 631 dated 12 November 2008, 627 dated 23 October 2008, M-2008-034 dated 12 November 2008 and M-2008-031 dated 23 October 2008)

§ X601.2 Reverse repurchase agreements with Bangko Sentral. Reverse repo agreements may be effected with the BSP subject to the following terms and conditions:

a. *Rate.* The rates shall be set by the Treasury Department, with the concurrence of the Governor, taking into account the prevailing liquidity/market conditions.

b. *Term.* At the option of the Treasury Department, availments may be for a minimum of one (1) day (overnight) and a maximum of 364 days.

- c. *Security.* The collateral shall consist of obligations of the National Government and other freely negotiable securities in the BSP portfolio valued at 100%.
- d. *Delivery.* No delivery of the collateral shall be made, but a custody receipt shall be issued instead.
- e. *Reservation.* Prepayment may be made by the BSP at its option anytime before maturity.

Effective 01 July 2003, published interest rates that will be applied on BSP s reverse repo agreements with banks shall be inclusive of Value Added Tax (VAT).

Reverse repo agreements entered into by the BSP with any AAB are included in the definition of the term deposit substitutes under Sec. 22 (y) Chapter 1 of the National Internal Revenue Code of 1997.

The BSP shall withhold twenty percent (20%) Final Withholding Tax (FWT) on its overnight reverse repo agreements starting 01 January 2008, under the following guidelines:

- (1) All overnight reverse repo agreements with the BSP shall be subject to the twenty percent (20%) FWT in the same manner as term reverse repo agreements, which tax is deducted on each maturity date and remitted to the BIR;
- (2) With respect to the overnight RRP s from 01 January 2008 to 22 August 2008¹, the concerned banks shall reimburse the BSP the amount equivalent to forty percent (40%) of the twenty percent (20%) FWT due thereon. However, banks which choose to pay the whole twenty percent (20%) FWT shall remit the amount equivalent to the sixty percent (60%) balance thereof to the BIR, through the BSP as withholding agent. In both cases, payment of the FWT to the BSP shall be made on or before 03 April 2009, either in full or in three (3) installments: *Provided*, That a bank which intends to pay in installments shall remit the first payment on or before 06 March 2009, the second on or before 20 March 2009 and

the last on or before 03 April 2009: *Provided, further*, That payments due shall be deducted from the Regular Demand Deposit Account (RDDA) of concerned banks. The BSP shall issue the certificate of final withholding tax reflecting the amount of the FWT paid; and
(3) Concerned banks shall issue the corresponding debit authority to the BSP to cover the twenty percent (20%) FWT on their overnight reverse repo agreements with the BSP as mentioned in Item ¶ 2¶ above.

(As amended by Circular Nos. 647 dated 03 March 2009 and 619 dated 22 August 2008)

¶ X601.3 ***Settlement procedures on the purchase and sale of government securities under repurchase agreements with the Bangko Sentral.*** Purchase and sale of government securities under repo agreements (GS/repo agreements) between and among banks and QBs and BSP in connection with the latter s open market operations shall be settled in accordance with the provisions of the agreement for the PhilPaSS executed on 12 December 2002 between the BSP and BAP/CTB/RBAP and any subsequent amendments thereto.

(As superseded by the agreement between the BSP and BAP/CTB/RBAP dated 12 December 2002)

¶¶ X601.4 - X601.5 (Reserved)

¶ X601.6 ***Bangko Sentral trading windows and services during public sector holidays.*** The guidelines on BSP s trading windows and services during public sector holidays are shown in *Appendix 84*.
(M-2008-025 dated 13 August 2008)

Secs. X602 - X610 (Reserved)

B. FINANCIAL INSTRUMENTS

Sec. X611 (2008 - X602) Derivatives. A bank may engage in authorized derivatives activities: *Provided*, That the bank:
a. Understands, measures, monitors

¹ Interest income payments from 01 January 2008 to 26 August 2008.

□ X611
08.12.31

and controls the risks assumed from its derivatives activities;

b. Adopts effective risk management practices whose sophistication are commensurate to the risks being monitored and controlled; and

c. Maintains capital commensurate with the risk exposures assumed.

Further, a bank may likewise engage in financial derivatives activities in accordance with these guidelines. The transacting bank shall have the responsibility to comply with the guidelines set out in this Section, including the relevant appendices, and other applicable laws, rules and regulations governing derivatives transaction. In case of derivatives instruments involving foreign currencies and/or other foreign currency-denominated assets, the transacting bank shall observe the pertinent FX rules and regulations. For purposes of these guidelines, a bank that transacts (i.e., transacting bank) whether as end-user, broker or dealer, in derivatives instruments is considered to be engaging in a derivatives activity.

Derivative is broadly defined as a financial instrument that primarily derives its value from the performance of an underlying variable. For purposes of these guidelines, a *financial derivative* is any financial instrument or contract with all of the following characteristics:

a. Its value changes in response to a change in a specified interest rate, financial instrument price, commodity price, FX rate, index of prices or rates, credit spread, credit rating or credit index or other variables not prohibited under existing laws, rules and regulations (the underlying);

b. It requires either no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

c. It is settled at a future date.

Financial derivatives activities shall also include transactions in cash instruments with embedded derivatives that reshape the risk-return profile of the host instrument, such as credit-linked notes (CLNs) and other structured products (SPs).

A market participant may take any of the following roles in a derivatives transaction:

a. An *end-user* is defined as a financial market participant that enters, for its own account, in a derivatives transaction for legitimate economic purposes. These purposes may include, but are not limited to, the following: hedging, proprietary trading, managing capital or funding costs, obtaining indirect exposures to desired market factors, investment, yield-enhancement, and/or altering the risk-reward profile of a particular item or an entire balance sheet.

An end-user may be classified according to its financial sophistication:

(1) *Market counterparty* - refers to any UB or KB, only with respect to the instruments for which it is authorized to engage in as a dealer.

(2) *Institutional counterparty* - refers to an institution which is not a market counterparty and has the level of net worth, knowledge, expertise, and experience to deal with financial derivatives.

(3) *Sophisticated individual end-user* - refers to an individual who has demonstrated to the bank as having the level of net worth, knowledge and experience in dealing with financial products, including financial derivatives. An individual may register as a sophisticated individual end-user with the Centralized Applications and Licensing Group of the BSP.

(4) *Other end-user* - This refers to all other institutional or individual clients not categorized as market counterparty,

¶ X611
08.12.31

institutional counterparty or sophisticated individual end-user.

b. A *broker* is a financial market participant that facilitates a derivatives transaction between a dealer and its client, for a fee or commission. The counterparties to the derivatives contract are the client and

an authorized dealer.

c. A *dealer* is defined as a financial market participant that engages in a derivatives activity as an originator of derivatives products or as market-maker in derivatives products. A dealer can distribute

(Next page is Part VI - Page 5)

its own derivatives products, including those of others. A dealer can also act as broker and/or end-user of derivatives instruments.

(As amended by Circular No. 594 dated 08 January 2008)

X611.1 (2008 - X602.1) Generally authorized derivatives activities. A bank may engage in the following derivatives activities without need of prior Bangko Sentral approval: *Provided*, That it observes the provisions of *Appendix 25* and meets the following conditions:

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

(1) *As a dealer*. A UB or KB may originate and distribute the following organized market -traded financial derivatives:

(a) FX forwards, FX swaps, currency swaps and analogous financial futures with a tenor of three (3) years or less; and

(b) Interest rate swaps, forward rate agreements and analogous financial futures with a tenor of ten (10) years or less: *Provided*, That the issuance of sub-participation in any derivatives held as an end-user shall be deemed as undertaking the role of a dealer: *Provided, further*, That the dealer UB or KB observes the provisions of *Appendix 26* and other pertinent securities laws, rules and regulations.

For purposes of this Subsection, an *organized market* refers to an exchange or a BSP-recognized over-the-counter market governed by transparent and binding market conventions on price transparency, trade reporting, market surveillance and orderly conduct/operations of the market.

(2) *As end-user*¹.

(a) A UB or KB, including its trust department, may enter in any financial derivatives transaction for the purpose of

hedging its own risks: *Provided*, That it observes all the requirements for hedging transactions under PAS.

(b) A UB or KB may trade with counterparties in order to take positions for its own account in organized market -traded financial instruments enumerated under Item 70 above. It can also take long positions in naked FX options with a tenor of three (3) years or less.

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

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

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

Provided, That the bank or trust entity shall comply with the following conditions:

(aa) Total carrying value of all investments in SPs shall not exceed 100% of the bank's qualifying Tier 1 capital or fifty percent (50%) of a trust entity's trust assets; and

(bb) For investments in SPs under the EFCDU, total carrying value of SPs as defined herein shall also not exceed twenty percent (20%) of the total FCDU assets: *Provided*, That SPs which are not booked in an investment account (e.g., booked as inter-bank loans), for this purpose, shall be considered as part of the EFCDU assets.

An SP is considered principal-protected if the minimum all-in return for such investment is at least zero and such minimum all-in return is guaranteed by an

¹ All transactions involving warrants issued under the ROP's Paired Warrants Program shall be considered as among the generally authorized derivatives activities that banks (including TBs and RBs/Coop Banks) may engage in as end-user, without need for additional derivatives authority required under this Subsection: *Provided*, That banks holding such instruments shall comply with the requirements of *Appendix 25*, where applicable.

X611.1 - X611.2
14.12.31

entity (i.e., issuer or a third party) rated at least A or its equivalent by an international rating agency acceptable to the Bangko Sentral or fully collateralized by an asset with equivalent credit quality.

(3) *As a broker.* A UB or KB may facilitate derivatives transactions between dealers and market and/or institutional counterparties and/or sophisticated individual end-users: *Provided*, That the UB/KB, acting as broker, ensures that its client fully understands its limited responsibility as a broker: *Provided further*, That the bank adheres to procedures for evaluating client suitability, including risk disclosures, as prescribed in *Appendix 26*: *Provided finally*, That the bank complies with other pertinent securities laws, rules and regulations.

b. TBs, RBs and Coop Banks may enter in derivatives transactions as end-user with Bangko Sentral - authorized dealers and brokers solely for hedging purposes: *Provided*, That they observe all the requirements for hedging transactions under PAS¹. A TB, RB or Coop Bank may apply for a Type 3 authority to enter into derivatives transactions as end-user for purposes other than hedging: *Provided*, That the applicant bank agrees to be covered by all regulations prescribing capital for market risk, notwithstanding any provision to the contrary; and

c. A trust department of a UB or KB may transact, as an institutional counterparty, with financial derivatives instruments enumerated under Subsec. X611.1(a)(2) on behalf of its trustor/principal/s as may be authorized by such trustor/principal/s: *Provided*, That the trust department observes the relevant provisions of *Appendices 25* and *26*. Trust entities other than that within a UB or KB may apply for a Type 3 authority to enter on behalf of its trustor/principal/s in

derivatives transactions under Subsec. X611.1(a)(2). Any trust entity may also apply for Type 3 authority in order to transact as end-user on behalf of its trustor/principal/s with derivatives instrument outside those enumerated under Subsec. X611.1(a)(2).

(As amended by Circular Nos. 605 dated 05 March 2008 and 594 dated 08 January 2008)

X611.2(2008 - X602.2) Activities requiring additional derivatives authority

A bank shall apply for prior Bangko Sentral approval of additional derivatives authority to engage in all other financial derivatives activities not expressly allowed in Subsec. X611.1. A bank may apply for two (2) or more additional authorities. A bank applying for additional derivatives authority/ies must have and maintain a risk management system commensurate to the additional authority/ies being applied for, in accordance with the provisions of *Appendix 25* and meet other conditions specified under this Subsection.

a. *Classification of additional derivatives authority*

(1) *Type 1 - Expanded dealer authority*

A UB or KB may apply for a Type 1 authority. A bank with Type 1 authority may transact in any financial derivatives as a dealer: *Provided*, That a bank with Type 1 authority shall comply with the sales and marketing guidelines prescribed in *Appendix 26*. A bank with Type 1 authority may likewise transact in any financial derivatives as a broker and an end-user.

The Bangko Sentral expects banks applying for Type 1 authority to institutionalize a (a) comprehensive and integrated risk management system; and (b) sales and marketing practices that are deemed appropriate and adequate for the different derivatives activities it expects to engage

¹ All transactions involving warrants issued under the ROP's Paired Warrants Program shall be considered as among the generally authorized derivatives activities that banks (including TBs and RBs/Coop Banks) may engage in as end-user, without need for additional derivatives authority required under this Subsection: *Provided*, That banks holding such instruments shall comply with the requirements of *Appendix 25*, where applicable.

in. It must be rated at least CAMELS (or ROCA for branches of foreign banks) of □4□ or better over-all, notwithstanding any provision to the contrary.

(2) Type 2 - *Limited dealer authority*

A UB or KB may apply for a Type 2 authority. A bank with Type 2 authority may operate as a dealer in specific types of derivatives products with specific underlying reference, as applied for by the bank, outside those financial derivatives instruments under Subsec. X611.1(a)(1): *Provided*, That a bank with Type 2 authority shall comply with the sales and marketing guidelines prescribed in *Appendix 26*. The Type 2 authority also carries authority to transact as broker and end-user of the said specific derivatives instruments.

A TB with an existing authority to issue foreign letters of credit and pay/accept/ negotiate import/export drafts/ bills of exchange under Subsec. 2101.1 may apply for a Type 2 authority to operate as a dealer of deliverable FX forwards in order to service the trade-related hedging requirements of its clients: *Provided*, That the tenor of the FX forwards dealt shall match the term of the underlying trade transaction: *Provided, further*, That the applicant bank shall be covered by all regulations prescribing capital for market risk, notwithstanding any provision to the contrary: *Provided, furthermore*, That the TB shall comply with the sales and marketing guidelines prescribed in *Appendix 26*. The Type 2 authority also carries the authority to transact as a broker and an end-user of deliverable FX forwards.

(3) Type 3 - *Limited user authority*

Any bank may apply for a Type 3 authority. A bank with Type 3 authority may transact, as an end-user, in specific types of derivatives products, with specific underlying reference, as applied for by the bank, outside of those instruments under Subsec. X611.1(a)(2). However, as regards a TB, RB or Coop Bank and trust entity other

than that within a UB or KB, a Type 3 authority will enable said bank/entity to transact as end-user of a derivative instrument as may be applied for by the bank/entity.

(4) Type 4 - *Special broker authority*

A bank, other than a UB or KB, may apply for a Type 4 authority. A bank with Type 4 authority may facilitate a derivatives transaction between a UB or KB, as dealer, and market and institutional counterparties and sophisticated individual end-users: *Provided*, That the bank, acting as broker, ensures that its client fully understands its limited responsibility as a broker and observes the provisions of *Appendix 26*.

A UB or KB may likewise apply for a Type 4 authority to enable itself to broker a derivatives transaction for or with other end-users.

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

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

b. *Qualification requirements*. A bank applying for additional authority to engage in expanded derivatives activities shall:

(1) Demonstrate adequate competence in its general operations as evidenced by:

(a) CAMELS (or ROCA for branches of foreign banks) composite rating of at least □3□ with a similar rating for Management;

(b) No unresolved major safety and soundness issues that threaten liquidity or solvency; and

(c) Substantial compliance with regulations on anti-money laundering, corporate governance and risk management.

(2) Hold capital commensurate to the risks assumed or to be assumed from the derivatives activities. The Bangko Sentral expects a bank applying for or holding

X611.2
14.12.31

additional derivatives authority to have adequate capital to accommodate existing and future risks from additional and generally authorized derivatives activities as well as risks arising from the bank s other business activities. For this purpose, the Bangko Sentral may require capital higher than the minimum required under prudential regulations.

(3) Have and maintain a risk management system that conforms to the principles and complies with the minimum standards prescribed in *Appendix 25*.

c. *Applicability to trust entities*. Trust entities may apply for Type 3 authority: *Provided*, That they comply with the requirements prescribed and observe the provisions of *Appendix 26*.

d. *Application procedures*. The applicant shall submit to the Capital Markets Specialist Group, SES of the Bangko Sentral a written application for additional derivatives authority/ies accompanied by:

(1) A copy of the board resolution (or equivalent management review body in the case of branches of foreign banks or trust committee, in case of trust entities) approving the application for a specific type of derivatives authority;

(2) A notarized certification signed jointly by the president, treasurer and compliance officer of the applicant-bank (or two (2) authorized signatories of equivalent rank of the trust committee in case of trust entities), stating that the bank complies with all the requirements for the authority being applied for specified in Subsec. X611.2; and

(3) A list of the types of derivatives and underlying reference the bank intends to engage in, including the following information for each derivatives class or type:

- (a) Target customers for such derivatives;
- (b) The capacity in which the bank intends to engage in such derivatives;
- (c) Description of each type of derivatives and underlying reference with which it will deal;

(d) Analysis of the risks involved in transacting in each type of derivatives;

(e) Procedures/methodologies that the bank will implement to measure, monitor (including risk management reports) and control the risks inherent in the types of derivatives;

(f) Relevant accounting guidelines, including pro-forma accounting entries;

(g) Analysis of any actual or potential legal/regulatory restrictions; and

(h) Process flow chart, from deal initiation to risk reporting, indicating the departments and personnel involved in identified processes.

(4) Payment of a non-refundable processing fee amounting to:

| Authority | Amount | |
|-----------|-----------|--------------------|
| Type 1 | P 200,000 | (UBs and KBs) |
| Type 2 | 100,000 | |
| Type 3 | 50,000 | |
| | 25,000 | (other applicants) |
| Type 4 | 25,000 | (all banks) |

(5) The Bangko Sentral will not accept applications lacking any of the above-stated requirements. The Bangko Sentral, however, may require additional documents to aid its evaluation of the application. By virtue of the application, the applicant automatically authorizes the Bangko Sentral to conduct an on-site evaluation of the applicant s risk management capabilities, if this is deemed necessary.

(6) Type 1 authority shall be subject to approval by the Governor, upon recommendation of the Deputy Governor, SES. All other applications for additional authority/ies shall be subject to approval by the Deputy Governor, SES.

(7) A bank whose application for additional derivatives authority/ies or an upgrade thereof (e.g., from Type 2 to Type 1 authority) has been denied cannot submit a new application for additional derivatives authorities until after six (6) months from receipt of denial. The same rule applies for

a bank whose authorities have been limited or downgraded.

(8) A bank that holds an additional derivatives authority may apply for additional derivatives authorities (e.g., currently holding Type 3 authority who wish to apply for Type 4 authority) or an upgrade thereof only after the lapse of six (6) months from the grant of the previous

additional derivatives authority.

(As amended by Circular Nos. 864 dated 22 December 2014 and 594 dated 08 January 2008)

¶ **X611.3 (2008 - X602.3) Intra-group transactions.** All derivatives transactions between a bank and any of its subsidiaries and affiliates shall comply with minimum risk management standards for related-

(Next page is Part VI - Page 9)

party transactions outlined in *Appendix 25*, as part of the bank's internal control procedures. The BSP expects banks to establish internal reporting and monitoring system for derivatives activities for related-party transactions. Failure to comply with minimum standards shall be a ground for citing non-compliance with Subsecs. X611.1 and X611.2 without prejudice to other BSP rules and regulations such as those related to corporate governance and unsafe and unsound banking practices.

(As amended by Circular No. 594 dated 08 January 2008)

§ X611.4 (2008 - X602.4) Accounting guidelines. A bank that engages in derivatives activities must strictly account for such transactions in accordance with PAS.

(As amended by Circular No. 594 dated 08 January 2008)

§ X611. 5 (2008 - X602.5) Reporting requirements. A bank or trust department/entity engaged in any derivatives transaction shall submit, in addition to the derivatives reports enumerated under the BSP FRP, a monthly report on derivatives transactions/outstanding derivatives within fifteen (15) banking days from end of the reference month. The reports shall be certified by the treasurer.

(As amended by Circular No. 594 dated 08 January 2008)

§ X611.6 (2008 - X602.6) Sanctions

a. *Unauthorized transactions.* Sanctions prescribed under Sections 36 and 37 of R.A. No. 7653 shall be imposed on any bank (including its directors and officers) found to have engaged in an unauthorized derivatives activity.

A bank undertaking unauthorized derivatives activities may be considered as conducting its business in an unsafe and unsound manner under Section 56 of R.A. No. 8791.

b. *Delayed/erroneous/inaccurate reporting.* Banks failing to submit the reports required under Subsec. X611.5 within the prescribed deadline shall be

subject to monetary penalties applicable for delayed reporting under existing regulations. Moreover, submission of incomplete, uncertified or improperly certified or otherwise erroneous reports shall be considered non-reporting, subject to applicable penalties for amended/delayed reports. For purposes of imposing monetary penalties, the reports shall be classified as a *Category A-1* report. Habitual delayed or erroneous reporting may be a ground for further sanction, including limitation of generally authorized activities and/or additional authorities and/or suspension of authority to engage in such derivatives activities.

c. *Non-compliance with the provisions of Sec. X611 and its Subsections and Appendices 25 and 26.* Any bank/trust entity found violating any of the provisions of Sec. X611 and its Subsections, and/or *Appendices 25* and/or *26* shall be sanctioned with the penalties prescribed under Sections 36 and 37 of R.A. No. 7653 in accordance with the gravity/seriousness of the offense taking into consideration the number of times the offense was committed, possible consequent losses on the clients, effect on the financial markets and other relevant factors.

d. *Curtailment of derivatives authority.* The BSP reserves the right to suspend, modify, downgrade, limit or revoke any bank's derivatives authority (including any or all of those generally authorized activities) for prudential reasons as may be evidenced by any or all of the following:

(1) The bank is assigned a CAMELS (or ROCA in the case of branches of foreign banks) composite rating or component management rating of lower than that prescribed under Subsec. X611.2, in the most recent regular examination.

(2) The bank has not maintained adequate risk management systems given the level and type of derivatives activities it has engaged in as may be determined

§§ X611.6 - X625.2
08.12.31

by the BSP in any on-site evaluation and confirmed by the Monetary Board.

(3) The Monetary Board has confirmed an SES finding that the bank has conducted business in an unsafe and unsound manner.

An erring bank may apply for reinstatement of its derivatives authority only after six (6) months from lapse of the implementation of the sanction: *Provided*, That the bank has satisfactorily addressed all BSP concerns.

Transitory provisions. Expanded or any other derivatives authority granted prior to 30 January 2008 shall be operative for one (1) year from the said date: *Provided*, That a bank undertaking any derivatives activities pursuant thereto shall immediately comply with the pertinent provisions of *Appendices* 25 and 26. A bank which intends to continue its existing derivatives authority not covered by those generally authorized under Subsec. X611.1, must submit an application for the appropriate additional derivatives authority within the one (1) - year transitory period. After the lapse of the one (1) - year transitory period, a bank can only perform those activities which are permissible under Sec. X611 and its Subsections.

A bank whose SPs, as of 30 January 2008, exceed the prudential limits prescribed under Subsec. X611.1(a)(3) may maintain existing positions but cannot increase its exposures or invest in additional SPs until such time when its exposure levels are within the prescribed limits.

(As amended by Circular No. 594 dated 08 January 2008)

Secs. X612 - X624 (Reserved)

Sec. X625 (2008 - X602.14) Forward and Swap Transactions. The following guidelines shall govern the forward and swap transactions in Philippine peso

§ X625.1 (2008 - X602.14) Statement of policy. It is the policy of the BSP to support the deepening of the Philippine financial markets. In line with this policy,

customers may, thru FX forwards, hedge their market risks arising from FX obligations and/or exposures: *Provided*, That forward sale of FX (deliverable and non-deliverable) may only be used when the underlying transaction is eligible for servicing by the banking system under Circular No. 1389 dated 13 April 1993, as amended. Customers may, likewise, cover their funding requirements thru FX swaps.

Banks may only engage in FX forwards and swap transactions with customers if the latter is hedging market risk or covering funding requirements. There shall be no double/multiple hedging such that at any given point in time, the total notional amount of the FX derivatives transaction/s shall not exceed the amount of the underlying FX obligation/exposure.

The customer shall no longer be allowed to buy FX from the banking system for FX obligations/exposures that are fully covered by deliverable FX forwards and FX swaps.

The following guidelines, as well as minimum documentary requirements, shall cover FX forward and swap transactions involving the Philippine peso between authorized dealer banks and their customers.
(As amended by Circular No. 591 dated 27 December 2007)

§ X625.2 (2008 - X602.15) Definition of terms

a. *Credit default swaps* (CDS) - refers to a financial contract between two (2) parties, the protection buyer and protection seller, with reference to a certain notional value of a reference credit or a basket of reference credits, whereby the former pays a premium to the latter, and in return the latter agrees to make certain protection payments to the former contingent upon the occurrence of a credit event with respect to the reference entity(ies)/asset(s).

b. *Credit-linked note* (CLN) - refers to a pre-funded credit derivative instrument under which the note holder effectively accepts the transfer of credit risk pertaining

to a reference asset or basket of assets issued by a reference entity/ies. The repayment of the principal to the note holder is contingent upon the occurrence of a defined credit event. In consideration thereof, the note holder receives an economic return reflecting the underlying credit risk of the reference assets. For purposes of Sec. X611, the term shall generically include similar instruments such as credit-linked deposits (CLDs) and credit-linked loans (CLLs). Unless otherwise stated, the term shall refer only to plain vanilla CLNs. Plain vanilla CLNs are composed of a debt or deposit instrument and a CDS. Non-plain vanilla CLNs are those that are leveraged and/or include features of other SPs (e.g., coupon payments linked to interest or FX rate movements) and/or contains more than one (1) embedded derivative.

c. *Currency swaps* - refers to an arrangement in which two parties exchange a series of cash flows in one (1) currency for a series of cash flows in another currency, at specified exchange and/or interest rates and at agreed intervals over an agreed period.

d. *Forward FX contracts* - refers to an agreement for delayed delivery of a foreign currency in which the buyer agrees to purchase and the seller agrees to deliver at a specified future date a specified amount at a specified exchange rate.

e. *Forward rate agreement (FRA)* - refers to an agreement fixing the interest rates for a specified period whereby the buyer receives (or pays) and the seller pays (or receives) the interest rate differential if the reference rate rises above (or falls below) the contract rate, respectively.

f. *FX exposure* - refers to an FX risk arising from an existing commitment to or from a non-resident or AAB which leads to payment of an FX obligation or receipt of an FX asset based on verifiable documents on deal date.

g. *FX obligation* - refers to an actual FX commitment to a non-resident or any AAB where the amount, payment tenor and party have been determined.

h. *FX options* - refers to option contracts which convey the right or the obligation depending upon whether the bank is the purchaser or the writer, respectively to buy or sell at a specified price by a specified future date, for a fee or a premium, two (2) different currencies at a specified exchange rate.

i. *FX swaps* - refers to an agreement involving an initial exchange of two (2) currencies, usually at the prevailing spot rate, and a simultaneous commitment to reverse the exchange of the same two (2) currencies at a date further in the future at a rate (different from the rate applied to the initial exchange) agreed on deal date.

j. *Interest rate swaps (IRS)* - refers to an agreement in which the parties agree to exchange interest cash flows on a principal amount at certain times in the future according to an agreed upon formula.

k. *Non-deliverable forward (NDF)* - refers to a forward FX contract where only the net difference between the contracted forward rate and the market rate shall be settled at maturity.

l. *Non-resident* - refers to an individual, a corporation or other juridical person not included in the definition of resident.

m. *Resident* - refers to:

(1) An individual citizen of the Philippines residing therein; or

(2) An individual who is not a citizen of the Philippines but is permanently residing therein; or

(3) A corporation or other juridical person organized under the laws of the Philippines; or

(4) A branch, subsidiary, affiliate, extension office or any other unit of corporations or juridical persons which are organized under the laws of any country and operating in the Philippines, except OBUs.

¶¶ **X625.2 - X625.6**
13.12.31

n. *Structured product (SP)* - refers to a financial instrument where the total return is a function of one (1) or more underlying indices, such as interest rates, equities and exchange rates. It is composed of a host contract (e.g., plain vanilla debt or equity securities) and an embedded derivative (e.g., swaps, forwards or options) that re-shape the risk-return pattern of the hybrid instrument. For purposes of guidelines under Sec. X611, the term SP does not include asset-backed securities. Provisions under Sec. 1648 shall continue to apply for securities overlying securitization structures.

(As amended by Circular Nos. 594 dated 08 January 2008 and 591 dated 27 December 2007)

¶ **X625.3 (2008 - X602.16) Documentation**

Minimum documentary requirements for FX forward and swap transactions in *Appendix 58* shall be presented on or before deal date to the banks unless otherwise indicated.

FX selling banks shall stamp the supporting documents upon presentation by customers as follows:

a. For hedging transactions: *FX hedged/deliverable* or *FX hedged/non-deliverable*";

b. For funding transactions: *FX sold*, indicating the contract date and amount involved, and signed by the bank's authorized officer. Copies of all duly marked supporting documents shall be retained by the banks and made available to the Bangko Sentral for verification. The retained copies shall also be marked *Documents Presented as Required* and signed by the bank's authorized officer.

(As amended by Circular No. 591 dated 27 December 2007)

¶ **X625.4 (2008 - X602.17) Tenor/maturity and settlement**

a. *Forward sale of FX (whether deliverable or non-deliverable)*. The tenor/maturity of such contracts shall not be longer

than: (i) the maturity of the underlying FX obligation; or (ii) the approximate due date or settlement of the FX exposure. For deliverable FX forward contracts, the tenor/maturity shall be co-terminus with the maturity of the underlying obligation or the approximate due date or settlement of the FX exposure. This shall not preclude pretermination of the contract due to prepayment of the underlying obligation or exposure: *Provided*, That for foreign currency loans, prior Bangko Sentral approval has been obtained for the prepayment and a copy of such approval is presented to the bank counterparty.

b. *FX Swaps* - No restriction on tenor.

c. *Settlement of NDFs* - All NDF contracts with residents shall be settled in pesos.

d. *Remittance of FX proceeds of deliverable forward and swap contracts* FX proceeds of deliverable forward and swap contracts shall be delivered by the bank counterparty directly to the beneficiaries concerned except for foreign investments where said FX proceeds are reconverted to Philippine pesos and reinvested in eligible peso instrument such as those listed in Item A.2.2 of *Appendix 58*. For this purpose, beneficiaries shall refer to the FCDU of a bank or a nonresident entity (e.g., creditor, supplier, investor) to whom the customer is committed to pay/remit FX.

(As amended by Circular No. 591 dated 27 December 2007)

¶ **X625.5 (Reserved)**

¶ **1625.5 (2008 - 1602) Forward contracts with non-residents.**

(Deleted by Circular No. 790 dated 06 March 2013)

¶ **2625.5 (Reserved)**

¶ **3625.5 (Reserved)**

¶ **X625.6 (2008 - X602.18) Cancellations,**

roll overs or non-delivery of FX forward contracts. All cancellations, roll-overs or non-delivery of all FX deliverable forward contracts and the forward leg of swap contracts shall be subject to the following guidelines to determine the validity thereof:

a. *Eligibility test* - Contracts must be supported by documents listed in *Appendix 58* hereof.

b. *Frequency test* - the reasonableness of the cancellation, roll-over or non-delivery shall be based on the results of the evaluation of the justification/explanation submitted by banks as evidenced by appropriate documents.

c. *Counterparty test* - the cancellation or roll-over of contracts must be duly acknowledged by the counterparty to the contract as shown in documents submitted by banks, e.g., there should be *conforme* of counterparty as evidenced by the counterparty signature on pertinent documents.

d. *Mark-to-Market test* - the booking or recording in the books of accounts of the profit or loss on contracts and cash flows/settlement to counterparties must be fully supported by appropriate documents such as authenticated copy of debit/credit tickets, schedules showing among others, mark-to-market valuation computation, etc.

(As amended by Circular No. 591 dated 27 December 2007)

□ **X625.7 (2008 - X602.19) Non-deliverable forward contracts involving the Philippine peso.** NDF contracts involving the Philippines peso shall be covered by the provisions of *Appendix 101*.

Any violation of the provisions of *Appendix 101* shall constitute grounds for the imposition on the bank/director(s)/officer(s) of the following:

a. *First Offense*

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

ii. Banks in breach of the limits shall be required to submit remedial plan to comply with the limits.

b. *Subsequent Offense*- Bank will be subject to any or all of the following, as may be recommended by the SES to the Monetary Board:

i. Restriction or prohibition on the bank from requesting new authority and/or licenses of any sort;

ii. Restriction or prohibition on the bank from declaring dividends; and

iii. Issuance of an order requiring the bank to cease and desist from conducting business in an unsafe and unsound manner and may further order that immediate action be taken to correct the conditions resulting from such unsafe or unsound practice.

(As amended by Circular No. 790 dated 06 March 2013)

□ **X625.8 (2008 - X602.20) Compliance with anti-money laundering rules.** All transactions under Sec. X625 and Subsecs. X625.1 to X625.9 shall comply with existing regulations on anti-money laundering under Sec. X801.

(As amended by Circular No. 591 dated 27 December 2007)

□ **X625.9 (2008 - X602.21) Reporting requirements.** Banks duly authorized to engage in derivatives transactions shall continue to be covered by the Bangko Sentral s existing reporting requirements on financial derivatives. Cancellations, roll-overs or non-delivery of deliverable FX forward contracts and under the forward leg of swap contracts shall be reported electronically in Excel format to the Bangko Sentral not later than five (5) banking days after reference month as indicated in *Appendix 6*.

Swap contracts with counterparties involving purchase of FX by banks at the initial leg shall likewise be reported electronically in Excel format to the Bangko Sentral not later than five (5) banking days after reference month as

X625.9 - X625.14
08.12.31

indicated in Appendix 6.

The reports shall be transmitted to the International Department at iod@bsp.gov.ph, copy furnished the SDC at the following addresses: sdcfxkbdom@bsp.gov.ph (for domestic banks) and sdcfxkbfor@bsp.gov.ph (for foreign banks).

(As amended by Circular No. 591 dated 27 December 2007)

X625.10 - X625.13 (Reserved)

X625.14 (2008 - X602.26) Sanctions
Violations of Sec. X625 and Subsecs. X625.1 to X625.9 shall be subject to the penalty provisions under R.A. No. 7653 (The New Central Bank Act) and other existing banking laws and regulations.

Failure to comply with Subsec. X625.6 shall result in the exclusion of the forward contracts in the computation of the bank's consolidated daily position starting from day one, i.e., when the individual contracts were entered into. Violations of the prescribed FX position limits shall be subject to the following sanctions provided under Circular Letter dated 13 March 1998:

| | | |
|-----------------------|---------------------------------|----------------------|
| a. Monetary Penalties | | |
| | <u>Per Calendar Month</u> | <u>Daily Penalty</u> |
| | 1 st banking day | P10,000 |
| | 2 nd banking day | 20,000 |
| | 3 rd banking day of | 30,000 |
| | violation, and onwards, | |
| | or if the excess FX position | |
| | of the bank is thirty percent | |
| | (30%) or more of the | |
| | allowable limits in any | |
| | banking day, regardless of | |
| | whether a bank is in the first, | |
| | second, third or more days of | |
| | violation | |

b. In addition, the following non-monetary sanctions shall be imposed on the bank committing violations considered as:

(1) "chronic", i.e., when the violation continues beyond three (3) banking days within a calendar month, but the excess position is less than thirty percent (30%) of the allowable limit; and

(2) "abusive", i.e., when the violation continues beyond three (3) business days within a calendar month and excess position is thirty percent (30%) or more of the allowable limit.

| | |
|-------------------|---|
| Chronic violation | Suspension of the bank's rediscounting privileges, cash dividend declaration and branching privileges until the violation is corrected but in no case shall such suspension be less than thirty (30) calendar days. |
| Abusive violation | Suspension of the bank's rediscounting privileges, cash dividend declaration and branching privileges until the violation is corrected but in no case shall such suspension be less than sixty (60) calendar days. |

c. The Monetary Board may impose other non-monetary sanctions on a bank for violations determined by Bangko Sentral as chronic or abusive on a case-to-case basis, pursuant to Sec. 37 of R.A. No. 7653.

d. Banks shall be duly advised by the Bangko Sentral of their violations and the corresponding sanctions imposed for such violations.

e. A monetary penalty imposed on a bank shall be paid to the Bangko Sentral Cash Department, within three (3) banking days from the bank's receipt of advice of said penalty imposition.

For purposes of imposing sanctions for delayed, erroneous or unsubmitted reports, reports required under Subsec. X625.9 are classified as *Category B* reports and subject to corresponding penalties.

Counterparties that habitually cancel deliverable forwards without proper justification may be subject of a Bangko Sentral watchlist.

(As amended by Circular No. 591 dated 27 December 2007)

Secs. X626 - X628 (Reserved)

Sec. 1628 (2008 - 1633) Credit-linked Notes and Similar Credit Derivative Products. The following are the guidelines for the capital treatment of investments in credit-linked notes and similar credit derivative products such as credit-linked deposits and credit linked loans.

□ **1628.1(2008 - 1633) Definitions**

(1) A credit-linked note (CLN) pertains to a pre-funded credit derivative instrument under which the note holder effectively accepts the transfer of credit risk pertaining to a reference asset or basket of assets issued by a reference entity/ies. The repayment of the principal to the note holder is contingent upon the occurrence of a defined credit event. In consideration, the note holder receives an economic return reflecting the underlying credit risk of the reference asset/s.

All references to CLNs in this Section shall be taken to generically include similar instruments, such as Credit-Linked Deposits (CLDs) and Credit-Linked Loans (CLLs).

(2) An SPV, for purposes of this Section, refers to an entity specifically established to issue CLNs of a single, homogeneous risk class that are fully collateralized as to principal by high-grade securities purchased out of the proceeds of the note issuance. Collateral shall be limited to securities with an assignable risk weight of not more than twenty percent (20%) under existing regulations.

□ **1628.2 (2008 - 1633) Qualified banks**

In general, only banks with expanded derivatives authority may invest in CLNs as

defined above on the principle that such banks have already demonstrated a more sophisticated ability to manage risks. Subject to the provisions in Sec. 1648, they may also invest in SPV-issued CLNs that co-exist with other CLNs of different seniority of claims against the reference asset pool. As an exception to the general rule, a UB/KB without expanded derivatives authority may invest in single name CLNs where the reference asset is a direct ROP obligation or an obligation fully guaranteed by the ROP.

□ **1628. 3 (2008 - 1633) Capital treatment of investments in CLNs**

(1) Banking book. Positions in CLNs in the banking book shall be reported in the computation of the risk-based capital adequacy ratio covering credit risks under applicable and existing capital adequacy framework.

Through holding a CLN, a bank acquires credit exposure on two (2) fronts - to the reference entity of the note and also to the note issuer. The on-balance sheet exposure arising from the CLN should be weighted by the higher of the risk weight of the reference entity or the risk weight of the note issuer. The amount of exposure is the book value of the note. If the CLN principal is fully collateralized by securities that are acceptable as credit risk mitigant under applicable and existing capital adequacy framework and provided such collateral is constituted in a legally effective manner as to give priority to the note holders interest in the event of bankruptcy of the note issuer, the risk weight of the note issuer is substituted with the risk weight associated with the relevant security.

When the CLN 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

□ 1628.3
14.12.31

reference entities in the basket. This means that the risk weights of all the reference entities are added up and the sum compared with the risk weight of the note issuer. If the sum of the risk weights of all the reference entities in the basket is higher than the risk weight of the note issuer, then this sum is adopted. The resultant risk-weighted exposure to the basket is, however, capped at ten (10) times the book value of the note. Accordingly, the maximum capital charge is 100% of the book value of the note. The multiplier ten (10) is the reciprocal of the BSP-required minimum capital adequacy ratio of ten percent (10%).

If, on the other hand, the risk weight of the note issuer is still higher than the sum of the risk weights of all the reference entities in the basket, then the risk weight of the note issuer is adopted.

When the contract terminates and pays out on the *n*th (other than the first) entity to default in the basket, the treatment above shall apply except that in aggregating the risk weights of reference entities, the risk weight/s of *n*–1 entity/ies is/are excluded from the computation. The bank may choose which entity/ies to exclude.

If a CLN that pays out on the *n*th entity to default is rated such that it meets the criteria of a security with the highest credit quality as defined under *Appendix 46*, only the highest risk weight in the basket of reference entities is compared with the risk weight of the note issuer.

If the CLN is issued by an SPV, the bank is exposed to both the reference entity and the collateral held by the SPV. Thus, the risk weight/s of the reference entity/ies should be compared with the risk weight of the riskiest eligible collateral for purposes of computing the risk-weighted exposure of the note and the corresponding capital charge.

Subject to prior Bangko Sentral clearance, a bank may disapply the additive rule when a very strong correlation among the reference entities in the basket can be demonstrated.

A CLN which is referenced to entities in the basket proportionately should be risk-weighted according to each reference entity's share of protection under the contract. Thus, if there are two (2) reference entities in a P100.0 million contract, one (1) with a 100% risk weight and a twenty percent (20%) share and the other with a twenty percent (20%) risk weight and an eighty percent (80%) share, the risk weighted exposure is P36.0 million, i.e., $P100.0 \text{ million} \times 20\% \times 100\% + P100.0 \text{ million} \times 80\% \times 20\%$. The corresponding capital charge is P3.6 million ($P36.0 \text{ million} \times 10\%$).

(2) *Trading book*. Positions in CLNs taken up in the trading book should be reported in the computation of the adjusted risk-based capital adequacy ratio covering combined credit risk and market risk under *Appendix 46*.

(a) *Standardized approach*

The following describes the positions to be reported for investments in CLNs for purposes of calculating specific risk and general market risk charges under the standardized approach.

A CLN investment is treated as a position in the note itself, with an embedded credit default product. The CLN is subject to the specific risk associated with the issuer or the collateral when the issuer is an SPV. In addition, it is subject to general market risk that is a function of the maturity and coupon or interest rate of the note. The embedded credit default product creates a notional position in the specific risk of the reference obligation (with no additional general market risk position created).

Specific risk

A CLN investment should be reported as a long position on the reference obligation and a long position on the note itself.

When a CLN is referenced to multiple obligations in a basket, the positions

reported shall depend on the structure of the contract. When the contract terminates and pays out on the first obligation to default in the basket, the note should be reported as long positions in each of the reference obligations in the basket, with the total capital charge for the product capped at the book value of the note.

When the contract terminates and pays out on the n^{th} (other than the first) entity to default in the basket, the treatment above shall apply except that in aggregating the risk weights of the reference obligations, the risk weight/s of $n-1$ obligations is/are excluded from the computation. The bank may choose which obligations to exclude.

Subject to prior Bangko Sentral clearance, a bank may disapply the additive rule when a very strong correlation among the reference obligations in the basket can be demonstrated.

The additive treatment may also be disappplied when an n^{th} -to-default CLN is rated such that it meets the criteria of a security with the "highest credit quality" as defined under *Appendix 46*. Positions in the reference obligations can be reported as a single long position in a debt security with the "highest credit quality". A long position on the note should also be reported whether or not the CLN meets the criteria of a security with the "highest credit quality".

When the CLN 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

A CLN investment creates a long position in the note itself.

(b) Internal models approach

Banks may seek the Bangko Sentral's approval to include CLNs in their recognized models for calculating capital charges. The detailed requirements relating to the use of internal models are set out in *Annex A of Appendix 46*.

While some banks may not be able to run full internal models to calculate market risk capital charges, they may, with the necessary expertise and systems, use preprocessing techniques to calculate capital charge for CLNs. Banks wishing to adopt these techniques should seek Bangko Sentral's prior consent. The preprocessing models are subject to verification by the Bangko Sentral.

(As amended by Circular No. 827 dated 28 February 2014)

¶ 1628.4 (2008 - 1633) **Risk management**

CLN structures are considered to be exposed to greater risks than comparable investments in direct obligations. In particular, investing banks should be aware of the potential legal risk arising from an unenforceable contract. They should consult their legal advisors about these and related legal issues before engaging in such transactions. In addition, all investments in CLNs must be duly approved by a bank's board of directors and subjected to appropriate risk management procedures.

¶ 1628.5 (2008 - 1633) **Transitional arrangements**. Banks which have outstanding investments in CLNs, but which have not been authorized under this Section to invest in such, shall be given a period of ninety (90) calendar days from 25 February 2004 (effectivity of Circular No. 417) to divest themselves of such investments.

¶ 1628.6 (2008 - 1633) **Bangko Sentral approval not required**. No prior Bangko Sentral approval is required to invest in CLNs and similar products. However, it shall be the responsibility of UBs/KBs to fully comply with appropriate risk management standards including, as a minimum, those prescribed under this Section. The regulatory requirements enumerated in *Appendix 66* shall be fully complied with by UBs/KBs

¶¶ 1628.6 - 1635.4
11.12.31

investing in products allowed under this Section.

Investment in credit-linked notes (CLNs) and similar structured products with embedded credit derivatives, as defined under Section 1628.1, 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 Circular No. 626 dated 23 October 2008 and Circular No. 628 dated 31 October 2008, shall be classified and measured at FVPL upon initial application of PRFS 9.

The accounting treatment for investments in CLNs and other structured products under BSP Memorandum M-2008-10 dated 07 March 2008 and the guidelines on reclassification of CLNs and other similar instruments that are linked to the ROP under Memorandum M-2009-12 dated 16 April 2009 shall no longer apply to financial assets that are accounted for in accordance with FPRS 9.

(As amended by Circular Nos. 733 dated 05 August 2011 and 708 dated 10 January 2011)

Sec. 2628 (Reserved)

Sec. 3628 (Reserved)

Secs. X629 - X635 (Reserved)

Sec. 1635 Banks¶ Exposures to Structured Products. The following rules and regulations shall govern the capital treatment of banks' exposures to structured products.

¶ **1635.1 Statement of policy.** The Bangko Sentral aims to foster the development of a market for new financial products in the country, while at the same time ensure that banks hold sufficient

capital commensurate to the risks inherent in these products.

¶ **1635.2 Definition.** A *structured product* refers to a financial instrument where the return is a function of one (1) or more underlying indices, such as interest rates, equities and exchange rates. There may also be embedded derivatives such as swaps, forwards, options, caps, and floors that reshape the risk-return pattern. For purposes of this Subsection, structured products do not include asset-backed securities, credit-linked notes and other similar instruments.

¶ **1635.3 Qualified banks.** As a general rule, only UBs and KBs with expanded derivatives license may obtain exposures in structured products. Banks without expanded derivatives license may only invest in structured products duly approved by the Bangko Sentral.

¶ **1635.4 Capital treatment of banks' exposures to structured products**

a. Banking book

(1) Risk weights. Capital charge for structured products held in the banking book shall depend on the rating of the issuing entity, or rating of the collateral in case of structured products issued by special purpose vehicles (SPVs), given by the following BSP-recognized international credit rating agencies:

- (a) Moody's;
- (b) Standard & Poor's;
- (c) Fitch Ratings; and
- (d) Such other international rating agencies as may be approved by the Monetary Board.

In cases where there are two (2) or more types of collateral, capital charge shall depend on the lowest rated collateral.

The mapping of ratings to the corresponding risk weights shall be as follows:

§§ 1635.4 - 1635.5

08.12.31

| Risk weight | Moody's | Standard & Poor's | Fitch Ratings |
|---|-----------------------|-------------------|---------------|
| 50% | Aaa to Aa3 | AAA to AA- | AAA to AA- |
| 100% | A1 to A3 | A+ to A- | A+ to A- |
| 150% | Baa1 to Baa3 | BBB+ to BBB- | BBB+ to BBB- |
| Deduction from total of Tier 1 and Tier 2 capital | Below Baa3 Unrated | Below BBB- | Below BBB- |

(2) *Use of ratings.* If an issuer of a structured product has only one (1) rating by any of the BSP-recognized international rating agencies, that rating shall be used to determine the risk weight of the product; in

cases where there are two (2) or more ratings which map into different risk weights, the higher of the lowest two (2) risk weights should be used.

b. Trading book. Capital charge for structured products held in the trading book shall be determined in accordance with *Appendix 46*.

§ 1635.5 *Bangko Sentral approval not required.* No prior BSP approval is required to enter into authorized transactions. However, it shall be the responsibility of UBs/KBs to fully comply with appropriate

(Next page is Part VI - Page 19)

risk management standards including, as a minimum, those prescribed under this Section. The regulatory requirements enumerated in *Appendix 66* shall be fully complied with by UBs/KBs investing in products allowed under this Section.

Sec. 2635 (Reserved)

Sec. 3635 (Reserved)

Sec. X636 (Reserved)

Sec. 1636 Expanded Foreign Currency Deposit Units Investments in Foreign Currency Denominated Structured Products. The following guidelines allow UBs and KBs without expanded derivatives authority to invest in certain specified structured products.

§ 1636.1 *Statement of policy.* The BSP encourages banks to diversify their EFCDU investment portfolios in order to stabilize earnings, control maturity mismatches and minimize over concentration of exposures.

§ 1636.2 *Scope.* EFCDUs of UBs and KBs without expanded derivatives authority may invest, for their own account, in foreign currency-denominated structured products issued by banks and SPVs of high credit quality: *Provided*, That the revenue streams of such products may only be linked to interest rate indices and/or foreign exchange rates other than those that involve the Philippine Peso: *Provided, further*, That the minimum all-in return of such investments may not be lower than zero. For purposes of this Section, structured products do not include asset backed securities, credit-linked notes and other similar instruments.

§ 1636.3 *Other conditions*

a. *Maturity* - The maximum contractual maturity of any investment in structured products shall be five (5) years.

b. *Credit quality of issuer* - Acceptable issuers are banks and SPVs collateralized by securities rated at least “A” or its equivalent by an international rating agency acceptable to the Monetary Board.

c. *Booking* - Investments in structured products as herein defined shall be booked under banking book accounts as follows: (1) DFVPL, (2) AFS, (3) Held to Maturity (HTM); or (4) Unquoted Debt Securities Classified as Loans, which shall be accounted for in accordance with Subsecs. X186.1, X388.5 and *Appendix 33*, but not under the HFT category.

d. *Prudential limits* - The total carrying value of all investments in structured products as defined herein at any given point in time must not exceed twenty percent (20%) of the total investment portfolio of the EFCDU [combined amount of Trading Account Securities (TAS), ASS and IBODI].

e. *Risk management* - Investing banks must have 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 their investments in structured products. As a minimum:

(1) Such investments must be specifically approved by the board of directors and be subject to appropriate internal limits and periodic reporting to the Board.

(2) Banks must comply with generally accepted accounting and disclosure standards and/or rules and regulations prescribed by the BSP.

(3) An independent risk management function must be in place.

(4) Banks should have the ability to value their investments on a continuing and consistent basis and to measure their sensitivity to market movements. This should include performing, at regular intervals, stress tests that reflect extreme market conditions. As part of the valuation exercise, banks should be able to obtain bid

§§ 1636.3 - 1648.4
 08.12.31

prices from the issuers of the investment instruments on a monthly basis.

(5) Management should ensure that the risks of the investments are accurately aggregated in risk reports on a timely basis.

§ 1636.4 *Capital treatment of structured products.* The capital treatment shall be in accordance with existing rules and regulations as modified for structured instruments.

§ 1636.5 *Bangko Sentral approval not required.* No prior BSP approval is required to enter into authorized transactions. However, it shall be the responsibility of UBs/KBs to fully comply with appropriate risk management standards including, as a minimum, those prescribed under this Section. The regulatory requirements enumerated in *Appendix 66* shall be fully complied with by UBs/KBs investing in products allowed under this Section.

§ 1636.6 *Sanctions.* Non-compliance with the provisions of this Section shall subject the bank to a fine of one-tenth of one percent (1/10 of 1%) of the outstanding investment per day, but not to exceed P30,000 per day, to be reckoned from the day the bank is deemed in violation of regulations, until the day the bank has complied with the requirements. Banks may also be temporarily or permanently prohibited from such investments as circumstances may warrant.

Sec. 2636 (Reserved)

Sec. 3636 (Reserved)

Secs. X637 - X648 (Reserved)

Sec. 1648 *Investments in Securities Overlying Securitization Structures.* The following rules shall govern banks’ investments in securities overlying securitization structures.

§ 1648.1 *Statement of policy.* The BSP aims to foster the development of a market for new financial products in the country and provide banks with expanded opportunities for investment diversification, while at the same time ensure that they hold sufficient capital commensurate to the risks inherent in these products.

§ 1648.2 *Definition.* *Securitization structures* refer to:

- a. structures 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 (also known as traditional securitization); or
- b. structures 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 credit derivatives or guarantees that serve to hedge the credit risk of the portfolio (also known as synthetic securitization).

§ 1648.3 *Qualified banks.* UBs/KBs with expanded derivatives authority may invest in securities overlying any tranches of securitization structures. UBs/KBs without expanded derivatives authority may also invest but only in securities overlying tranches of securitization structures that are rated at least “A”, or its equivalent, by a BSP-recognized credit rating agency.

§ 1648.4 *Capital treatment of investments in securities overlying securitization structures*

- a. Credit risk
 - (1) *Risk weights.* Capital charge for investments in securitization structures held in the banking book shall be based on the latest rating given by any of the following BSP-recognized credit rating agencies:
 - (a) International rating agencies:
 - (i) Moody’s;

- (ii) Standard & Poor’s;
 - (iii) Fitch IBCA; and
 - (iv) Other international rating agencies as may be approved by the Monetary Board
- (b) Domestic rating agencies:
- (i) PhilRatings; and
 - (ii) Other domestic rating agencies as may be approved by the Monetary Board
- The assignment of risk weights corresponding to agency ratings shall be as follows:

| Risk weight | Moody’s | Standard & Poor’s | Fitch IBCA | PhilRatings |
|---|----------------|-------------------|--------------|-------------|
| 20% | Aaa to Aa3 | AAA to AA- | AAA to AA- | Aaa to Aa |
| 50% | A1 to A3 | A+ to A- | A+ to A- | A |
| 100% | Baa1 + to Baa3 | BBB+ to BBB- | BBB+ to BBB- | Baa |
| Deduction from total of Tier 1 and Tier 2 capital | Below Baa3 | Below BBB- | Below BBB- | Below Baa |
| | Unrated | | | |

- (2) *Use of ratings.* Ratings of BSP recognized credit rating agencies shall be used as follows:
- (a) Securities overlying securitization structures created within the Philippines may be rated by any BSP-recognized international or domestic credit rating agency, while securities overlying securitization structures created outside of the Philippines may only be rated by any of the international credit rating agencies that are recognized by the BSP; and
- (b) In cases when overlying securities have split ratings which map into different risk weights, the higher risk weight should be used.
- b. Market risk. Capital charge for securities overlying securitization structures held in the trading book shall be determined in accordance with *Appendix 46* and the use of agency ratings for such purpose shall be consistent with the above principles.

§§ 1648.4 - X651.1
08.12.31

§ 1648.5 *Bangko Sentral approval not required.* No prior BSP approval is required to invest in securities overlying securitization structures. However, it shall be the responsibility of UBs/KBs to fully comply with appropriate risk management standards including, as a minimum, those prescribed under this Section. The regulatory requirements enumerated in *Appendix 66* shall be fully complied with by UBs/KBs investing in products allowed under this Section.

Sec. 2648 (Reserved)

Sec. 3648 (Reserved)

Secs. X649 - X650 (Reserved)

Sec. X651 *Asset-Backed Securities.* The following regulations shall govern the origination, issuance, sale, servicing and administration of asset-backed securities (ABS) by any bank including its subsidiaries and affiliates engaged in allied activities, which are domiciled in the Philippines.

§ X651.1 *Definition of terms*

- a. *Assets* shall mean loans or receivables existing in the books of the originator prior to securitization. Such assets are generated in the ordinary course of business of the originator and may include mortgage loans, consumption loans, trade receivables, lease receivables, credit card receivables and other similar financial assets.
- b. *Asset-backed securities* shall refer to the certificates issued by a Special Purpose Trust (SPT) representing undivided ownership interest in the asset pool.
- c. *Asset pool* shall mean a group of identified, self-amortizing assets that is conveyed the SPT issuing the ABS and such other assets acquired as a consequence of the securitization.

§§ X651.1 - X651.4
08.12.31

- d. *Clean-up call* shall refer to an option granted to the seller to purchase the remaining assets in the asset pool.
- e. *Credit enhancement* shall refer to any legally enforceable scheme that is intended to enhance the marketability of the ABS and increase the probability that investors receive payment of amounts due them.
- f. *Guarantor* shall refer to an entity that guarantees the repayment of principal and interest on loans or receivables included in the asset pool in the event of default by the borrower.
- g. *Investible funds* shall refer to the proceeds of collection of loans or receivables included in the asset pool which are not yet due for distribution to investors.
- h. *Issuer* shall refer to the SPT that issues the ABS.
- i. *Originator* shall refer to a bank and/or its subsidiary or affiliate engaged in allied activities that grants or purchases loans or receivables and assembles them into a pool for securitization.
- j. *Residual certificates* shall refer to certificates issued representing claims on the remaining value of the asset pool after all ABS holders are paid.
- k. *Seller* shall refer to the entity which conveys to the SPT the assets that constitute the asset pool.
- l. *Servicer* shall refer to the entity designated by the Issuer primarily to collect and record payment received on the Assets, to remit such collections to the Issuer and perform such other services as may be specifically required by the issuer excluding asset management or administration.
- m. *Special Purpose Trust* shall refer to a trust administered by a trustee and created solely for the purpose of issuing and administering an ABS.
- n. *Trustee* shall refer to the entity designated to administer the SPT.
- o. *Underwriter* shall refer to the entity engaged in the act or process of distributing

and selling of the ABS either on guaranteed or best effort basis.

§ X651.2 Prior Bangko Sentral approval
Any bank including its subsidiaries and affiliates engaged in allied activities, may securitize its assets upon prior approval of the BSP.

§ X651.3 Board approval requirement
The originator/seller shall have the securitization program approved by its board of directors. The originator/seller shall integrate such securitization program into its corporate strategic plan. The board of directors shall ensure that the securitization of assets is consistent with such program.

§ X651.4 Minimum documents required
The application to securitize must be accompanied by the following documents as a minimum requirement:

- a. Trust indenture evidencing the conveyance of the assets from the seller to the Issuer or SPT, the features of which shall include the following:
 - (1) Title or nature of the contract in noticeable print;
 - (2) The parties involved, indicating in noticeable print, their respective legal capacities, responsibilities and functions;
 - (3) Features and amount of ABS;
 - (4) Purposes and objectives;
 - (5) Description and amount of assets comprising the asset pool;
 - (6) Representations and warranties;
 - (7) Credit enhancements;
 - (8) Distribution of funds;
 - (9) Authorized investment of investible funds;
 - (10) Rights of the investor;
 - (11) Reports to investors; and
 - (12) Termination and final settlement.

The trust indenture shall include as annexes the servicing agreement between the trustee and the servicer and

the underwriting agreement between the seller and the underwriter.

b. Prospectus. As a minimum requirement, it shall contain the following:

(1) Summary of the contents of the prospectus;

(2) Description of each class of certificate, including such matters as probable yields, payment dates and priority of payments;

(3) Description of the assets comprising the Asset Pool as well as the representations and warranties set forth by the originator and/or seller;

(4) Assumptions underlying the cash flow projections for each class of certificate;

(5) Description of any credit enhancements;

(6) Identity of the servicer; and

(7) Disclosure statements as required under Subsec. X651.6.

c. Specimen of application to purchase ABS. It shall include the terms and conditions of the purchase and the disclosures required under Subsec. X651.6.

d. Specimen of certificate. It shall indicate the features of the ABS and the disclosures required under Subsec. X651.6.

§ X651.5 *Minimum features of asset-backed securities.* The ABS shall be pre-numbered and printed on security paper. The ABS shall be signed and authenticated by the trustee. They are transferable by endorsement of the certificate. The transfer shall be recorded in the books of the trustee, indicating the names of the parties to the transaction, the date of the transfer and the number of the certificate transferred.

The minimum denomination of any ABS shall be P10,000.

§ X651.6 *Disclosure requirements*

The following disclosures must be provided in a conspicuous manner in any document

inviting investment, application to purchase ABS and the certificate itself:

a. The ABS do not represent deposits or liabilities of the originator, servicer or trustee and that they are not insured with PDIC;

b. The investor has an investment risk;

c. The trustee does not guarantee the capital value of the ABS or the collectibility of the asset pool; and

d. The right of an investor.

The investors shall be required to sign an acknowledgment indicating that they have read and understood the disclosures.

§ X651.7 *Conveyance of assets*

a. The conveyance of the assets comprising the asset pool shall be done within the context of a true sale and, for this purpose, the seller may not retain in its books the ABS, except the residual certificate, if any.

b. The seller shall have no obligation to repurchase or substitute an asset or any part of the asset pool at any time, except in cases of a breach of representation or warranty, or under a revolving structure, to replace performing assets which have been paid out in part or full.

c. The seller shall be under no obligation to provide additional assets to the SPT to maintain a “coverage ratio” of collateral to outstanding ABS. A breach of this requirement will be considered a credit enhancement and should be charged against capital. However, this will not apply to an asset pool conveyed under a revolving structure such as the securitization of credit card receivables.

d. Securitized assets shall be considered the subject to a true sale between the seller and the SPT. Sold assets shall be taken off the books of the seller and shall be transferred to the books of the SPT.

For accounting purposes, the transfer shall only be considered a true sale if the

§§ X651.7 - X651.11
08.12.31

following three (3) conditions have been satisfied:

- (1) the transferred assets have been isolated and put beyond the reach of the seller and its creditor;
- (2) the SPT has the right to pledge or exchange its interest in the assets; and
- (3) the seller does not effectively maintain control over the transferred assets by any concurrent agreement.

e. All expenses incidental to underwriting, conveyance of the asset pool including expenses for credit enhancement may be paid by the originator/seller: *Provided*, That no further expenses shall be borne by the originator/seller after the asset pool has been conveyed to the SPT.

§ X651.8 Representations and warranties

a. *Standard representations and warranties* refer to an existing state of facts that the originator, seller or servicer can either control or verify with reasonable due diligence at the time the assets are sold. Any breach of representation or warranty may give rise to legal recourse.

b. The representations or warranties shall be clear and explicit and, in particular, shall not relate to the future creditworthiness of the assets in the asset pool or the performance of the SPT or the securities issued.

c. Any agreement to pay damages as a result of breach of warranties and representations shall hold only where:

- (1) there is a well-documented negotiation of the agreement in good faith;
- (2) the burden of proof for a breach of representation or warranty rests with the other party;
- (3) damages are limited to the loss incurred as a result of the breach; and
- (4) there is a written notice of claim specifying the basis for the claim.

The BSP shall be notified of any instance where a bank or its subsidiaries/

affiliates has agreed to pay damages arising out of any breach of representation or warranty.

§ X651.9 Third party review. A due diligence review by an independent entity mutually agreed upon by the seller and the Issuer shall be done before the assets are sold.

§ X651.10 Originator and seller

a. The seller may itself be the originator, and may likewise be designated as the servicer.

b. The seller or originator shall deliver to the trustee all original documents or instruments with respect to each asset sold.

§ X651.11 Trustee and issuer

a. The trustee shall be the trust department of a bank licensed to do business in the Philippines.

b. The trustee shall have the right to manage or administer the asset pool. The trustee shall see to it that necessary measures are taken to protect the asset pool.

c. The trustee shall undertake a performance review of the asset pool at least quarterly and shall prepare a report to investors indicating, among others, collections, fees and other expenses as well as defaults, which report shall be made available to the investors at anytime after thirty (30) days from end of the reference quarter.

d. The trustee shall initiate all civil actions including foreclosure of mortgaged properties to effect collection of receivables in the asset pool. The servicer or any other party may be designated by the trustee to perform such function on a case-by-case basis.

e. The trustee may invest the Investible funds only in obligations issued and/or fully guaranteed by the government of the Republic of the Philippines or by the

BSP and such other high-grade readily marketable debt securities as the BSP may approve.

f. The trustee shall designate a replacement of the servicer if the latter fails to satisfactorily perform its duties and responsibilities according to the terms and conditions of the servicing agreement.

§ X651.12 Servicer

a. The servicer shall perform its duties according to the terms and conditions of the servicing agreement and such other written instructions as the trustee may issue on a case-by-case basis. Collections made by the servicer shall be remitted promptly to the trustee or as may be agreed upon by the parties in the servicing agreement, but in no case shall the remittance period be longer than one (1) month.

b. The servicer shall prepare periodic reports as may be required by the trustee.

c. The servicer shall report to the trustee within thirty (30) days, any borrower which fails to pay its debt at maturity date or any adverse development that may affect the collectibility of any loan account or receivable comprising the asset pool.

d. The servicer shall have no authority to waive penalties and charges except with a written authority from the trustee.

§ X651.13 Underwriter

a. A UB or IH shall have written policies and procedures on underwriting of ABS.

b. The underwriter shall perform its functions according to the terms and conditions of the underwriting agreement.

c. An underwriter may deal in ABS, except those administered by its trust department, the trust departments of its subsidiaries/affiliates, the trust department of its parent bank or the trust department of its parent bank's subsidiaries/affiliates.

d. A UB/IH may act as underwriter, on a firm basis, of ABS except those

administered by its trust department, the trust departments of its subsidiaries/affiliates, the trust department of its parent bank or the trust department of its parent bank's subsidiaries/affiliates.

e. The underwriter may not extend credit for the purpose of purchasing the ABS which such UB/IH underwrites or that which is underwritten by its subsidiaries/affiliates, its parent bank or its parent bank's subsidiaries/affiliates.

§ X651.14 Guarantor

a. Only an entity the regular business of which includes the issuance of guarantees or similar undertaking may act as guarantor.

b. The guarantor must have the financial capacity to perform its responsibilities in accordance with the terms and conditions of the guarantee agreement. It shall submit to the trustee at least once in every six (6) months such financial reports as the trustee may require.

c. The originator or seller may not issue a counter-guarantee in favor of the guarantor.

§ X651.15 Credit enhancement. Credit enhancement may be provided in any of the following manner:

a. Standby letter of credit issued by a UB/KB other than the originator/seller or its subsidiary/affiliate, its parent bank or the parent bank's subsidiary/affiliate, and trustee or its subsidiary/affiliate;

b. Surety bond issued by any insurance company other than the originator's/seller's subsidiary or affiliate, the subsidiary or affiliate of the originator's/seller's parent bank and the trustee or its subsidiary/affiliate;

c. Guarantee issued by any entity other than the originator/seller or its subsidiary/ affiliate, its parent bank or the parent bank's subsidiary/affiliate, and trustee or its subsidiary/affiliate;

§§ X651.15 - X651.19
08.12.31

d. Overcollateralization provided by the originator/seller wherein the assets conveyed to the SPT exceed the amount of securities to be issued.

Losses arising from overcollateralization shall be recognized by the originator/seller upfront. Such losses shall be treated as capital charges.

e. Spread account wherein the income from the underlying pool of receivables is made available to cover any shortfall in the repayment of ABS. The spread account shall be handled by the trustee which shall account for it separately. If not needed, this "spread" generally reverts to the holder of the residual certificate.

f. Subordinated securities that are lower ranking, or junior to other obligations and are paid after claims to holders of senior securities are satisfied.

g. Other credit enhancements as may be approved by the Monetary Board.

To be consistent with the concept of true sale, subordinated securities shall be sold to third party investors other than originator's/seller's parent company or its subsidiary/affiliate and the trustee or its subsidiary/affiliate or, if held by the seller, capital charges should be booked upfront. Otherwise, the subordinated securities shall be treated as deposit substitute subject to legal reserves.

§ X651.16 *Clean-up call.* A *clean-up call* may be exercised by the seller once the outstanding principal balance of the receivable component of the asset pool falls to ten percent (10%) or less of the original principal balance of the asset pool. Where the asset pool includes foreclosed and other assets, such assets shall be included in the clean-up call and the consideration thereof shall be at current market value. Such a *clean-up call* shall not be considered recourse or in violation of Subsec. X651.7 on conveyance of assets.

§ X651.17 *Prohibited activities*

a. The seller may not, under any circumstance, designate its trust department, the trust department of its subsidiaries/affiliates, the trust department of its parent bank or the trust department of its parent bank's subsidiaries/affiliates as trustee.

b. Any director, officer or employee of the originator, seller or servicer may not serve as a member of the board of directors or trust committee of the trustee or vice versa for the duration of the securitization.

c. The trust indenture shall not contain any stipulation whereby the seller, its subsidiaries/affiliates, its parent bank or the parent bank's subsidiaries/affiliates shall commit to extend any credit facility to the issuer and/or trustee.

d. The ABS shall not be eligible as collateral for a loan extended by a bank which originated/sold the underlying assets of such ABS.

e. The trust department of a bank that has discretion in the management of any trust or investment management account may not purchase for said trust/investment management account ABS administered by the trust department of the same bank, the trust department of such trustee's subsidiaries/affiliates, the trust department of such trustee's parent bank and the trust department of the parent bank's subsidiaries/affiliates.

f. The trustee may not designate its subsidiary/affiliate, its parent or the parent's subsidiaries/affiliates as servicer or vice versa.

§ X651.18 *Amendment of trust indenture.* Any amendment to the trust indenture shall require the prior approval of the BSP.

§ X651.19 *Trustee or servicer in securitization.* Without prior approval of the BSP, a bank or any entity supervised by the BSP may act as trustee or servicer

in a securitization scheme originated by an entity not supervised by the BSP: *Provided*, That the assets which are the subject of such securitization are existing in the books of the entity prior to securitization: *Provided, further*, That such entity acting as trustee or servicer is not a subsidiary/affiliate of the originator/seller, its parent bank or the parent bank’s subsidiaries/affiliates or vice versa: *Provided, finally*, That such entity acting as trustee may not designate its subsidiaries/affiliates, its parent or the parent’s subsidiaries/affiliates as servicer or vice versa.

§ X651.20 Report to Bangko Sentral

The trustee bank shall submit a report of every securitization scheme in formats to be prescribed by the BSP. The report shall be submitted to the appropriate department of the SES, within fifteen (15) banking days after end of every reference quarter. Such report shall be considered a *Category A* report for purposes of implementing fines in the submission of required reports pursuant to existing regulations.

Secs. X652 - X659 (Reserved)

Sec. X660 Global Peso Notes. The following are the guidelines on the regulatory treatment of investments of banks in Global Peso Notes (GPNs) issued by the Republic of the Philippines:

a. Investments in GPNs shall be recorded in the RBU books of a bank as a foreign currency-denominated asset in accordance with the provisions of the Philippine Financial Reporting Standards/ Philippine Accounting Standards at their

foreign currency amount and local currency equivalent;

b. Investments in GPNs that are classified at fair value shall be subject to mark-to-market valuation and shall be valued similar to other foreign currency-denominated securities traded abroad;

c. Investments in GPNs shall be subject to a credit risk weight of twenty percent (20%) for purposes of computing a bank’s risk-based CAR;

d. Investments in GPNs shall be excluded in the computation of a bank’s daily net foreign exchange position;

e. Trading of GPNs shall be subject to pertinent securities laws and provisions, including the appropriate licensing of dealers;

f. Pursuant to Sec. X340, investments in GPNs shall be excluded by government FIs in determining compliance with DOSRI ceilings; and

g. Risks attendant to investments in GPNs shall be captured under a bank’s Internal Capital Adequacy Assessment Process such that investing institutions must manifest their approach in handling the risks attendant to holding/trading GPNs.

(M-2010-028 dated 08 September 2010, as amended by M-2011-020 dated 30 March 2011)

Secs. X661 - X698 (Reserved)

Sec. X699 General Provision on Sanctions

Any violation of the provisions of this Part shall be subject to Sections 36 and 37 of R.A. No. 7653.

The guidelines for the imposition of monetary penalty for violations/offenses with sanctions falling under Section 37 of R. A. No. 7653 on banks, their directors and/or officers are shown in *Appendix 67*.

PART SEVEN

ELECTRONIC BANKING SERVICES AND OPERATIONS

Section X701 (2008 - X621) Electronic Banking Services. The following are the guidelines concerning electronic banking activities.

§ X701.1 (2008 - X621.1) Application

Banks wishing to provide and/or enhance existing electronic banking services shall submit to the BSP an application describing the services to be offered/enhanced and how it fits the bank's overall strategy. This shall be accompanied by a certification signed by its president or any officer of equivalent rank and function to the effect that the bank has complied with the following minimum pre-conditions:

a. An adequate risk management process is in place to assess, control, monitor and respond to potential risks arising from the proposed electronic banking activities;

b. A manual on corporate security policy and procedures exists that shall address all security issues affecting its electronic banking system, particularly the following:

(1) *Authentication* - establishes the identity of both the sender and the receiver; uses trusted third parties that verify identities in cyberspace;

(2) *Non-repudiation* - ensures that transactions can not be repudiated or presents undeniable proof of participation by both the sender and the receiver in a transaction;

(3) *Authorization* - establishes and enforces the access rights of entities (both persons and/or devices) to specified computing resources and application functions; also locks out unauthorized entities from physical and logical access to the secured systems;

(4) *Integrity* - assures that data have not been altered; and

(5) *Confidentiality* - assures that no one except the sender and the receiver of the data can actually understand the data.

c. The system had been tested prior to its implementation and that the test results are satisfactory. As a minimum standard, appropriate systems testing and user acceptance testing should have been conducted; and

d. A business continuity planning process and manuals have been adopted which should include a section on electronic banking channels and systems.

§ X701.2 (2008 - X621.2) Pre-screening of applicants

a. The BSP, thru the Technical Working Group on Electronic Banking, shall pre-screen the overall financial condition as well as the applicant-bank's compliance with BSP rules and regulations based on the latest available Bank Performance Rating (BPR) and Report of Examination (ROE) including CAMELS Rating.

b. The Working Group shall ensure that the applicant bank's overall financial condition can adequately support its electronic banking activities and that it shall have complied with certain comprehensive prudential requirements such as, but not limited to, the following:

(1) Minimum capital requirement and net worth to risk assets ratio;

(2) Satisfactory solvency, liquidity and profitability positions;

(3) CAMELS composite rating of at least 3, (this number, however can be flexible depending on other circumstances prevailing), and with at least a moderate

§§ X701.2 - X701.5
08.12.31

risk assessment system (RAS) based on the latest regular examination.

(4) There are no uncorrected major findings/exceptions noted in the latest BSP examination.

§ X701.3 (2008 - X621.3) Approval in principle

a. Based on the recommendation of the Technical Working Group on Electronic Banking, the Deputy Governor, SES, shall approve in principle the application so that banks may immediately launch and/or enhance their existing electronic banking services.

b. Banks shall be informed of the conditional approval of the DG, SES and they shall in turn notify the BSP on the actual date of its launching/enhancement.

§ X701.4 (2008 - X621.4) Documentary requirements

a. Within thirty (30) calendar days from such launching/enhancement, banks shall submit to the BSP thru the SDC for evaluation, the following documentary requirements:

(1) A discussion on the banking services to be offered/enhanced, the business objectives for such services and the corresponding procedures, both automated and manual, offered through the electronic banking channels;

(2) A description or diagram of the configuration of the bank's electronic banking system and its capabilities showing:

(i) how the electronic banking system is linked to other host systems or the network infrastructure in the bank;

(ii) how transaction and data flow through the network;

(iii) what types of telecommunications channels and remote access capabilities (e.g., direct modem dial-in, internet access, or both) exist; and

(iv) what security controls/measures are installed;

(3) A list of software and hardware components indicating the purpose of the software and hardware in the electronic banking infrastructure;

(4) A description of the security policies and procedures manual containing:

(i) description of the bank's security organization;

(ii) definition of responsibilities for designing, implementing, and monitoring information security measures; and

(iii) established procedures for evaluating policy compliance, enforcing disciplinary measures and reporting security violations;

(5) A brief description of the contingency and disaster recovery plans for electronic banking facilities and event scenario/problem management plan/program to resolve or address problems, such as complaints, errors and intrusions and the availability of back-up facilities;

(6) Copy of contract with the communications carrier, arrangements for any liability arising from breaches in the security of the system or from unauthorized/fraudulent transactions;

(7) Copy of the maintenance agreements with the software/hardware provider/s; and

(8) Latest report on the periodic review of the system, if applicable.

b. If after the evaluation of the submitted documents, the Working Group has still some unresolved issues and gray areas, the bank may be required to make a presentation of its electronic banking transactions to BSP.

§ X701.5 (2008 - X621.5) Conditions for Monetary Board approval. Upon completion of evaluation, the appropriate recommendation shall be made to the Monetary Board. The following shall be the standard conditions for approval:

a. Existence at all times of appropriate top-level risk management oversight;

b. Operation of electronic banking system outsourced to a third party service provider taking into consideration the existence of adequate security controls and the observance of confidentiality [as required in R.A. No. 1405 (Bank Secrecy Law)] of customer information;

c. Adoption of measures to properly educate customers on safeguarding of user ID, PIN and/or password, use of bank's products/services, actual fees/bank charges thereon and problem/error resolution procedures;

d. Clear communication with its customers in connection with the terms and condition which would highlight how any losses from security breaches, systems failure or human error will be settled between the bank and its customers;

e. Customer's acknowledgement in writing that they have understood the terms and conditions and the corresponding risks that entail in availing electronic banking service;

f. The bank's oversight process shall ensure that business expansion shall not put undue strains on its systems and risk management capability;

g. The establishment of procedures for the regular review of the bank's security arrangements to ensure that such arrangements remain appropriate having regard to the continuing developments in security technology;

h. Strict adherence to Bangko Sentral regulations on fund transfers in cases where clients use the electronic banking services to transfer funds;

i. The electronic banking service shall not be used for money laundering or other illegal activities that will undermine the confidence of the public; and

j. The Bangko Sentral shall be notified in writing thirty (30) days in advance of any enhancements that may be made to the online electronic banking service.

¶ **X701.6 (2008 - X621.6) Requirements for banks with pending applications.** The same procedure and requirements stated in the foregoing shall apply to all banks with pending applications with the Bangko Sentral, except on the submission of the documents enumerated in Subsec. X701.4. Banks which have already submitted all the required information/documents need not comply with this requirement.

¶ **X701.7 (2008 - X621.7) Exemption** Electronic banking services that are purely informational in nature are exempted from these regulations: *Provided*, however, That should such services be upgraded to transactional service, then prior Bangko Sentral approval shall be required.

¶ **X701.8 (2008 - X621.8) Transitory provision.** Banks with existing electronic banking services but do not qualify as a result of the pre-screening process mentioned in Item *b*, Subsec. X701.1, shall be given three (3) months from 21 December 2000, within which to show proof of improved overall financial condition and/or substantial compliance with Bangko Sentral's prudential requirements, otherwise, their electronic banking activities will be temporarily suspended until such time that the same have been complied with.

¶¶ **X701.9 - X701.11 (Reserved)**

¶ **X701.12 (2008 - X621.12) Sanctions** For failure to seek Bangko Sentral approval before launching/enhancing/implementing electronic banking services, and/or submit within the prescribed deadline the required information/documents, the following monetary penalties and/or suspension of electronic banking activities or both, shall be imposed on erring banks and/or its officers:

X701.12 - X780.2
13.12.31

| Monetary penalties | Amount |
|--|--|
| a. <i>For responsible officer/s and/or director/s</i> - for failure to seek prior Bangko Sentral approval and/or for non-submission delayed submission of required information/documents | a one time penalty of P200,000 |
| b. <i>On the bank</i> - for failure to seek prior Bangko Sentral and/or for non-submission/ delayed submission of required information/ documents | P30,000 per day starting from the day the offense was committed up to the time the same was corrected. |

X701.13 (2008 - X621.13) *Outsourcing of internet and mobile banking services*
(Deleted by Circular No. 765 dated 03 August 2012)

Secs. X702 X704 (Reserved)

Sec. X705 (2008 - X624 and App. 70) *Consumer Protection for Electronic Banking*
(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)

X705.1 (2008 - App. 70) *E-Banking oversight function*
(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)

X705.2 (2008 - App. 70) *E-Banking risk managment and internal control*
(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)

X705.3 (2008 - App. 70) *Compliance with consumer awareness program*
(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)

X705.4 (2008 - App. 70) *Minimum disclosure requirements*
(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)

X705.5 (2008 - App. 70) *Complaint resolution*
(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)

X705.6 (2008 - App. 70) *Applicability*
(Transferred to X177.7 pursuant to Circular No. 808 dated 22 August 2013)

Secs. X706 - X779 (Reserved)

Sec. X780 *Issuance and Operations of Electronic Money.* The following guidelines shall govern the issuance of electronic money (e-money) and the operations of electronic money issuers.
(Circular No. 649 dated 09 March 2009)

X780.1 *Declaration of policy.* It is the policy of the Bangko Sentral to foster the development of efficient and convenient retail payment and fund transfer mechanisms in the Philippines. The availability and acceptance of e-money as a retail payment medium will be promoted by providing the necessary safeguards and controls to mitigate the risks associated in an e-money business.
(Circular No. 649 dated 09 March 2009)

X780.2 *Definitions*
E-money shall mean monetary value as represented by a claim on its issuer, that is -
a. electronically stored in an instrument or device;
b. issued against receipt of funds of an amount not lesser in value than the monetary value issued;
c. accepted as a means of payment by

persons or entities other than the issuer;
 d. withdrawable in cash or cash equivalent; and
 e. issued in accordance with this Section.

Electronic money issuer (EMI) shall be classified as follows:

- a. Banks (hereinafter called EMI-Bank);
- b. NBFI supervised by the Bangko Sentral (hereinafter called EMI-NBFI); and
- c. Non-bank institutions registered with the Bangko Sentral as a monetary transfer agent under Sec. 4511N of the MORNBFI (hereinafter called EMI-Others).

For purposes of this Section:

a. *Electronic instruments* or devices shall mean cash cards, e-wallets accessible via mobile phones or other access device, stored value cards, and other similar products.

b. E-money issued by banks shall not be considered as deposits.
(Circular No. 649 dated 09 March 2009)

X780.3 *Prior Bangko Sentral approval*
 Banks planning to be an EMI-Bank shall apply in accordance with Sec. X701 relating to the guidelines on electronic banking services and with Sec. X162 on outsourcing of banking functions, when applicable.
(Circular No. 649 dated 09 March 2009)

X780.4 *Common provisions.* The following provisions are applicable to all EMIs:

a. E-money instrument issued shall be subject to aggregate monthly load limit of P100,000 unless a higher amount has been approved by the Bangko Sentral. In case an EMI issues several e-money instruments to a person (e-money holder), the total amount loaded in all the e-money instruments shall be consolidated in determining compliance with the aggregate monthly load limit;

b. EMIs shall put in place a system to maintain accurate and complete record of e-money instruments issued, the identity of e-money holders, and the individual and consolidated balances thereof. The system must have the capability to monitor the movement of e-money transactions and link e-money instruments issued to common e-money holders. The susceptibility of a system to intentional or unintentional misreporting of transactions and balances shall be sufficient ground for imposition by the Bangko Sentral of sanctions, as may be applicable.

c. E-money may only be redeemed at face value. It shall not earn interest nor rewards and other similar incentives convertible to cash, nor be purchased at a discount. E-money is not considered a deposit, hence, it is not insured with the PDIC.

d. EMIs shall ensure that e-money instruments clearly identify the issuer who is ultimately responsible to the e-money holders. This shall be communicated to the client who shall acknowledge the same in writing.

e. It is the responsibility of EMIs to ensure that their distributors/e-money agents comply with all applicable requirements of the Anti-Money Laundering Law, rules and regulations.

f. EMIs shall provide an acceptable redress mechanism to address the complaints of its customers.

g. EMIs shall disclose in writing and its customers shall signify agreement to the information embodied in Item “c” above upon their participation in the e-money system. In addition, it shall provide clear guidance in English and Filipino on consumers right of redemption, including

(No pages 6 to 8)
 (Next page is Part VII page 9)

conditions and fees for redemption, if any. Information on available redress procedures for complaints together with the address and contact information of the issuer shall also be provided.

h. Prior to the issuance of e-money, EMI should ensure that the following minimum systems and controls are in place:

- (1) Sound and prudent management, administrative and accounting procedures and adequate internal control mechanisms;
- (2) Properly-designed computer systems which are thoroughly tested prior to implementation;
- (3) Appropriate security policies and measures intended to safeguard the integrity, authenticity and confidentiality of data and operating processes;
- (4) Adequate business continuity and disaster recovery plan; and
- (5) Effective audit function to provide periodic review of the security control environment and critical systems.

i. EMIs shall provide the SDC quarterly statements containing, among others, information on investments, volume of transactions, total outstanding e-money balances, and liquid assets in such forms as may be prescribed later on.

j. EMIs shall notify the BSP in writing of any change or enhancement in the e-money facility thirty (30) days prior to implementation. If said change or enhancement requires prior BSP approval, the same shall be evaluated accordingly. Any change or enhancement that shall expand the scope or change the nature of the e-money instrument shall be subject to prior approval of the Deputy Governor, SES. These changes or enhancements may include the following:

- (1) Additional capabilities of the e-money instrument/s, like access to new channels (e.g. inclusion of internet channel

in addition to merchant Point of Sale terminals);

- (2) Change in technology service providers and other major partners in the e-money business (excluding partner merchants), if any; and
- (3) Other changes or enhancements.

(Circular No. 649 dated 09 March 2009)

§ X780.5 (Reserved)

§ X780.6 **Sanctions.** Monetary penalties and other sanctions for the following violations committed by EMI-Banks shall be imposed:

| Nature of Violation/ Exception | Sanction/Penalties |
|--|---|
| 1. Issuing e-money without prior BSP approval | Applicable penalties under Sections 36 & 37 of R.A. No. 7653; Watchlisting of owners/partners/ principal officers |
| 2. Violation of any of the provisions of R.A. No. 9160 (Anti-Money Laundering Law of 2001 as amended by R.A.No. 9194) and its implementing rules and regulations | Applicable penalties prescribed under the Act |
| 3. Violation/s of this Section | Penalties and sanctions under the abovementioned laws and other applicable laws rules and regulations |

In addition, the susceptibility of a system to intentional or unintentional misreporting of transactions and balances shall be sufficient ground for appropriate BSP action or imposition of sanctions, whenever applicable.

(Circular No. 649 dated 09 March 2009)

§§ X780.7 - X799
10.12.31

§ X780.7 *Transitory provisions.* EMI-Banks granted authority to issue e-money prior to 26 March 2009 may continue to exercise such authority: *Provided*, That it shall submit to the BSP, within one (1) month from 26 March 2009, a certification signed by the President or Officer with equivalent rank and function that it is in compliance with all the applicable requirements of this Section. Otherwise, they are required to submit within the same period the measures they will undertake, with the corresponding timelines, to conform to the provisions that they have not complied with subject to BSP approval.

(Circular No. 649 dated 09 March 2009)

§ X780.8 - § X780.10 (Reserved)

§ X780.11 *Outsourcing of services by Electronic Money Issuers (EMIs) to Electronic Money Network Service Providers (EMNSP).* The guidelines on outsourcing of services by Electronic Money Issuers (EMIs) to Electronic Money Network Service Providers (EMNSP) are shown in *Appendix 95*.

Sanctions. Violations committed by EMIs pertaining to outsourcing activities to EMNSP shall be subject to monetary penalties as graduated under *Appendix 67* and/or other non-monetary sanctions under Section 37 of RA No. 7653.

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 the provisions of *Appendix 95* within a six-month period from 20 January 2011.

(Circular 704 dated 22 December 2010)

Secs. X781 - X798 (Reserved)

Sec. X799 (2008 - X199) General Provision on Sanctions. Except as otherwise provided, any violation of the provisions of this Part shall be subject to Sections 36 and 37 of R.A. No. 7653.

The guidelines for the imposition of monetary penalty for violations/offenses with sanctions falling under Section 37 of R. A. No. 7653 on banks, their directors and/or officers are shown in *Appendix 67*.

PART EIGHT

ANTI-MONEY LAUNDERING REGULATIONS

Sec. X801 Declaration of Policy

The BSP adopts the policy of the State to protect the integrity and confidentiality of bank accounts and to ensure that the Philippines in general and the covered institutions herein described in particular shall not be used respectively as a money laundering site and conduit for the proceeds of an unlawful activity as hereto defined.

(Circular No. 706 dated 05 January 2011)

Sec. X802 Scope of Regulations. These regulations shall apply to all covered institutions supervised and regulated by the BSP. The term “*covered institution*” shall refer to banks, OBUs, QBs, trust entities, NSSLAs, pawnshops, FX dealers, money changers, remittance agents, electronic money issuers and other FIs which under special laws are subject to BSP supervision and/or regulation, including their subsidiaries and affiliates as herein defined wherever they may be located:

a. A *subsidiary* means an entity more than fifty percent (50%) of the outstanding voting stock of which is owned by a bank, QB, trust entity or any other institution supervised and/or regulated by the BSP.

b. An *affiliate* means an entity the voting stock of which, to the extent of fifty percent (50%) or less, is owned by a bank, QB, trust entity, or any other institution supervised and/or regulated by the BSP.

Pursuant to Section 20 of the General Banking Law of 2000, a bank authorized by BSP to establish branches or other offices within or outside the Philippines shall be responsible for all business conducted in such branches and offices to the same extent and in the same manner as though such business had all been

conducted in the head office. A bank and its branches and offices shall be treated as one (1) unit.

Whenever local applicable laws and regulations of a branch, office, subsidiary or affiliate based outside the Philippines prohibit the implementation of this Part or any of the provisions of the AMLA, as amended, its RIRR, and the supervising authority in that foreign country issues a directive forbidding said branch, office, subsidiary or affiliate, the covered institution shall notify the BSP of this situation and furnish a copy of the supervising authority’s directive.

(Circular No. 706 dated 05 January 2011)

Sec. X803 Definitions of Terms. Except as otherwise defined herein, all terms used shall have the same meaning as those terms that are defined in the AMLA, as amended, and its RIRR.

a. *Money laundering* is a crime whereby the proceeds of an unlawful activity as herein defined are transacted, thereby making them appear to have originated from legitimate sources. It is committed by the following:

(1) Any person knowing that any monetary instrument or property represents, involves, or relates to, the proceeds of any unlawful activity, transacts or attempts to transact said monetary instrument or property;

(2) Any person knowing that any monetary instrument or property involves the proceeds of any unlawful activity, performs or fails to perform any act as a result of which he facilitates the offense of money laundering referred to in paragraph “(1)” above; and

§ X803
11.12.31

(3) Any person knowing that any monetary instrument or property is required under the act to be disclosed and filed with the Anti-Money Laundering Council, fails to do so.

b. *Covered transaction* (CT) is a transaction in cash or other equivalent monetary instrument involving a total amount in excess of P500,000 within one (1) banking day.

c. *Suspicious transactions* (ST) are transactions with covered institutions, regardless of the amount involved, where any of the following circumstances exist:

(1) There is no underlying legal or trade obligation, purpose or economic justification;

(2) The client is not properly identified;

(3) The amount involved is not commensurate with the business or financial capacity of the client;

(4) Taking into account all known circumstances, it may be perceived that the client's transaction is structured in order to avoid being the subject of reporting requirements under the AMLA, as amended;

(5) Any circumstance relating to the transaction which is observed to deviate from the profile of the client and/or client's past transactions with the covered institutions;

(6) The transaction is in any way related to an unlawful activity or any money laundering activity or offense under the AMLA, as amended, that is about to be, is being or has been committed; or

(7) Any transaction that is similar or analogous to any of the foregoing.

d. *Monetary instrument* refers to:

(1) Coins or currency of legal tender of the Philippines, or of any other country;

(2) Drafts, checks and notes;

(3) Securities or negotiable instruments, bonds, commercial papers, deposit certificates, trust certificates, custodial receipts or deposit substitute instruments,

trading orders, transaction tickets and confirmations of sale or investments and money market instruments;

(4) Contracts or policies of insurance, life or non-life, and contracts of suretyship; and

(5) Other similar instruments where title thereto passes to another by endorsement, assignment or delivery.

e. *Transaction* refers to any act establishing any right or obligation or giving rise to any contractual or legal relationship between the parties thereto. It also includes any movement of funds by any means with a covered institution.

f. *Unlawful activity* refers to any act or omission or series or combination thereof involving or having direct relation to the following:

(1) Kidnapping for ransom under Article 267 of Act No. 3815, otherwise known as the Revised Penal Code (RPC), as amended;

(2) Sections 4, 5, 6, 8, 9, 10, 12, 13, 14, 15 and 16 of R.A. No. 9165, otherwise known as the Comprehensive Dangerous Drug Act of 2002;

(3) Section 3 paragraphs "B", "C", "E", "G", "H" and "I" of R.A. No. 3019, as amended, otherwise known as the Anti-Graft and Corrupt Practices Act;

(4) Plunder under R.A. No. 7080, as amended;

(5) Robbery and extortion under Articles 294, 295, 296, 299, 300, 301 and 302 of the RPC, as amended;

(6) Jueteng and Masiao punished as illegal gambling under P.D. No. 1602;

(7) Piracy on the high seas under the RPC, as amended, and P.D. No. 532;

(8) Qualified theft under Article 310 of the RPC, as amended;

(9) Swindling under Article 315 of the RPC, as amended;

(10) Smuggling under R.A. Nos. 455 and 1937;

(11) Violations under R.A. No. 8792 , otherwise known as the Electronic Commerce Act of 2000;

(12) Hijacking and other violations under R.A. No. 6235; destructive arson and murder, as defined under the RPC, as amended, including those perpetrated by terrorists against non-combatant persons and similar targets;

(13) Fraudulent practices and other violations under R.A. No. 8799, otherwise known as the Securities Regulation Code of 2000; and

(14) Felonies or offenses of a similar nature that are punishable under the penal laws of other countries.

g. *Customer* refers to any person or entity that keeps an account, or otherwise transacts business, with a covered institution and any person or entity on whose behalf an account is maintained or a transaction is conducted, as well as the beneficiary of said transactions. A customer also includes the beneficiary of a trust, an investment fund, a pension fund or a company or person whose assets are managed by an asset manager, or a grantor of a trust.

h. *Shell company* refers to a legal entity which has no business substance in its own right but through which financial transactions may be conducted.

i. *Shell bank* refers to a shell company incorporated as a bank or made to appear to be incorporated as a bank but has no physical presence and no affiliation with a regulated financial group. It can also be a bank that:

(1) Does not conduct business at a fixed address in a jurisdiction in which the shell bank is authorized to engage;

(2) Does not employ one or more individuals on a full time basis at this fixed address;

(3) Does not maintain operating records at this address; and

(4) Is not subject to inspection by the authority that licensed it to conduct banking activities.

j. *Beneficial owner* refers to natural person(s) who ultimately owns or controls a customer and/or the person on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

k. *Politically Exposed Person* or *PEP* refers to an individual who is or has been entrusted with prominent public positions in the Philippines or in a foreign state, including heads of state or of government, senior politicians, senior national or local government, judicial or military officials, senior executives of government or state-owned or -controlled corporations and important political party officials.

l. *Correspondent banking* refers to activities of one bank (the correspondent bank) having direct connection or friendly service relations with another bank (the respondent bank).

m. *Fund/wire transfer* refers to any transaction carried out on behalf of an originator (both natural and juridical) through an FI (Originating Institution) by electronic means with a view to making an amount of money available to a beneficiary at another FI (Beneficiary Institution). The originator person and the beneficiary person may be the same person.

n. *Cross border transfers* refers to any wire transfer where the originating and beneficiary institutions are located in different countries. It shall also refer to any chain of wire transfer that has at least one cross border element.

o. *Domestic transfer* refers to any wire transfer where the originating and beneficiary institutions are located in the same country. It shall refer to any chain of wire transfer that takes place entirely within the borders of a single country, even though

§§ X803 - X805
 11.12.31

the system used to effect the fund/wire transfer may be located in another country.

p. *Originating institution* refers to the entity utilized by the originator to transfer funds to the beneficiary and can either be:

(1) A covered institution as specially defined by this Part and as generally defined by the AMLA, as amended, and its RIRR; or

(2) An FI operating outside the Philippines that is other than covered institutions referred to in Item “(1)” but conducts business operations and activities similar to them.

q. *Beneficiary institution* refers to the entity that will pay out the money to the beneficiary and can either be:

(1) A covered institution as specifically defined by this Part and as generally defined by the AMLA, as amended, and its RIRR; or

(2) An FI operating outside the Philippines that is other than covered institutions referred to in Item “(1)” but conducts business operations and activities similar to them.

r. *Intermediary institution* refers to the entity utilized by the originating and beneficiary institutions where both have no correspondent banking relationship with each other but have established relationship with the intermediary institution. It can either be:

(1) A covered institution as specifically defined by this Part and as generally defined by the AMLA, as amended, and its RIRR; or

(2) An FI operating outside the Philippines that is other than covered institutions referred to in Item “(1)” but conducts business operations and activities similar to them.

(Circular No. 706 dated 05 January 2011)

Sec. X804 Basic Principles and Policies to Combat Money Laundering. In line with the declaration of policy, covered institutions shall apply the following principles:

a. Conduct business in conformity with high ethical standards in order to protect its safety and soundness as well as the integrity of the national banking and financial system;

b. Know sufficiently your customer at all times and ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent suspicious individuals or entities from opening or maintaining an account or transacting with the covered institution by himself or otherwise;

c. Adopt and effectively implement a sound AML and terrorist financing risk management system that identifies, assesses, monitors and controls risks associated with money laundering and terrorist financing;

d. Comply fully with this Part and existing laws aimed at combating money laundering and terrorist financing by making sure that officers and employees are aware of their respective responsibilities and carry them out in accordance with superior and principled culture of compliance; and

e. Fully cooperate with Anti-Money Laundering Council (AMLC) for the effective implementation and enforcement of the AMLA, as amended, and its RIRR.

(Circular No. 706 dated 05 January 2011)

A. RISK MANAGEMENT

Sec. X805 Risk Management. All covered institutions shall develop sound risk management policies and practices to ensure that risks associated with money-laundering such as counterparty, reputational, operational, and compliance risks are

identified, assessed, monitored, mitigated and controlled, as well as to ensure effective implementation of this part, to the end that covered institutions shall not be used as a vehicle to legitimize proceeds of unlawful activity or to facilitate or finance terrorism.

The four (4) areas of sound risk management practices are adequate and active board and senior management oversight, acceptable policies and procedures embodied in a money laundering and terrorist financing prevention compliance program, appropriate monitoring and Management Information System and comprehensive internal controls and audit.

(Circular No. 706 dated 05 January 2011)

§ X805.1 Board and senior management oversight. Notwithstanding the provisions specifying the duties and responsibilities of the compliance office and internal audit, it shall be the ultimate responsibility of the board of directors to fully comply with the provisions of this Part, the AMLA, as amended, and its RIRR. For this reason, it shall ensure that oversight on the institution's compliance management is adequate.

(Circular No. 706 dated 05 January 2011)

§ X805.1.a Compliance office Management of the implementation of the covered institution's Money Laundering and Terrorist Financing Prevention Program (MLPP) shall be a primary task of the compliance office. To ensure the independence of the office, it shall have a direct reporting line to the board of directors or any board-level or approved committee on all matters related to AML and terrorist financing compliance and their risk management. It shall be principally responsible for the following functions among other functions that may be delegated by senior management and the board, to wit:

(1) Ensure compliance by all responsible officers and employees with this Part, the AMLA, as amended, the RIRR and its own MLPP. It shall conduct periodic compliance checking which covers, among others, evaluation of existing processes, policies and procedures including on-going monitoring of performance by staff and officers involved in money laundering and terrorist financing prevention, reporting channels, effectivity of the electronic money laundering transaction monitoring system and record retention system through sample testing and review of audit or examination reports. It shall also report compliance findings to the board or any board-level committee;

(2) Ensure that infractions, discovered either by internally initiated audits or by special or regular examination conducted by the BSP, are immediately corrected;

(3) Inform all responsible officers and employees of all resolutions, circulars and other issuances by the BSP and the AMLC in relation to matters aimed at preventing money laundering and terrorist financing;

(4) Alert senior management, the board of directors, or the board-level or approved committee if it believes that the institution is failing to sensibly address anti-money laundering and terrorist financing issues; and

(5) Organize the timing and content of AML training of officers and employees including regular refresher trainings as stated in Sec. X809.

(Circular No. 706 dated 05 January 2011)

§ X805.2 Money laundering and terrorist financing prevention program. All covered institutions shall adopt a comprehensive and risk-based MLPP geared toward the promotion of high ethical and professional standards and the prevention of the bank being used, intentionally or

§ X805.2
11.12.31

unintentionally, for money laundering and terrorism financing. The MLPP shall be consistent with the AMLA, as amended, and the provisions set out in this Part and designed according to the covered institution's corporate structure and risk profile. It shall be in writing, approved by the board of directors or by the country/regional head or its equivalent for local branches of foreign banks, and well disseminated to all officers and staff who are obligated by law and by their program to implement the same. Where a covered institution has branches, subsidiaries, affiliates or offices located within and/or outside the Philippines, it shall adopt an institution-wide MLPP that shall be implemented on a consolidated basis.

The MLPP shall also be readily available in user-friendly form, whether in hard or soft copy. The covered institution must put up a procedure to ensure an audit trail evidencing dissemination process for new and amended policies and procedures. The program shall embody the following at a minimum:

a. Detailed procedures of the covered institution's compliance and implementation of the following major requirements of the AMLA, as amended, its RIRR, and this Part, to wit:

- (1) Customer identification process including acceptance policies and on-going monitoring processes;
- (2) Record keeping and retention;
- (3) Covered transaction reporting; and
- (4) Suspicious transaction reporting including the adoption of a system, electronic or manual, of flagging, monitoring and reporting of transactions that qualify as suspicious transactions, regardless of amount or that will raise a "red flag" for purposes of conducting further verification or investigation, or transactions involving amounts below the threshold to facilitate the process of aggregating them for purposes of future reporting of such

transactions to the AMLC when their aggregated amounts breach the threshold. The ST reporting shall include a reporting chain under which a suspicious transaction will be processed and the designation of a board-level or approved committee who will ultimately decide whether or not the covered institution should file a report to the AMLC. If the resources of the covered institution do not permit the designation of a committee, it may designate the compliance officer to perform this function instead: *Provided*, That the board of directors is informed of his decision.

b. An effective and continuous anti-money laundering and countering of terrorist financing training program for all directors, and responsible officers and employees, to enable them to fully comply with their obligations and responsibilities under this Part, the AMLA, as amended, its RIRR and their internal policies and procedures as embodied in the MLPP. The training program shall also include refresher trainings to remind these individuals of their obligations and responsibilities as well as update them of any changes in AML laws, rules and internal policies and procedures.

c. An adequate screening and recruitment process to ensure that only qualified personnel who have no criminal record/s are employed to assume sensitive banking functions;

d. An internal audit system in accordance with Subsec. X805.4;

e. An independent audit program with written scope of audit that will ensure the completeness and accuracy of the information and identification documents obtained from clients, the covered and suspicious transactions reports submitted to the AMLC, and the records retained in compliance with this Part as well as adequacy and effectiveness of the training program on the prevention of money laundering and terrorism financing;

§§ X805.2 - X805.4
11.12.31

f. A mechanism that ensures all deficiencies noted during the audit and/or BSP regular or special examination are immediately corrected and acted upon;

g. Cooperation with the AMLC; and

h. Designation of an AML compliance officer, who shall at least be at senior officer level, as the lead implementor of the program within an adequately staffed compliance office. The AML compliance officer may also be the liaison between the covered institution, the BSP and the AMLC in matters relating to the covered institution's AML compliance. Where resources of the covered institution do not permit the hiring of an AML compliance officer, the compliance officer shall also assume the responsibility of the former.

(Circular No. 706 dated 05 January 2011)

§ X805.2.a Submission of the revised and updated MLPP¹; Approval by the board of directors or country head. Within 180 days from 27 January 2011, all covered institutions shall prepare and have available for inspection an updated MLPP embodying the principles and provisions stated in this Part. The compliance officer shall submit to the Anti-Money Laundering Specialist Group, SES I, a sworn certification that the revised MLPP had been prepared, duly noted and approved by the board of directors or the country head or its equivalent for local branches of foreign banks.

Henceforth, each MLPP shall be regularly updated at least once every two (2) years to incorporate changes in AML policies and procedures, latest trends in money laundering and terrorist financing typologies, and latest pertinent BSP issuances. Any revision or update in the MLPP shall likewise be approved by board of directors or the country/regional head or its equivalent for local branches of foreign banks.

(Circular No. 706 dated 05 January 2011 and M-2011-045 dated 16 August 2011)

§ X805.3 Monitoring and reporting tools. All covered institutions shall adopt an AML and terrorist financing monitoring system that is appropriate for their risk-profile and business complexity and in accordance with this Part. The system should be capable of generating timely, accurate and complete reports to lessen the likelihood of any reputational and compliance risks, and to regularly apprise the board of directors and senior management on anti-money laundering and terrorist financing compliance.

(Circular No. 706 dated 05 January 2011)

§ X805.3.a Electronic monitoring and reporting systems for money laundering UBs and KBs shall adopt an electronic AML system capable of monitoring risks associated with money-laundering and terrorist financing as well as generating timely reports for the guidance and information of its board of directors and senior management in addition to the functionalities mentioned in Subsec. X807.2.

(Circular No. 706 dated 05 January 2011)

§ X805.3.b Manual monitoring. For covered institutions other than UBs and KBs, it need not have an electronic system but must ensure that it has the means of complying with Subsec. X805.3.

(Circular No. 706 dated 05 January 2011)

§ X805.4 Internal audit. The internal audit function associated with money laundering and terrorist financing should be conducted by qualified personnel who are independent of the office being audited. It must have the support of the board of directors and senior management and have a direct reporting line to the board or a board-level audit committee.

The internal audit shall, in addition to those specified by this Part, be responsible for the periodic and independent evaluation

¹RBs are given a three (3) months extension or up to 26 October 2011, within which to submit to the AMLSG the Sworn Certification.

§§ X805.4 - X806.1.a
11.12.31

of the risk management, degree of adherence to internal control mechanisms related to the customer identification process, such as the determination of the existence of customers and the completeness of the minimum information and/or documents establishing the true and full identity of, and the extent and standard of due diligence applied to, customers, CT and ST reporting and record keeping and retention, as well as the adequacy and effectiveness of other existing internal controls associated with money laundering and terrorist financing.

For UBs and KBs with electronic money laundering transaction monitoring system, in addition to the above, the internal audit shall include determination of the efficiency of the system’s functionalities as required by Subsecs. X805.3 and X807.2.

The results of the internal audit shall be timely communicated to the board of directors and shall be open for scrutiny by BSP examiners in the course of the regular or special examination without prejudice to the conduct of its own evaluation whenever necessary. Results of the audit shall likewise be promptly communicated to the compliance office for its appropriate corrective action. The Compliance Office shall regularly submit reports to the board to inform them of management’s action to address deficiencies noted in the audit.

(Circular No. 706 dated 05 January 2011)

B.Customer Identification Process

Sec. X806 Customer Identification

A covered institution shall maintain a system of verifying the true identity of their customers and, in case of corporate and juridical entities, require a system of verifying their legal existence and organizational structure as well as the authority and identification of all persons purporting to act on their behalf. Along

this line, it shall formulate a risk-based and tiered customer acceptance policy, customer retention policy and customer identification process that involves reduced customer due diligence (CDD) for potentially low risk clients and enhanced CDD for higher risk accounts.

(Circular No. 706 dated 05 January 2011)

§ X806.1 Customer acceptance policy

Every covered institution shall develop clear, written and graduated acceptance policies and procedures that will ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent suspicious individuals or entities from opening an account.

(Circular No. 706 dated 05 January 2011)

§ X806.1.a Criteria for type of customers: low, normal and high risk; standards for applying reduced, average and enhanced due diligence. Covered institutions shall specify the criteria and description of the types of customers that are likely to pose low, normal or high risk to their operations as well as the standards in applying reduced, average and enhanced due diligence including a set of conditions for the denial of account opening.

Enhanced due diligence shall be applied to customers that are assessed by the covered institution or by this Part as high risk for money laundering and terrorist financing.

For customers assessed to be of low risk such as an individual customer with regular employment or economically productive activity, small account balance and transactions, and a resident in the area of the covered institution’s office or branch, the covered institutions may apply reduced due diligence. Some entities may likewise be considered as low risk clients, i.e., banking institutions, trust entities and QBs authorized by the

BSP to operate as such, publicly-listed companies subject to regulatory disclosure requirements, government agencies including GOCCs.

In designing a customer acceptance policy, the following factors shall be taken into account:

- (1) Background and source of funds;
- (2) Country of origin and residence or operations;
- (3) Public or high profile position of the customer or its directors/trustees, stockholders, officers and/or authorized signatory;
- (4) Linked accounts;
- (5) Watchlist of individuals and entities engaged in illegal activities or terrorist-related activities as circularized by BSP, AMLC, and other international entities or organizations, such as the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury and United Nations Sanctions List;
- (6) Business activities; and
- (7) Type of services/products/transactions to be entered with the covered institution.

In all instances, the covered institutions shall document how a specific customer was profiled (low, normal or high) and what standard of CDD (reduced, average or enhanced) was applied.

(Circular No. 706 dated 05 January 2011)

§ X806.1.b Enhanced due diligence

Whenever enhanced due diligence is applied as required by this Part or by the covered institution's customer acceptance policy, the covered institution shall, in addition to profiling of customers and monitoring of their transactions, do the following:

- (1) Obtain additional information other than the minimum information and/or documents required for the conduct of average due diligence as enumerated under Subsec. X806.2.a and X806.2.b.

(a) In cases of individual customers, obtain a list of banks where the individual has maintained or is maintaining an account, list of companies where he is a director, officer or stockholder, and banking services to be availed of.

(b) For entities assessed as high risk customers, such as shell companies, covered institutions shall, in addition to minimum information and/or documents enumerated above, obtain additional information including, but not limited to, prior or existing bank references, the name, present address, date and place of birth, nature of work, nationality and source of funds of each of the primary officers (President, Treasurer and authorized signatory/ies), stockholders owning at least 2% of the voting stock, and directors/trustees/partners as well as their respective identification documents.

(2) Conduct validation procedures on any or all of the information provided in accordance with Subsec. X806.1.c.

(3) Obtain senior management approval for establishing business relationship.

Where additional information cannot be obtained, or any information or document provided is false or falsified, or result of the validation process is unsatisfactory, the covered institution shall deny banking relationship with the individual or entity without prejudice to the reporting of a suspicious transaction to the AMLC when circumstances warrant.

(Circular No. 706 dated 05 January 2011)

§ X806.1.c Minimum validation procedures. Validation procedures for individual customers shall include, but is not limited to, the following:

- (1) Confirming the date of birth from a duly authenticated official document;
- (2) Verifying the permanent address through evaluation of utility bills, bank or credit card statement or other documents showing permanent address or through on-site visitation;

§§ X806.1.c - X806.1.e.1
11.12.31

(3) Contacting the customer by phone, email or letter (such as sending of “*thank you letters*”); and

(4) Determining the authenticity of the identification documents through validation of its issuance by requesting a certification from the issuing authority or by any other means.

For corporate or juridical entities, validation procedures shall include, but not limited to, the following:

(1) Requiring the submission of audited financial statements conducted by a reputable accounting/auditing firm;

(2) Inquiring from the supervising authority the status of the entity;

(3) Obtaining bank references;

(4) On-site visitation of the company; and

(5) Contacting the entity by phone, email or letter (such as “*thank you letters*”).
(Circular No. 706 dated 05 January 2011)

§ X806.1.d Reduced due diligence

Whenever reduced due diligence is applied in accordance with the covered institution’s customer acceptance policy, the following rules shall apply:

(1) For individual customers, a covered institution may open an account under the true and full name of the account owner or owners and defer acceptance of the minimum information. Deferred acceptance of minimum information shall mean obtaining information numbers 1 to 7 of Subsec. X806.2.a at the time of account opening while the rest, numbers 8 to 11, may be obtained within a reasonable time but not exceeding ninety (90) days from account opening.

(2) For corporate, partnership, and sole proprietorship entities, and other entities such as banking institutions, trust entities and QBs authorized by the BSP to operate as such, publicly listed companies subject to regulatory disclosure requirements, government agencies including GOCCs, a

covered institution may open an account under the official name of these entities with only no. 4 of those required under Subsec. X806.2.b (board resolution duly certified by the corporate secretary authorizing the signatory to sign on behalf of the entity) obtained at the time of account opening.

(Circular No. 706 dated 05 January 2011)

§ X806.1.e Face-to-face contact. No new accounts shall be opened and created without face-to-face contact and personal interview between the covered institution’s duly authorized personnel and the potential customer except under Subsecs. X806.1.e.1 to e.3.

(Circular No. 706 dated 05 January 2011)

§ X806.1.e.1 Account opened through a trustee, agent, nominee, or intermediary

Where the account is opened through a trustee, agent, nominee or intermediary, the covered institution shall establish and record the true and full identity and existence of both the (a) trustee, nominee, agent or intermediary and (b) trustor, principal, beneficial owner, or person on whose behalf the account is being opened. The covered institution shall determine the true nature of the parties’ capacities and duties by obtaining a copy of the written document evidencing their relationship and apply the same criteria for assessing the risk profile and determining the standard of due diligence to be applied to both.

In cases of several trustors, principals, beneficial owners, or persons on whose behalf the account is being opened where the trustee, nominee, agent or intermediary opens a single account but keeps therein sub-accounts that may be attributable to each trustor, principal, beneficial owner, or person on whose behalf the account is being opened, the covered institution shall, at the minimum, obtain the true and full name, place and date of birth or date of registration, as the case may be, present

address, nature of work or business, and source of funds as if the account was opened by them separately. Where the covered institution is required to report a CT or the circumstances warrant the filing of an ST, it shall obtain such other information on every trustor, principal, beneficial owner, or person on whose behalf the account is being opened in order that a complete and accurate report may be filed with the AMLC.

In case a covered institution entertains doubts that the trustee, nominee, agent or intermediary is being used as a dummy in circumvention of existing laws, it shall apply enhanced due diligence in accordance with Subsec. X806.1.b.

(Circular No. 706 dated 05 January 2011)

□ **X806.1.e.2 Outsourcing arrangement.** Subject to existing rules on outsourcing of specified banking activities, a covered institution, without prior Monetary Board approval, may outsource to a counterparty the conduct of the requisite face-to-face contact: *Provided*, That such arrangement is formally documented and: *Provided, further*, That the conditions under Subsec. X806.2.d are met.

If the counterparty is an entity other than a covered institution as herein defined, covered institutions shall ensure that the employees or representatives of the counterparty conducting the face-to-face contact undergo equivalent training program as that of its frontliners undertaking a similar activity. Covered institutions shall likewise monitor and review annually the performance of the counterparty to assist them in determining whether or not to continue with the arrangement.

(Circular No. 706 dated 05 January 2011)

□ **X806.1.e.3 Third party reliance**
Where a third party as defined under

Subsec. X806.2.e.1 has already conducted the requisite face-to-face contact on its own customer who was referred to a covered institution, the latter may rely on the representation of the third party that it has already conducted face-to-face contact: *Provided*, That the pertinent requirements in Subsec. X806.2.e.1 are also met.

(Circular No. 706 dated 05 January 2011)

□ **X806.2 Customer identification**
Covered institutions shall establish and record the true identity of its customers based on valid identification¹ document/s specified in Subsec. X806.2.c².

(Circular No. 706 dated 05 January 2011, as amended by M-2013-052 dated 22 November 2013)

□ **X806.2.a New individual customers**
Covered institutions shall develop a systematic procedure for establishing the true and full identity of new individual customers and shall open and maintain the account only in the true and full name of the account owner or owners.

Unless otherwise stated in this Part, average due diligence requires that the covered institution obtain, at the time of account opening, all the following minimum information and confirming these information with the valid identification documents stated in Subsec. X806.2.c from individual customers and authorized signatory/ies of corporate and juridical entities:

- (1) Name;
- (2) Present address;
- (3) Date and place of birth;
- (4) Nature of work, name of employer or nature of self-employment/business;
- (5) Contact details;
- (6) Specimen signature;
- (7) Source of funds;
- (8) Permanent address;
- (9) Nationality;
- (10) Tax identification number (TIN),

¹Temporarily relaxed until 31 December 2013 for the victims of Super Typhoon Yolanda for transactions P50,000 and below and subject to conditions prescribed under Memorandum No. 2013-052 dated 22 November 2013.

² With additional special regulatory relief in areas affected by Tropical Depression Yolanda as provided under Appendix 89a (Circular No. 820 dated 06 December 2013).

¶¶ X806.2.a - X806.2.c
12.12.31

SSS number or GSIS number, if any; and

(11) Name, present address, date and place of birth, nature of work and source of funds of beneficial owner or beneficiary, whenever applicable.

(Circular No. 706 dated 05 January 2011)

¶ **X806.2.b New corporate and juridical entities.** Covered institutions shall develop a systematic procedure for identifying corporate, partnership and sole proprietorship entities as well as the stockholders/partners/owners, directors, officers and authorized signatories of these entities. It shall open and maintain accounts only in the true and full name of the entity and shall have primary responsibility to ensure that the entity has not been, or is not in the process of being dissolved, struck-off, wound-up, terminated, or otherwise placed under receivership or liquidation.

Unless otherwise stated in this Part, average due diligence requires that the covered institution obtain the following minimum information and/or documents before establishing business relationships:

(1) Certificates of Registration issued by the Department of Trade and Industry for single proprietors, or by the SEC for corporations and partnerships, and by the Bangko Sentral for money changers/foreign exchange dealers and remittance agents;

(2) Articles of Incorporation or Association and By-Laws;

(3) Principal business address;

(4) Board or Partners Resolution duly certified by the Corporate/Partners Secretary authorizing the signatory to sign on behalf of the entity;

(5) Latest General Information Sheet which lists the names of directors/trustees/partners, principal, stockholders owning at least twenty percent (20%) of the outstanding capital stock and primary officers such as the President and Treasurer;

(6) Contact numbers of the entity and authorized signatory/ies;

(7) Source of funds and nature of business;

(8) Name, present address, date and place of birth, nature of work and source of funds of beneficial owner or beneficiary, if applicable; and

(9) For entities registered outside the Philippines, similar documents and/or information shall be obtained, duly authenticated by the Philippine Consulate where said entities are registered.

(Circular No. 706 dated 05 January 2011)

¶ **X806.2.c Valid identification documents.** The following guidelines govern the acceptance of valid ID cards for all types of financial transaction by a customer and the authorized signatory/ies of a corporate or juridical entity, including financial transactions involving Overseas Filipino Workers (OFWs), in order to promote access of Filipinos to services offered by formal FIs, particularly those residing in the remote areas, as well as to encourage and facilitate remittances of OFWs through the banking system:

(1) Customers and the authorized signatory/ies of a corporate or juridical entity who engage in a financial transaction with covered institutions for the first time shall be required to present the original and submit a clear copy of at least one (1) valid photo bearing ID document issued by an official authority.

For this purpose, the term *official authority* shall refer to any of the following:

(a) Government of the Republic of the Philippines;

(b) Its political subdivisions and instrumentalities;

(c) GOCCs; and

(d) Private entities or institutions registered with or supervised or regulated either by the Bangko Sentral, SEC or IC.

Valid IDs include the following:

1. Passport including those issued by foreign governments;

2. Driver s license;
3. PRC ID;
4. NBI clearance;
5. Police clearance;
6. Postal ID;
7. Voter s ID;
8. TIN;
9. Barangay certification;
10. GSIS e-Card;
11. SSS card;
12. Senior Citizen card;
13. Overseas Workers Welfare Administration ID;
14. OFW ID;
15. Seaman s book;
16. Alien Certificate of Registration/ Immigrant Certificate of Registration;
17. Government office and GOCC ID (e.g., AFP, HDMF IDs);
18. ID issued by the National Council on Disability Affairs;
19. DSWD certification;
20. IBP ID;
21. Company IDs issued by private entities or institutions registered with or supervised or regulated either by the Bangko Sentral, SEC or IC; and
22. PhilHealth Health Insurance Card ng Bayan.

(2) Students who are beneficiaries of remittances/fund transfers and who are not yet of voting age, may be allowed to present the original and submit a clear copy of one (1) valid photo-bearing school ID duly signed by the principal or head of the school.

(3) Where the customer or authorized signatory is a non-Philippine resident, similar IDs duly issued by the foreign government where the customer is a resident or a citizen may be presented.

(4) A covered institution shall require their customers or authorized signatory to submit a clear copy of one (1) valid ID on a one (1)-time basis only at the commencement of business relationship.

They shall require their clients to submit an updated photo and other relevant information on the basis of risk and materiality.

(5) A covered institution may classify identification documents based on its reliability and ability to validate the information indicated in the identification document with that provided by the customer.

(6) Whenever it deems necessary, a covered institution may accept other IDs not enumerated in this Subsection: *Provided*, That it shall not be the sole means of identification.

(7) In case the identification documents mentioned above or other identification documents acceptable to the covered institution do not bear any photo of the customer or authorized signatory, or the photo-bearing ID or a copy thereof does not clearly show the face of the customer or authorized signatory, a covered institution may utilize its own technology to take the photo of the customer or authorized signatory. (Circular No. 706 dated 05 January 2011, as amended by Circular No. 792 dated 03 May 2013 and M-2012-21 dated 27 April 2012)

□ **X806.2.d Outsourcing of the gathering of minimum information and/or documents.** Except for deposit taking, which is an inherent banking function that cannot be outsourced and subject to existing rules on outsourcing of specified banking activities, a covered institution may, without prior Monetary Board approval, outsource to a counterparty, which may or may not be a covered institution as herein defined, the gathering of the minimum information and/or documents required to be obtained by this Part: *Provided*, That the ultimate responsibility for knowing the customer and for keeping the identification documents shall lie with the covered institution and compliance with the following conditions:

For covered institution counterparty:

(1) There is a written service level agreement approved by the board of directors of both covered institutions;

(2) The counterparty has a reliable and acceptable customer identification system

¶ X806.2.d - X806.2.e.1.a
11.12.31

and training program in place; and

(3) In line with requirement no.1 above, all identification information and/or documents shall be turned over within a period not exceeding ninety (90) calendar days to the covered institution, which shall carefully review the documents and conduct the necessary risk assessment of the customer.

For non-covered institution counterparty:

(1) All conditions required for covered institutions counterparty;

(2) The covered institution outsourcing the activity shall likewise ensure that the employees or representatives of the counterparty establishing the true and full identity of the customer undergo equivalent training program as that of the covered institution's own employees undertaking a similar activity; and

(3) Annual monitoring and review by the covered institution of the performance of the counterparty to assist it in determining whether or not to continue with the arrangement.

(Circular No. 706 dated 05 January 2011)

¶ **X806.2.e Trustee, nominee, agent or intermediary account.** Where any transaction is conducted by a trustee, nominee, agent or intermediary, either as an individual or through a fiduciary relationship, a corporate vehicle or partnership, on behalf of a trustor, principal, beneficial owner or person on whose behalf a transaction is being conducted, covered institutions shall establish and record the true and full identity and existence of both the (1) trustee, nominee, agent or intermediary and the (2) trustor, principal, beneficial owner or person on whose behalf the transaction is being conducted. The covered institution shall determine the true nature of the parties capacities and duties by obtaining a copy of the written document evidencing their relationship and apply the same standards for assessing the risk profile and determining the standard of due diligence to be applied

to both.

In case it entertains doubts as to whether the trustee, nominee, agent or intermediary is being used as a dummy in circumvention of existing laws, it shall apply enhanced due diligence in accordance with Subsec. X806.1.b.

(Circular No. 706 dated 05 January 2011)

¶ **X806.2.e.1 Where the customer transacts through a trustee, nominee, agent or intermediary which is a third party as herein defined (Third Party Reliance).** A covered institution may rely on the customer identification process undertaken by a third party. For purposes of this Subsection, the *third party* shall refer to a:

(a) covered institution as herein specifically defined and as generally defined by AMLA, as amended, and its RIRR; or

(b) an FI operating outside the Philippines that is covered by equivalent customer identification requirements.

A Bangko Sentral-accredited custodian may likewise rely in accordance with this Part on the face-to-face contact and gathering of minimum information to establish the existence and full identity of the customer conducted by the seller or issuer of securities or by the global custodian provided the latter has an equivalent customer identification requirements.

(Circular No. 706 dated 05 January 2011)

¶ **X806.2.e.1.a Third party is a covered institution specifically defined by this Part and as generally defined by AMLA, as amended, and its RIRR.** A covered institution may rely on the identification process conducted by a third party: *Provided*, That the covered institution shall obtain from the third party a written sworn certification containing the following:

(1) The third party has conducted the requisite customer identification requirements in accordance with this Part and its own MLPP including the face-to-face

contact requirement to establish the existence of the ultimate customer and has in its custody all the minimum information and/or documents required to be obtained from the customer; and

(2) The relying covered institution shall have the ability to obtain identification documents from the third party upon request without delay.

(Circular No. 706 dated 05 January 2011)

□ **X806.2.e.1.b *Third party is an FI operating outside the Philippines that is other than covered institutions referred to in Subsec. X806.2.e.1.a but conducts business operations and activities similar to them.*** All the contents required in the sworn certification mentioned in Subsec. X806.2.e.1.a shall apply with the additional requirement that the laws of the country where the third party is operating has equal or more stringent customer identification process requirement and that it has not been cited in violation thereof. It shall, in addition to performing normal due diligence measures, do the following:

(1) Gather sufficient information about the third party and the group to which it belongs to understand fully the nature of its business and to determine from publicly available information the reputation of the institution and the quality of supervision, including whether it has been subject to money laundering or terrorist financing investigation or regulatory action;

(2) Document the respective responsibilities of each institution; and

(3) Obtain approval from senior management at inception of relationship before relying on the third party.

(Circular No. 706 dated 05 January 2011)

□ **X806.2.f *Private banking/wealth management operations.*** These services, which by their nature involve high measure of client confidentiality, are more open to the elements of reputational risk especially

if the customer identification process is not diligently followed. Covered institutions therefore shall endeavor to establish and record the true and full identity of these customers and establish a policy on what standard of due diligence will apply to them. They shall also require approval by a senior officer other than the private banking/wealth management/similar activity relationship officer or the like for acceptance of customers of private banking, wealth management and similar activities.

(Circular No. 706 dated 05 January 2011)

□ **X806.2.g *Politically exposed person***

A covered institution shall endeavor to establish and record the true and full identity of PEPs as well as their immediate family members and the entities related to them and establish a policy on what standard of due diligence will apply to them taking into consideration their position and the risks attendant thereto.

(Circular No. 706 dated 05 January 2011)

□ **X806.2.h *Correspondent banking***

Because of the risk associated with dealing with correspondent accounts where it may unknowingly facilitate the transmission, or holding and management of proceeds of unlawful activities or funds intended to finance terrorist activities, covered institutions shall adopt policies and procedures for correspondent banking activities and designate an officer responsible in ensuring compliance with these policies and procedures. A covered institution may rely on the customer identification process undertaken by the respondent bank. In such case, it shall apply the rules on third party reliance under Subsec. X806.2.e.1, treating the respondent bank as the third party as defined therein. In addition, the correspondent bank shall:

(1) Gather sufficient information about the respondent institution to understand fully

¶¶ **X806.2.h - X806.2.i**
11.12.31

the nature of the respondent's business and to determine from publicly available information the reputation of the institution and the quality of supervision, including whether it has been subject to money laundering or terrorist financing investigation or regulatory action.

(2) Assess the respondent institution's anti-money laundering and terrorist financing controls.

(3) Obtain approval from senior management before establishing correspondent relationships.

(4) Document the respective responsibilities of each institution.

(5) With respect to *payable-through accounts*, be satisfied that the respondent bank has verified the identity of, and performed on-going due diligence on, the customers having direct access accounts of the correspondent and that it is able to provide relevant customer identification data upon request by the correspondent bank.

Correspondent banking customers presenting greater risk, including shell companies, shall be subject to enhanced due diligence.

(Circular No. 706 dated 05 January 2011)

¶ **X806.2.i Fund/Wire transfer**
Because of the risk associated with dealing with fund/wire transfers, where a covered institution may unknowingly transmit proceeds of unlawful activities or funds intended to finance terrorist activities, it shall establish policies and procedures designed to prevent it from being utilized for that purpose which shall include, but not limited to, the following:

(1) The beneficiary institution shall not accept instructions to pay-out fund transfers to non-customer beneficiary, unless it has conducted the necessary customer due diligence to establish the true and full identity and existence of said beneficiary. Should the originator and beneficiary be the

same person, the beneficiary institution may rely on the customer due diligence conducted by the originating institution provided the rules on third party reliance under Subsec. X806.2.e.1 are met, treating the originating institution as third party as therein defined.

(2) The originating institution shall not accept instructions to fund/wire transfer from a non-customer originator, unless it has conducted the necessary customer due diligence to establish the true and full identity and existence of said originator.

(3) In cross border transfers, if the originator is a high risk customer as herein described, the beneficiary institution shall conduct enhanced due diligence on the beneficiary and the originator. Where additional information cannot be obtained, or any information or document provided is false or falsified, or result of the validation process is unsatisfactory, the beneficiary institution shall refuse to effect the fund/wire transfer or the pay-out of funds without prejudice to the reporting of a suspicious transaction to the AMLC when circumstances warrant.

(4) Whenever possible, manually initiated fund transfer (MIFT) instructions should not be the primary delivery method. Every effort shall be made to provide client with an electronic banking solution. However, where MIFT is utilized, the following validation procedures shall apply:

(i) Prior to the bank accepting from a customer a manually initiated funds transfer request, the customer must execute and sign an agreement which preferably is part of the account opening documentation, wherein are outlined the manual instruction procedures with related security procedures including customer agreement to accept responsibility for fraudulent or erroneous instructions provided the bank has complied with the stated security procedures.

(ii) It is mandatory that written MIFT instructions are signature verified. In addition, one (1) of the following primary security procedures must be applied: a recorded callback to the customer to confirm the transaction instructions, or testword arrangement/ verification. The callback or test word requirement may be substituted by any of the following validity checks: use of a controlled PIN or other pre-established code; sequential numbering control of messages; pre-established verifiable forms; same as prior transmissions; standing/pre-defined instructions; or value for value transactions.

(iii) It is mandatory that faxed MIFT instructions are signature verified and the fax machine be located in a secured environment with limited and controlled staff access which permits visual monitoring. If monitoring is not possible, the equipment must be secured or programmed to receive messages into a password protected memory.

Faxed MIFT transactions below a certain threshold (approved by the President/ Country Manager (for branches of foreign banks) or Business Risk Manager) may be processed with the mandatory procedure described above and an enhanced security procedure such as (a) a recorded callback to the customer to confirm the transaction instructions and/or (b) test word arrangement/verification, and/or (c) utilization of secured forms that incorporate verifiable security procedures such as watermarks or codes, and/or (d) transmission encryption.

(iv) Telephone callback numbers and contacts must be securely controlled. The confirmation callback is to be recorded and made to the signatory/(ies) of the customer's individual account(s). For commercial and company accounts the callback will be made to the signatory/(ies) of the account or, if so authorized, another person

designated by the customer in the MIFT agreement. The party called is to be documented on the instructions. The callback must be made by someone other than (a) the person receiving the original instructions and (b) effecting the signature verification.

(5)¹ Cross border and domestic fund/ wire transfers and related message amounting to P50,000 or more or its equivalent shall include accurate and meaningful originator information. The following are the originator information that shall remain with the transfer or related message through the payment chain:

(a) Name of the originator;

(b) Address or in its absence the national identity number or date and place of birth of the originator; and

(c) Account number of the originator or in its absence, a unique reference number must be included.

(6) Should any wire transfer amounting to P50,000 or more or its equivalent be unaccompanied by the required originator information, the beneficiary institution shall exert all efforts to establish the true and full identity and existence of the originator by requiring additional information from the originating institution or intermediary institution. It shall likewise apply enhanced due diligence to establish the true and full identity and existence of the beneficiary. Where additional information cannot be obtained, or any information or document provided is false or falsified, or result of the validation process is unsatisfactory, the beneficiary institution shall refuse to effect the fund/wire transfer or the pay-out of funds without prejudice to the reporting of a suspicious transaction to the AMLC when circumstances warrant.

(Circular No. 706 dated 05 January 2011)

□ **X806.2.j Buyers of cashier's, manager's or certified checks.** A covered institution may sell cashier's, manager's or

¹ The implementation of the originator information requirement is deferred for one (1) year, or until 26 July 2012 (M-2011-049 dated 07 September 2011)

¶¶ **X806.2.j - X806.2.k**
11.12.31

certified checks only to its existing customers and shall maintain a register of said checks indicating the following information:

- (1) True and full name of the buyer or the applicant if buying on behalf of an entity;
- (2) Account number;
- (3) Date of issuance and the number of the check;
- (4) Name of the payee;
- (5) Amount; and
- (6) Purpose of such transaction.

(Circular No. 706 dated 05 January 2011)

¶ **X806.2.j.1 Buyers of cashier's, manager's or certified checks other than an existing customer.** Where an individual or an entity other than an existing customer applies for the issuance of cashier's, manager's or certified checks, the covered institution shall, in addition to the information required in Subsec. X806.2.j, obtain all the identification documents and minimum information required by this Part to establish the true and full identity and existence of the applicant. In no case shall reduced due diligence be applied to the applicant and, where circumstances warrant, enhanced due diligence should be applied.

(Circular No. 706 dated 05 January 2011)

¶ **X806.2.j.2 Buyers of cashier's, manager's or certified checks in blank or payable to cash, bearer or numbered account.** A covered institution may issue cashier's, manager's or certified checks or other similar instruments in blank or payable to cash, bearer or numbered account subject to the following conditions:

- (1) The amount of each check shall not exceed P10,000;
- (2) The buyer of the check is properly identified in accordance with its customer

acceptance and identification policies and as required under Subsecs. X806.2.j and X806.2.j.1 of this Part;

(3) A register of said checks indicating all the information required under Subsec. X806.2.j shall be maintained;

(4) A covered institution which issues as well as those which accepts as deposits, said cashier's, manager's or certified checks or other similar instruments issued in blank or payable to cash, bearer or numbered account shall take such measure(s) as may be necessary to ensure that said instruments are not being used/resorted to by the buyer or depositor in furtherance of a money laundering activity;

(5) The deposit of said instruments shall be subject to the same requirements of scrutiny applicable to cash deposits; and

(6) Transactions involving said instruments should be accordingly reported to the AMLC if there is reasonable ground to suspect that said transactions are being used to launder funds of illegitimate origin.

(Circular No. 706 dated 05 January 2011)

¶ **X806.2.k Second-endorsed checks.** A covered institution shall enforce stricter guidelines in the acceptance of second-endorsed checks including the application of enhanced due diligence to ensure that they are not being used as instruments for money laundering or other illegal activities. For this purpose, a covered institution shall limit the acceptance of second-endorsed checks from properly identified customers and only after establishing that the nature of the business of said customer justifies, or at least makes practical, the deposit of second-endorsed checks. In case of isolated transactions involving deposits of second-endorsed checks by customers who are not engaged in trade or business, the true and full identity of the first endorser shall be established

and the record of the identification shall also be kept for five (5) years.
(Circular No. 706 dated 05 January 2011)

▯ **X806.2.l Foreign exchange dealers/ money changers/remittance agents**
A covered institution shall require their customers, who are foreign exchange dealers, money changers and remittance agents, to submit a copy of the certificate of registration issued to them by the Bangko Sentral as part of their customer identification document. The certificate of registration shall be for each head office, branch agent, sub-agent, extension office or business outlet of foreign exchange dealers, money changers and remittance agents.

Foreign exchange dealers, money changers and remittance agents customers presenting greater risk, such as shell companies shall be subject to enhanced due diligence.
(Circular No. 706 dated 05 January 2011)

▯ **X806.2.m High risk customer**
A customer from a country that is recognized as having inadequate internationally accepted anti-money laundering standards, or does not sufficiently apply regulatory supervision or

the Financial Action Task Force (FATF) recommendations, or presents greater risk for crime, corruption or terrorist financing is considered a high risk customer. Information relative to these are publicly available such as in the websites of FATF, FATF Style Regional Bodies (FSRB) like the Asia Pacific Group on Money Laundering and the Egmont Group, national authorities like the OFAC of the U.S. Department of the Treasury, or other reliable third parties such as regulators or exchanges, which shall be a component of a covered institution s customer identification process.

When dealing with high risk customers, a covered institution should take extreme caution and vigilance. In no case shall reduced diligence be applied to high risk customers. On the other hand, in case the covered institution determines, based on its standards, that dealing with the high risk customer calls for, or this Part requires, the application of enhanced due diligence, it shall apply the minimum requirements for enhanced due diligence in accordance with Subsec. X806.1.b. In all instances of acceptance of a high risk customer, approval of the covered institution s senior officer shall be necessary.
(Circular No. 706 dated 05 January 2011)

(Next page is Part VIII - Page 19)

□ **X806.2.n *Shell company/shell bank***

A covered institution shall undertake banking relationship with a shell company with extreme caution and always apply enhanced due diligence on both the entity and its beneficial owner/s.

Because of the dubious nature of shell banks, no shell bank shall be allowed to operate or be established in the Philippines. A covered institution shall refuse to enter into, or continue, correspondent banking relationship with them. It shall likewise guard against establishing relations with foreign FIs that permit their accounts to be used by shell banks.

(Circular No. 706 dated 05 January 2011)

□ **X806.2.o *Numbered accounts***

No peso and foreign currency non-checking numbered accounts shall be allowed without establishing the true and full identity and existence of customers and applying enhanced due diligence in accordance with Subsec. X806.1.b.

Peso and foreign currency non-checking numbered accounts existing prior to 17 October 2001 shall continue to exist but the covered institution shall establish the true and full identity and existence of the beneficial owners of such accounts and applying enhanced due diligence in accordance with Subsec. X806.1.b.

(Circular No. 706 dated 05 January 2011)

□ **X806.2.p *Prohibited accounts***

A covered institution shall maintain accounts only in the true and full name of the account owner. The provisions of existing law to the contrary notwithstanding, anonymous accounts, accounts under fictitious names, numbered checking accounts, and all other similar accounts shall be absolutely prohibited.

(Circular No. 706 dated 05 January 2011)

□ **X806.3 *On-going monitoring of customers, accounts and transactions***

Covered institutions shall ensure that they have established the true and full identity of their customers and shall update all identification information and documents required to be obtained by the AMLA, as amended, its RIRR and this Part, of existing customers on the basis of materiality and risk.

With respect to monitoring of transactions, in order that a covered institution may be able to control and reduce risk associated with money laundering and terrorist financing, it is necessary that it has a system that will enable it to understand the normal and reasonable account activity of customers and detect unusual or suspicious patterns of account activity. Thus, a risk and materiality based on-going monitoring of customer s accounts and transactions should be part of a covered institution s customer due diligence.

(Circular No. 706 dated 05 January 2011)

□ **X806.3.a *Enhanced due diligence***

Covered institutions shall apply enhanced due diligence on its customer in accordance with Subsec. X806.1.b if it acquires information in the course of its customer account or transaction monitoring that:

(1) Raises doubt as to the accuracy of any information or document provided or the ownership of the entity;

(2) Justifies re-classification of the customer from low or normal risk to high-risk pursuant to this Part or by its own criteria; or

(3) Any of the circumstances for the filing of a suspicious transaction exists such as but not limited to the following:

(a) Transacting without any underlying legal or trade obligation, purpose or economic justification;

¶¶ X806.3.a - X807.1
11.12.31

(b) Transacting an amount that is not commensurate with the business or financial capacity of the customer or deviates from his profile;

(c) Structuring of transactions in order to avoid being the subject of covered transaction reporting; or

(d) Knowing that a customer was or is engaged or engaging in any unlawful activity as herein defined.

Where additional information cannot be obtained, or any information or document provided is false or falsified, or result of the validation process is unsatisfactory, the covered institution shall immediately close the account and refrain from further conducting business relationship with the customer without prejudice to the reporting of a suspicious transaction to the AMLC when circumstances warrant.

(Circular No. 706 dated 05 January 2011)

C. Covered and Suspicious Transaction Reporting

Sec. X807 Covered and Suspicious Transaction Reporting¹. Covered institutions shall report to the AMLC all covered and suspicious transactions within ten (10) working days from occurrence thereof.

Should a transaction be determined to be both a covered and suspicious transaction, the covered institution shall be required to report the same as a suspicious transaction.

(Circular No. 706 dated 05 January 2011)

¶ **X807.1 Deferred reporting of certain covered transactions.** Pursuant to AMLC Resolution No. 58 dated 25 June 2005 as amended by AMLC Resolution No. 24 dated

18 March 2009, the following are considered as *non-cash, no/low risk covered transactions* the reporting of which to the AMLC are deferred:

a. Transactions between banks and the Bangko Sentral;

b. Transactions between banks operating in the Philippines;

c. Internal operating expenses of banks;

d. Transactions involving transfer of funds from one deposit account to another deposit account of the same person within the same bank;

e. Roll-overs of placements of time deposit; and

f. Loan/Interest principal payment debited against borrower's deposit account maintained with the lending bank.

In addition, pursuant to AMLC Resolution No. 292 dated 24 October 2003, covered institutions, other than banks, shall file CTRs on transactions in cash or foreign currency or other monetary instruments (other than checks) or properties. Due to the nature of the transactions in the stock exchange, only the brokers-dealers shall be required to file CTRs and STRs².

The Philippine Stock Exchange, Philippine Central Depository (PCD), Securities Clearing Corporation of the Philippines (SCCP) and transfer agents are exempt from filing CTRs. They are however required to file STRs when the transactions that pass through them are deemed suspicious.

The Bangko Sentral may consider other transactions as *no/low risk covered transactions* and propose to the AMLC that they be likewise subject to deferred reporting by covered institutions.

(Circular No. 706 dated 05 January 2011; CL-2011-035 dated 25 May 2011)

¹ Submission of the hard copies of the STRs to the AMLC is deferred until further advice.

² The filing of a CTR by a broker is deferred when the mode of payment is by checks or if the settlement between brokers/dealers and their customers is made through fund transfers or debiting and crediting of their respective accounts.

§ X807.2 Electronic monitoring system for money laundering. UBs and KBs are required to adopt an electronic money laundering transaction monitoring system which at the minimum shall detect and raise to the bank's attention, transactions and/or accounts that qualify either as CTs or STs as herein defined.

The system must have at least the following automated functionalities:

- a. Covered and suspicious transaction monitoring – performs statistical analysis, profiling and able to detect unusual patterns of account activity;
- b. Watch list monitoring – checks transfer parties (originator, beneficiary, and narrative fields) and the existing customer database for any listed undesirable individual or corporation;
- c. Investigation – checks for given names throughout the history of payment stored in the system;
- d. Can generate all the CTRs of the covered institution accurately and completely with all the mandatory field properly filled up;
- e. Must provide a complete audit trail;
- f. Capable of aggregating activities of a customer with multiple accounts on a consolidated basis for monitoring and reporting purposes; and
- g. Has the capability to record all STs and support the investigation of alerts generated by the system and brought to the attention of senior management whether or not a report was filed with the AMLC.

UBs and KBs with existing electronic system of flagging and monitoring transactions already in place shall ensure that their existing system is updated to be fully compliant with functionalities as those required herein. For this purpose, they shall be given ninety (90) days from 27 January 2011 within which to make their system fully operational and automated with all the functionalities stated above.

(Circular No. 706 dated 05 January 2011)

§ X807.3 Manual monitoring Covered institutions, other than UBs and KBs, need not have an electronic system of flagging and monitoring transactions but shall ensure that the system has the means of flagging and monitoring the transactions mentioned in Subsec. X807.2. They shall maintain a register of all STs that have been brought to the attention of senior management whether or not the same was reported to the AMLC.

(Circular No. 706 dated 05 January 2011)

§ X807.4 Electronic submission of reports. The CTR and STR shall be submitted to the AMLC in a secured manner, in electronic form and in accordance with the reporting procedures prescribed by the AMLC. The covered institutions shall provide complete and accurate information of all the mandatory fields required in the report. In order to provide accurate information, the covered institution shall regularly update customer identification information at least once every three (3) years.

For the purpose of reporting in a secured manner, all covered institutions shall register with the AMLC within ninety (90) days from 27 January 2011 by directly coordinating with that office for the proper assignment of their institution code and facilitation of the reporting process. All covered institutions that have previously registered need not re-register.

Only their respective compliance officers or duly authorized officers shall electronically sign their covered transaction reports and suspicious transaction reports.

Electronic copies of CTRs and STRs shall be preserved and safely stored for at least for at least five (5) years from the dates the same were reported to the AMLC.

(Circular No. 706 dated 05 January 2011, as amended by CL-2011-078 dated 11 October 2011)

§§ X807.5 - X808
11.12.31

§ X807.5 Exemption from Bank Secrecy Laws. When reporting covered or suspicious transactions to the AMLC, covered institutions and their officers and employees shall not be deemed to have violated R.A. No. 1405, as amended, R.A. No. 6426, as amended, R.A. No. 8791 and other similar laws, but are prohibited from communicating, directly or indirectly, in any manner or by any means, to any person, the fact that a covered or suspicious transaction report was made, the contents thereof, or any other information in relation thereto. In case of violation thereof, the concerned officer and employee of the covered institution shall be criminally liable in accordance with the provision of the AMLA, as amended.

(Circular No. 706 dated 05 January 2011)

§ X807.6 Confidentiality provision
When reporting CTs and STs to the AMLC, covered institutions, their directors, officers and employees are prohibited from communicating directly or indirectly, in any manner or by any means, to any person or entity, the media, the fact that a covered or suspicious transaction report was made, the contents thereof, or any other information in relation thereto. Neither may such reporting be published or aired in any manner or form by the mass media, electronic mail, or other similar devices. In case of violation thereof, the concerned officer and employee of the covered institution and media shall be held criminally liable.

(Circular No. 706 dated 05 January 2011)

§ X807.7 Safe harbor provision
No administrative, criminal or civil proceedings shall lie against any person for having made a CTR or an STR in the regular performance of his duties in good faith, whether or not such reporting results in any criminal prosecution under the AMLA, as amended, its RIRR or any other law.

(Circular No. 706 dated 05 January 2011)

D. Record Keeping and Retention

Sec. X808 Record Keeping. All customer identification records of covered institutions shall be maintained and safely stored as long as the account exists. All transaction records, including all unusual or suspicious patterns of account activity, whether or not an STR was filed with the AMLC, of covered institutions shall be maintained and safely stored for five (5) years from the date of transaction.

Said records and files shall contain the full and true identity of the owners or holders of the accounts involved in the transactions such as the ID card and photo of individual customers and the documents mentioned in Subsec. X806.2.b for entities, customer information file, signature card of authorized signatory/ies, and all other pertinent customer identification documents as well as all factual circumstances and records involved in the transaction. Covered institutions shall undertake the necessary adequate security measures to ensure the confidentiality of such file. Covered institutions shall prepare and maintain documentation, in accordance with the aforementioned client identification requirements, on their customer accounts relationships and transactions such that any account, relationship or transaction can be reconstructed as to enable the AMLC, and/or the courts to establish an audit trail for money laundering.

Whenever a bank engaged in microfinance operations has tagged a microfinance client, as defined under BSP regulations, as low risk in accordance with Subsec. X806.1.a, the customer’s identification and transaction records shall be retained for five (5) years except that said retention period may be reduced to three (3) years provided that sufficient documents duly support the low risk profile of said

customer and the covered institutions keep a record of the names of these low risk customers after the lapse of three (3) years. This provision is subject to Subsec. X808.2 when a money laundering case is filed in court.
(Circular No. 706 dated 05 January 2011)

□ **X808.1 Closed accounts.** With respect to closed accounts, the records on customer identification, account files and business correspondences shall be preserved and safely stored for at least five (5) years from the date of closure.
(Circular No. 706 dated 05 January 2011)

□ **X808.2 Retention of records in case a money laundering case has been filed in court.** If a money laundering case, based on any report kept by the covered institution concerned, has been filed in court, said file must be retained beyond the five (5) year retention period and until it is confirmed that the case has been finally resolved or terminated by the court.
(Circular No. 706 dated 05 January 2011)

□ **X808.3 Safekeeping of records and documents.** The covered institution shall designate at least two (2) officers who will be jointly responsible and accountable in the safekeeping of all records and documents required to be retained by the AMLA, as amended, its RIRR and this Part. They shall have the obligation to make these documents and records readily available without delay during Bangko Sentral regular or special examinations.
(Circular No. 706 dated 05 January 2011)

□ **X808.4 Form of records.** Records shall be retained as originals or copies in such form as are admissible in court pursuant to existing laws, such as the E-Commerce Act and its implementing rules and regulations, and the applicable rules promulgated by the Supreme Court.
(Circular No. 706 dated 05 January 2011)

E. Training Program

Sec. X809 AML Training Program

Covered institutions shall formulate an annual AML training program aimed at providing all their responsible officers and personnel with efficient, adequate and continuous education program to enable them to fully and consistently comply with all their obligations under this Part, the AMLA, as amended, and its RIRR.

Trainings of officers and employees shall include awareness of their respective duties and responsibilities under the MLPP particularly in relation to the customer identification process, record keeping requirements and CT and ST reporting and ample understanding of the internal processes including the chain of command for the reporting and investigation of suspicious and money laundering activities.

The program shall be designed in a manner that will comprise of various focuses for new staff, front-line staff, compliance office staff, internal audit staff, officers, senior management, directors and stockholders. Regular refresher trainings shall likewise be provided in order to guarantee that officers and staff are informed of new developments and issuances related to the prevention of money laundering and terrorism financing as well as reminded of their respective responsibilities vis- -vis the covered institution s processes, policies and procedures.

Covered institution s annual AML training program and records of all AML seminars and trainings conducted by the covered institution and/or attended by its personnel (internal or external), including copies of AML seminar/training materials, shall be appropriately kept by the compliance office/unit/department, and should be made available during periodic or special Bangko Sentral examination.
(Circular No. 706 dated 05 January 2011)

F. Bangko Sentral Authority and Enforcement Actions

Sec. X810 Bangko Sentral Authority to Examine Deposits and Investments; Additional Exception to the Bank Secrecy Act; Annual Testing of Numbered Accounts. To ensure compliance with the AMLA, as amended, its RIRR, and this Part, the Bangko Sentral may inquire into or examine any deposit or investment with any banking institution or NBFI and their subsidiaries and affiliates when the examination is made in the course of a periodic or special examination, in accordance with the Rules of Examination of the Bangko Sentral.

The Bangko Sentral may likewise conduct annual testing solely limited to the determination of the existence and true identity of the owners of numbered and similar accounts.

In the course of the periodic and special examination for purposes of complying with the provisions of the AMLA, as amended, its RIRR, and this Part, the covered institutions, their officers and employees, and the Bangko Sentral, shall not be deemed to have violated the provisions of R. A. No. 1405, as amended, R.A. No. 6426, as amended, R.A. No. 8791 and other similar laws, and Subsec.X807.6 when disclosing information to Bangko Sentral relative to covered and suspicious transaction reports filed with the AMLC.

(Circular No. 706 dated 05 January 2011)

Sec. X811 Enforcement Action. In line with the objective of ensuring that covered institutions maintain high anti-money laundering standards in order to protect its safety and soundness as well as protecting the integrity of the national banking and financial system, violation of these Rules shall constitute a major violation subject to the following enforcement actions against the board of directors, senior management and

line officers, not necessarily according to priority:

- a. Written reprimand;
- b. Suspension or removal from the office they are currently holding; and/or
- c. Disqualification from holding any position in any covered institution.

In addition to the non-monetary sanctions stated above, the Bangko Sentral may also impose monetary penalties computed in accordance with existing regulations and in coordination with the AMLC.

Enforcement actions shall be imposed on the basis of the overall assessment of the covered institution s AML risk management system. Whenever a covered institution s AML compliance system is found to be grossly inadequate, this may be considered as unsafe and unsound banking practice that may warrant initiation of prompt corrective action.

To implement the enforcement action provision of this Part along with the AML Risk Rating System (ARRS), the following rules shall apply:

1. An AML Composite rating of 4 and 3 will require no enforcement action.
2. An AML composite rating of 2 to 1 will require submission by the covered institution to the AMLSG, SES, of a written action plan duly approved by the BOD aimed at correcting the noted inefficiency in BOD and SM oversight, inadequacy in AML and TF policies and procedures, weakness in internal controls and audit, and/or ineffective implementation within a reasonable period of time.

The AMLSG shall assess the viability of the plan and shall monitor the covered institution s performance.

In the event of non-submission of an acceptable plan within the deadline or failure to implement its action plan, AMLSG shall recommend appropriate enforcement actions on the covered institution and its

responsible officers including monetary penalties to be computed on a daily basis until improvements are satisfactorily implemented.

3. An AML rating of 1 shall also be considered as an unsafe and unsound banking practice. For this reason, prompt corrective action shall also be automatically initiated on the covered institution.

Monetary penalty guidelines. These guidelines are divided into three (3) parts.

Part I – *Monetary penalty matrices.* The monetary penalty matrices, where monetary penalties are categorized based on the (1) Composite rating and (2) Asset size of the Bangko Sentral covered institution.

Part II – *Guiding principles.*

1. The first step is to determine the over-all risk rating of the Bangko Sentral covered institution for purposes of identifying which penalty matrix will be used. If the Composite rating is 1 or 2, penalty matrix A or B, respectively shall be used. If the over-all rating is 3 and 4, no monetary penalty shall be imposed.

2. Second step is to establish the asset size of the Bangko Sentral covered institution as of the cut-off period of examination;

3. Third step is to identify the aggravating and mitigating factors. If the aggravating factors are more than the mitigating factors, then the maximum range shall be used. On the other hand, if the mitigating factors are more than the aggravating factors, then the minimum range shall be applied. In case there are no aggravating and mitigating factors or there is a tie, the medium range shall be used.

4. For Composite ratings of 1 and 2 where the covered institution concerned was required to submit within a reasonable period of time an acceptance plan, non-submission of the plan within the deadline or failure to implement the action plan shall be a basis for imposition of monetary

penalties computed on a daily and continuing basis from the time the covered institutions is notified until corrective measures are satisfactorily effected. The penalty may be imposed on the covered institution itself or directly on the Board of Directors as a body, or the individual directors who have direct oversight, or the line officers involved in the management of money laundering and terrorist financing prevention.

Part III – *Aggravating and mitigating factors.*

a. *Aggravating factors*

(1) *Frequency of the commissions or omissions of specific violation-* Majority of the following violations were noted:

(a) Deficient Know Your Customer process

(b) Unsatisfactory Covered Transaction reporting system

(c) Non-reporting of and Improper Suspicious Transaction reporting

(d) Non-compliance with the Record keeping requirement

(e) Inadequate AML Training Program

(f) Deficient AML Electronic system

(2) *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 examination or are under the evaluation for a long time due to pending requests or correspondences from covered institutions 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.

(3) *Continuation of offense or omission after notification-* This pertains to the persistence of an act or omission after the latest notification on the existence of the violation, either from the appropriate SES

X811 - X899
12.12.31

Group, Department 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.

(4) *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. The act of concealing an act or omission constituting the violation 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 when a covered institution s personnel purposely complicate the transaction to make it difficult to uncover or refuse to provide information and/or document that would support the violation/offense committed.

(5) *Loss or risk of loss to bank*- In asserting this factor, potential loss refers to any time at which the covered institution was in danger of sustaining a loss.

b. Mitigating factors

(1) *Good faith* - is the absence of intention to violate on the part of the erring

individual/entity.

(2) *Full cooperation*- covered institution s personnel or the covered institution immediately took action to correct the violation after it is brought to its attention either verbally or in writing.

(3) *With positive measures*- covered institution s personnel or the covered institution commits to undertake concrete action to correct the violation but is being restrained by valid reasons to take immediate action.

(4) *Voluntary disclosure of offense*- covered institution s personnel or the covered institution disclosed the violation before it is discovered in the course of a regular or special examination or off-site monitoring.

(Circular No. 706 dated 05 January 2011 as amended by M-2012-017 dated 04 April 2012)

Sec. X812 (Reserved)

Sec. X813 Separability Clause. If any provisions, sections of this Part, or its application to any person or circumstance is held invalid, the other provisions or sections of this Part, and the application of such provisions or section to other persons or circumstance shall not be affected thereby.

(Circular No. 706 dated 05 January 2011)

Secs. X814 - X899 (Reserved)

PART NINE

OTHER BANKING REGULATIONS

A. BANKING FEES/CHARGES

Section X901 (2008 - X608) Assessment Fees on Banks. Banks shall contribute to the Bangko Sentral an annual fee to help defray the cost of maintaining the appropriate department of the SES in accordance with the following guidelines. *(M-2012-010 dated 17 February 2012, M-2011-029 dated 26 May 2011)*

X901.1 (2008 - X608.1) **Annual fees on banks.** For purposes of computing the annual fees chargeable against banks, the term *Total Assessable Assets* shall be the amount referred to as the total assets under Section 28 of R.A. No. 7653 (end-of-month total assets per balance sheet, after deducting cash on hand and amounts due from banks, including the Bangko Sentral and banks abroad), plus trust department accounts.

Average Assessable Assets shall be the summation of the end-of-month total assessable assets divided by the number of months in operation during a particular assessment period.

Beginning assessable year 2013, the rates of annual fees for banks for the current year shall be, as follows:

- | | |
|-------------------|---------------|
| a. UBs/KBs | - 1/28 of 1 % |
| b. TBs | - 1/28 of 1 % |
| c. RBs/Coop Banks | - 1/40 of 1 % |

multiplied by the Average Assessable Assets of the preceding year: *Provided*, That the applicable rates for future assessable years shall be subject to review¹.

Securities held under custodianship shall be exempt from annual fees.

Annual fees to be collected from banks shall be debited from their respective deposit accounts with the Bangko Sentral by the Comptrollership Department upon receipt of the notice of the assessment from the appropriate department of the SES.

Where the deposit account is insufficient to cover the assessment fee, the Comptrollership Department shall bill the bank for the full amount of the annual fee or for the balance thereof not covered by its deposit account, as the case may be.

Within thirty (30) calendar days from receipt of the bill, the bank shall make the corresponding remittance to the BSP Accounting Department. Failure to pay the bill within the prescribed period shall subject the bank to administrative sanctions.

The guidelines in the collection of the annual supervisory fees for the year 2013 are provided in *Appendix 88*.

(As amended by M-2014-014 dated 20 March 2014, Circular No. 791 dated 03 April 2013, M-2013-015 dated 18 April 2013, M-2012-010 dated 17 February 2012, M-2011-029 dated 26 May 2011, Circular No. 714 dated 10 March 2011, M-2010-013 dated 31 May 2010, Circular No. 687 dated 21 May 2010, M-2009-046 dated 17 November 2009, M-2009-004 dated 12 February 2009 and Circular No. 643 dated 10 February 2009)

Sec. X902 (2008 - X609) Collection of Fines and Other Charges from Banks. The following regulations shall govern the payment of fines and other charges by banks.

¹ With additional special regulatory relief in areas affected by Tropical Depression Yolanda as provided under *Appendix 89a (Circular No. 820 dated 06 December 2013)*.

□ X902.1
09.12.31

□ X902.1 (2008 - X609.1) **Guidelines on the imposition of monetary penalties**

The following are the guidelines on the imposition of monetary penalties on banks, their directors and/or officers:

a. *Definition of terms.* For purposes of the imposition of monetary penalties, the following definitions are adopted:

(1) *Continuing offenses/violations* are acts, omissions or transactions entered into, in violation of laws, Bangko Sentral rules and regulations, Monetary Board directives, and orders of the Governor which persist from the time the particular acts were committed or omitted or the transactions were entered into until the same were corrected/rectified by subsequent acts or transactions. They shall be penalized on a per calendar day basis from the time the acts were committed/omitted or the transactions were effected up to the time they were corrected/rectified.

(2) *Transactional offenses/violations* are acts, omissions or transactions entered into in violation of laws, Bangko Sentral rules and regulations, Monetary Board directives, and orders of the Governor which cannot be corrected/rectified by subsequent acts or transactions. They shall be meted with one-time monetary penalty on a per transaction basis.

(3) *Continuing penalty* refers to the monetary penalty imposed on continuing offenses/violations on a per calendar day basis reckoned from the time the offense/violation occurred or was committed until the same was corrected/rectified.

(4) *Transactional penalty* refers to a one-time penalty imposed on a transactional offense/violation.

b. *Basis for the computation of the period or duration of penalty.* The computation of the period or duration of all penalties shall be based on calendar days. For this purpose the terms *per banking day*, *per business day*, *per*

day and/or *a day* as used in this Manual, and other Bangko Sentral rules and regulations shall mean *per calendar day* and/or *calendar day* as the case may be.

c. *Additional charge for late payment of monetary penalty.* Late payment of monetary penalty shall be subject to an additional charge of six percent (6%) per annum to be reckoned from the banking day immediately following the said penalty becomes due and payable up to the day of actual payment. The penalty shall become due and payable fifteen (15) calendar days from receipt of the Statement of Account from the Bangko Sentral. For banks which maintain DDA with the Bangko Sentral, penalties which remain unpaid after the lapse of the fifteen-day period shall be automatically debited against their corresponding DDA on the following banking day without additional charge. If the balance of the concerned bank's DDA is insufficient to cover the amount of the penalty, said penalty shall already be subject to an additional charge of six percent (6%) per annum to be reckoned from the banking day immediately following the end of said fifteen (15)-day period up to the day of actual payment.

d. *Appeal or request for reconsideration.* A one time appeal or request for reconsideration on the monetary penalty approved by the Governor/Monetary Board to be imposed on the bank, its directors and/or officers shall be allowed: *Provided*, That the same is filed with the appropriate department of the SES within fifteen (15) calendar days from receipt of the Statement of Account/billing letter. The appropriate department of the SES shall evaluate the appeal or request for reconsideration of the bank/individual and make recommendations thereon within thirty (30) calendar days from receipt thereof. The appeal or request

**§§ X902.1 - X903.1
09.12.31**

for reconsideration on the monetary penalty approved by the Governor/Monetary Board shall be elevated to the Monetary Board for resolution/decision. The running of the penalty period in case of continuing penalty and/or the period for computing additional charge shall be interrupted from the time the appeal or request for reconsideration was received by the appropriate department of the SES up to the time that the notice of the Monetary Board decision was received by the bank/individual concerned.

(As amended by Circular Nos. 662 dated 09 September 2009 and 585 dated 15 October 2007)

§ X902.2 (2008 - X609.2) Payment of fines by banks. Banks shall pay the fines within fifteen (15) calendar days from receipt of the statement of account from the BSP.

For banks which maintain demand deposit account with the BSP, fines which are unpaid after the lapse of the fifteen (15)-day period shall be automatically debited against the corresponding demand deposit account of the bank concerned: *Provided*, That if the balance of the bank's account is insufficient to cover the fines due, such fines shall be paid not later than the following banking day. For the purpose of this Subsection, *banking day* means a day on which the BSP head office and the head office of the bank are open for business.

For uniform implementation of the above regulations, the procedural guidelines embodied in *Appendix 29* shall be observed.

(As amended by Circular Nos. 662 dated 09 September 2009 and 585 dated 15 October 2007)

§ X902.3 (2008 - X609.3) Cost of checks and documentary stamps. Banks are given fifteen (15) days from receipt of invoice to settle their accounts with the BSP Security Printing Plant for transactions representing the cost of printed checks and documentary stamps. Accounts not settled within fifteen

(15) days will be debited against the bank's corresponding demand deposit account with the BSP. A debit advice showing invoices paid shall be sent to the head office of the bank concerned.

(As amended by Circular No. 585 dated 15 October 2007)

§ X902.4 (2008 - X609.4) Check/demand draft payments to the Bangko Sentral of thrift, cooperative and rural banks. TBs, Coop Banks and RBs shall make all check and demand draft payments for transactions other than those required to be paid through the banks DDA either to the BSP Cash Department or to BSP Regional Offices and Branches. Such payments shall be accompanied by appropriate payment form as shown in *Appendix 35*. Payments not accompanied by the required payment forms shall be presumed to be additions to reserves and shall be credited to the demand deposit account of the paying bank.

Check payments shall be value dated when the check is cleared.

(As amended by Circular Nos. 662 dated 09 September 2009 and 585 dated 15 October 2007)

**B. BANK AS COLLECTION/
REMITTANCE AGENTS**

Sec. X903 (2008 - X604) Collection of Customs Duties/Taxes/Levies and Other Revenues. The following regulations shall govern the collection and reporting of customs duties, taxes, levies and other revenues through the banking system.

§ X903.1 (2008 - X604.1) Coverage
All presently accredited agent banks with demand deposit accounts with the BSP and government banks are authorized to collect (a) customs duties, taxes and other levies, (b) import processing fees, and (c) export/premium duties: *Provided, however*, That the collection of taxes from GOCCs shall be made only through banking offices of government banks.

§§ X903.2 - X903.4
08.12.31

§ X903.2 (2008 - X604.2) Collection and reporting of internal revenue taxes
Banks which are duly accredited by the BIR to accept payment of internal revenue taxes shall be governed by the relevant BIR Revenue Regulations.

Deposits of the BIR shall be limited to those arising from tax collection.

The Authorized Agent Banks (AABs) shall transfer the deposit collection to the account of the Treasurer of the Philippines with the BSP on the sixth day from the day of deposit of the BIR collections.

§ X903.3 (2008 - X604.3) Collection and reporting of customs duties and import processing fees. Participating banks are authorized to accept payment of customs duties, taxes and other levies, and import processing fees under the following procedures:

a. The collecting bank shall acknowledge receipt of payments of customs duties, taxes and other levies, and import processing fees by issuing Official Receipts (ORs) in forms to be requisitioned by the Head Office from the General Services Division, Bureau of Customs, Manila;

b. The collecting bank shall book all such collections and credit the same to the special account “Due to BSP - Bureau of Customs”;

c. The branch shall report by telephone, telex or other means to its Head Office, at the end of each day, total collections for the day and the inclusive serial numbers of ORs issued, to be used as basis for the preparation by the Head Office of the *Consolidated Report of Daily Collections of Customs Duties, Taxes and Other Levies (RC 82-005)*;

d. The Head Office and its branches shall accomplish the *Abstract of Daily Collections of Customs Duties, Taxes and Other Levies (RC 82-006)* and submit the same, duly supported with copies of Orders

of Payment (OPs), ORs, Release Certificates (RCs) and commercial invoices on the same day to the offices indicated in the form; and

e. The Head Office of the participating banks shall consolidate all reports of collections with those of its branches and submit the original of the *Consolidated Report on Daily Collections of Customs Duties, Taxes and Other Levies (RC 82-005)* to the Comptrollership Department, BSP, Manila on the 10th calendar day following the date of collection. Simultaneously, the remaining copies shall be distributed to the offices indicated in the form.

Deposits of the BOC shall be limited to those arising from customs collection.

The AABs shall transfer the deposit collection to the account of the Treasurer of the Philippines with the BSP on the eleventh day from the day of deposit of the BOC collections.

§ X903.4 (2008 - X604.4) Collection and reporting of export/premium duties
Participating banks are authorized to accept payment of export premium duties under the following procedures:

a. The collecting bank shall deduct from the export proceeds the estimated amount of export/premium duties due from the export shipment upon negotiation of the shipping documents but shall collect the exact and correct amount of such duties upon presentation of the OP issued by the Export Coordinating Division, Bureau of Customs (For Port of Manila) or the Collector of Customs concerned;

b. The collecting bank shall issue the corresponding ORs in forms to be requisitioned by the Head Office from the General Services Division, Bureau of Customs, Manila;

c. The collecting bank shall book all such collections and credit the same to the special account “Due to BSP-Export/Premium Duty”;

d. The branch/extension office/agency shall:

(1) Report by telephone, telex or other means to its Head Office, at the end of each day, total collections for the day and the inclusive serial numbers of ORs issued, to be used as basis for the preparation by the Head Office of the *Consolidated Report on Daily Collections of Export/Premium Duty* (RC 82-007); and

(2) Accomplish the *Abstract of Daily Collections of Export/Premium Duty* (RC 82-008) and submit the same, duly supported with copies of OPs and ORs, within ten (10) calendar days from date of collection to the offices indicated in the form.

e. The Head Office of the collecting bank shall:

(1) Consolidate its report of collection with those of its branches/extension offices/agencies and submit to the Bureau of Customs the *Consolidated Report of Daily Collections of Export/Premium Duty* (RC 82-009) on the day following the date of collection; and

(2) Consolidate the *Abstract of Daily Collections of Export/Premium Duty* (RC 82-010) with those received from branches/extension offices/agencies. The original of the *Consolidated Abstract of Collection of Export/Premium Duty* (RC 82-011) shall be submitted to the Comptrollership Department, BSP, Manila, on the 10th calendar day following the date of collection.

Simultaneously, the remaining copies, with the supporting OPs and ORs, shall be submitted to the Bureau of Customs.

§ X903.5 (2008 - X604.5) Remittances thru debit/credit advices. The Comptrollership Department, BSP, Manila, shall debit the DDAs of the banks concerned for the total daily collection, which is due for remittance

on the 10th calendar day from the date of collection (based on either forms RC 82-005, RC 82-007 or RC 82-011). Said Department shall also credit on the same day the account of the Treasurer of the Philippines for all such remittances of tax collections, duties, fees and other levies.

Copies of debit/credit advices to AABs shall be furnished by the Comptrollership Department, BSP.

§ X903.6 (2008 - X604.6) Reconciliation of revenue collections. The Bureau of Customs shall report to the appropriate department of the SES, BSP, Manila, any unreported collection or other discrepancies discovered for proper examination. The BSP shall take appropriate action, through the Comptrollership Department, either by debiting or crediting the DDA of the bank concerned, upon advice by the appropriate department of the SES on the results of the investigation.

§ X903.7 (2008 - X604.7) Penalty for willful delay on the reporting of collections/remittances. In the event the Bureau of Customs shall discover, in the course of its verification, any willful delay in the reporting of collections and remittances by banks, said Bureau shall advise the Comptrollership Department of the BSP to debit the DDA of the bank concerned with the corresponding penalty therefor, in accordance with Subsec. X903.8.

§ X903.8 (2008 - X604.8) Fines for delayed reports/remittances of collections Any bank authorized to collect customs duties, taxes and other levies and export/premium duty, which shall willfully delay the submission of reports and remittance of its collection to the BSP within the period prescribed thereon, shall pay fines in accordance with the following schedule:

§§ X903.8 - X903.10
 09.12.31

| | Per delay in submission of report | For delay in remittance of collection |
|--|-----------------------------------|--|
| a. Per day of default for the first 5 days of default | P 60 plus | 1/30 of 1% on the amount of delayed remittance |
| b. Per day of default for the next 5 days of default | P 90 plus | 1/15 of 1% on the amount of delayed remittance |
| c. Per day of default for the succeeding days of default | P 120 plus | 1/10 of 1% on the amount of delayed remittance |

Provided, That:

- (1) Fines imposed above shall not be in excess of P30,000 a day;
- (2) The default shall start to run on the day following the last day required for submission of the report or remittance, as the case may be. However, should the last day of filing fall on a non-banking day in the locality where the reporting bank is situated, the default shall start on the day following the next banking day; and
- (3) The manner of payment or collection of fines enumerated under Subsec. X902.1 shall apply.

(As amended by Circular No. 585 dated 15 October 2007)

§ X903.9 (2008 - X604.9) **Liquidity floor requirement on revenue collections**
 Revenue collections of AABs shall be subject to the liquidity floor requirement under Subsec. X240.6.

§ X903.10 (2008 - X604.10) **Collection of import duties at the time of opening of letters of credit.** The following rules and regulations shall govern the collection of import duties at the time of opening of letters of credit (LC) covering imports and for other purposes:

Under Non-e2m ports

- a. *Collection of deposits of import duties.* All FIs shall, upon opening of the LC

- covering imports, collect from the applicant/importer a deposit equivalent to the full amount of import duties due on the importation covered by such LC. The deposit shall not be withdrawable and shall be utilized only by crediting the same to the import duties due on the importation.
- b. *Amount of import duties.* The import duties due shall be determined and declared by the applicant for the LC subject to the penalties prescribed under the Tariff and Customs Code.
 - c. *Other payment arrangements.* The requirement of a deposit shall likewise apply even if the importation is effected under other types of payment arrangements or on a deferred payment basis. The deposit should be made upon presentation of the import documents to the agent bank.
 - d. *Validation of official receipt.* Such deposits shall be validated by official receipts of the FIs concerned and shall be credited in the final computation of the import duties, taxes and other charges due on the importation, upon the filing of the corresponding import entry.
 - e. *Collection of deficiency and refund of excess deposits.* Any deficiency in the deposit made as against the actual import duties, taxes and other charges due on the importation shall be collected by the Bureau of Customs from the importer prior to the release or withdrawal of the shipment. Any excess deposit shall be refunded by the Bureau of Customs to the importer.
 - f. *Remittance of collection.* The BSP DDA of the FIs concerned shall be debited for the deposits collected, in accordance with Subsec. X903.5
- Under e2m ports
- a. *Collection of deposits of import duties.* All FIs shall, prior to opening of the LC covering imports, collect from the applicant/importer a deposit equivalent to the full amount of advance import duties

due on the importation covered by such LC. The deposit which shall be effected through an electronic Import Entry Declaration (IED) lodged thru a Value Added Service Provider (VASP), shall not be withdrawable and shall be utilized only by crediting the same to the import duties due on the importation.

b. *Amount of advance deposit.* The import duties due shall be computed by the Electronic to Mobile (e2m) system based on the applicant's declared descriptions, ASEAN Harmonized Tariff Nomenclature (AHTN), quantities and values in the IED. The LC applicant must ensure that the particulars of the LC application and the supporting pro-forma invoice correspond to those declared in the IED and any undervaluation, misclassification and misdeclaration in the IED shall subject the LC applicant to the penalties prescribed under Section 2503 of the Tariff and Customs Code, as amended. The amount payable to the AAB, which shall be the full advance duty payable on the importation taking into account exemptions obtained, shall be notified to the AAB thru an electronic Advance Deposit Payment Instruction (ADPI).

The net amount payable must be paid within the IED validity period which is reckoned as seven (7) calendar days from date the payment instruction is generated by the e2m system. Beyond the validity period, the IED status will be indicated as expired. For expired IEDs, AABs shall not accept payment. Importers will have to file a new IED.

c. *Duty exempt imports.* If the importer/applicant declares in the IED that the importation is exempt from duties, such claim shall be taken at face value in the determination by the Bureau of Customs (BOC) of the amount of advance deposit. However, AABs shall, as a requirement for the opening of the LC, require from the applicant a sworn

statement to the effect that it is duty-exempt and citing the specific basis/authority of such exemption, supported by a copy of the applicable certification/approval/letter of authority of the government agency concerned.

d. *Transmittal of the ADPI to the AABs.* The ADPI shall be transmitted by the BOC to the PCHC Payment Gateway which shall have responsibility for forwarding the same to the AAB concerned.

e. *Collection by debit from designated bank account.* The collection of the advance deposit as well as of the final duties, taxes and other charges payable on the importation shall be by debit from the applicant's bank account designated in the ADPI or in the Final Payment Instruction (FPI) and credited to the BOC's account.

f. *Validation of advance deposits.* Payment of advance deposits shall be validated by official receipts, such as electronic Advance Payment Confirmations (APC) prepared and transmitted by the AAB using the payment subsystem of the e2m system via the PCHC Payment Gateway.

g. *Other payment arrangements.* The requirement of a deposit as stated in Item a hereof shall likewise apply even if the importation is effected under other types of payment arrangements or on a deferred payment basis. The deposit should be made upon presentation of the import documents to the AAB.

h. *Confirmation of advance duties collected.* The e2m system shall provide the importer's VASP the APC. The VASP shall in turn notify the importer by e-mail of its receipt of the APC and provide the importer a printed copy thereof upon request.

i. *Collection of final duties and tax payable.* The final duties and tax payable as computed by the e2m system shall be

X903.10 - X906
14.12.31

notified to the AAB concerned thru an electronic FPI. After collecting the amount in the FPI, the AAP shall transmit to BOC via the PCHC Payment Gateway a Final Payment Confirmation (FPC).

j. *Statement of duties and taxes availment (SDTA).* Upon receipt of the FPC from the AAB, the BOC shall provide the importer electronically an SDTA which shall be his proof of having settled all duties, taxes, and other charges on the importation.

k. *Phased implementation.* The e2m system shall be rolled out nationwide in phases. Importations to be cleared thru Customs Collection Districts already operating the e2m system shall be paid thru payment system prescribed under this Section. However, importations to be cleared thru non-e2m customs ports shall follow the old payment system during the migration period.

Violations. Any violation of the provisions of this Subsection shall be penalized under the pertinent provisions of the Tariff and Customs Code of the Philippines, as amended, and/or under Section 37 of Republic Act No. 7653.

(As amended by Circular No.638 dated 09 January 2009)

Sec. X904 Collection Agents of the Social Security System. Banks duly accredited by the SSS are authorized to act as collection agents under which agency, members of the SSS may pay their contributions for social security and employees compensation to the SSS through the said banks. Such banks are also authorized to receive from SSS members amortization payments for loans granted by the SSS and such other payments due to SSS.

The funds thus collected shall be remitted to the SSS within the period prescribed by the SSS. Any form of business/compensation arrangement to the collection agents shall be in accordance with the terms and conditions agreed upon by the parties.

The funds collected by banks shall be handled by the bank proper and not the trust department: *Provided, however,* That such deposits shall be subject to the reserve requirements and the liquidity floor requirements on government deposits.

(As amended by Circular Nos. 831 dated 02 May 2014 and 722 dated 17 May 2011)

Sec. X905 (2008 - X605.3) Collection Agents of PhilHealth. Banks are authorized to act as collecting agents of the Philippine Health Insurance Corporation (PhilHealth) under which agency:

a. PhilHealth members may pay their premium contributions to PhilHealth through the said banks and the funds thus collected shall be remitted to PhilHealth in accordance with PhilHealth s agreed remittance schedule which in no case shall exceed thirty (30) days from receipt thereof;

b. During the period that such premium contributions are in the custody of banks, such funds shall not earn interest; and

c. The banks shall not collect from PhilHealth any service charge for such agency.

The funds collected by the banks shall be handled by the operating departments (cash departments) of the banks concerned and not their trust operations: *Provided, however,* That such funds shall be subject to the reserve requirement on deposits and to the liquidity floor on government deposits.

Sec. X906 (2008 - X660) Disclosure of Remittance Charges and Other Relevant Information. It is the policy of the Bangko Sentral to promote the efficient delivery of competitively-priced remittance services by banks and other remittance service providers by promoting competition and the use of innovative payment systems, strengthening the financial infrastructure,

enhancing access to formal remittance channels in the source and destination countries, deepening the financial literacy of consumers, and improving transparency in remittance transactions, consistent with sound banking practices.

Towards this end, banks providing overseas remittance services shall disclose to the remittance sender and to the recipient/beneficiary, the following minimum items of information regarding remittance transactions, as defined herein:

- a. *Transfer/remittance fee* - charge for processing/sending the remittance from the country of origin to the country of destination and/or charge for receiving the remittance at the country of destination;
- b. *Exchange rate* - rate of conversion from foreign currency to local currency, e.g., peso-dollar rate;
- c. *Exchange rate differential/spread* - foreign exchange mark-up or the difference between the prevailing BSP reference/guiding rate and the exchange/ conversion rate;
- d. *Other currency conversion charges* - commissions or service fees, if any;
- e. *Other related charges* - e.g., surcharges, postage, text message or telegram;
- f. *Amount/currency paid out in the recipient country* - exact amount of money the recipient should receive in local currency or foreign currency; and
- g. *Delivery time to recipients/beneficiaries* - delivery period of remittance to beneficiary stated in number of days, hours or minutes.

Banks shall likewise post said information in their respective websites and display them prominently in conspicuous places within their premises and/or remittance/service centers.

(Circular No. 534 dated 26 June 2006)

Secs. X907 - X930 (Reserved)

C. CREDIT RATING AGENCIES

Sec. X931 (2008 - X654) Recognition and Derecognition of Domestic Credit Rating Agencies for Bank Supervisory Purposes

The following regulations shall govern the recognition and derecognition of domestic credit rating agencies (CRAs) for bank supervisory purposes.

§ X931.1 (2008 - X654.1) Statement of policy. The introduction in the financial market of new and innovative products create increasing demand for and reliance on CRAs by the industry players and regulators as well. As a matter of policy, the BSP wants to ensure that the reliance on credit ratings is not misplaced. The following rules and regulations that shall govern the recognition/derecognition of domestic CRAs for bank supervisory purposes.

§ X931.2 (2008 - X654.2) Minimum eligibility criteria. Only ratings issued by CRAs recognized by the BSP shall be considered for BSP bank supervisory purposes. The BSP, through the Monetary Board, may officially recognize a credit rating agency upon satisfaction of the following requirements:

- a. *Organizational structure*
 - (1) A domestic CRA must be a duly registered company under the SEC; and
 - (2) A domestic CRA must have at least five (5) years track record in the issuance of reliable and credible ratings. In the case of new entrants, a probationary status may be granted: *Provided*, That the CRA employs professional analytical staff with experience in the credit rating business.
- b. *Resources*
 - (1) Human Resources
 - (a) The size and quality of the CRA's professional analytical staff must have the capability to thoroughly and competently

§ X931.2
08.12.31

- evaluate the assessed/rated entity’s creditworthiness;

(b) The size of the CRA’s professional analytical staff must be sufficient to allow substantial on-going contact with senior management and operational levels of assessed/rated entities as a routine component of the surveillance process;

(c) The CRA shall establish a Rating Committee composed of adequately qualified and knowledgeable individuals
- in the rating business, majority of whom must have at least five (5) years experience in credit rating business;

(d) The directors of the CRA must possess a high degree of competency equipped with the appropriate education and relevant experience in the rating business;

(e) The directors, officers, members of the rating committee and professional analytical staff of the CRA have not at any time been convicted of any offense

(Next page is Part IX - Page 9)

involving moral turpitude or violation of the Securities Regulation Code; and

(f) The directors, officers, members of the rating committee and professional analytical staff of the CRA are not currently involved as a defendant in any litigation connected with violations of the Securities Regulation Code nor included in the BSP watchlist.

(2) Financial resources

(a) The CRA must have the financial capability to invest in the necessary technological infrastructure to ensure speedy acquisition and processing of data/information and timely release of reliable and credible ratings; and

(b) The CRA must have financial independence that will allow it to operate free from economic and political pressures.

c. *Objectivity*

(1) The CRA must use a rigorous and systematic assessment methodology that has been established for at least one (1) year; however, a three (3)-year period is preferable;

(2) The assessment methodology of the CRA must be based both on qualitative and quantitative approaches; and

(3) The CRA must use an assessment methodology that is subject to on-going review and is responsive to changes in the operations of assessed/rated entities.

d. *Independence*

(1) The CRA must be free from control of and undue influence by the entities it assesses/rates;

(2) The assessment process must be free from ownership pressures to allow management to exercise independent professional judgement;

(3) Persons directly involved in the assessment process of the CRA are free from conflicts of interest with assessed/rated entities; and

(4) The CRA does not assess/rate an associate entity.

e. *Transparency*

(1) A general statement of the assessment methodology used by the CRA should be publicly available;

(2) The CRA shall disseminate to the public thru a well-circularized publication, all assigned ratings disclosing whether the rating issued is solicited or unsolicited;

(3) The rationale of ratings issued and risk factors considered in the assessment should be made available to the public;

(4) The ratings issued by the CRA should be available both to domestic and foreign institutions with legitimate interest; and

(5) Publication of changes in ratings together with the basis for the change should be done on a timely basis.

f. *Disclosure requirements*

(1) Qualitative disclosures

(a) Definition of ratings along with corresponding symbols;

(b) Definition of what constitutes a default, time horizon within which a default is considered and measure of loss given a default; and

(c) Material changes within the CRA (i.e., changes in management or organizational structure, rating personnel, modifications of rating practices, financial deterioration) that may affect its ability to provide reliable and credible ratings.

(2) Quantitative disclosures

(a) Actual default rates experienced in each rating category; and

(b) Rating transitions of assessed/rated entities over time (i.e., likelihood of an AAA credit rating transiting to AA etc. over time).

g. *Credibility*

(1) The CRA must have a general reputation of high standards of integrity and fairness in dealing with its clients and conducts its business in an ethical manner;

(2) The CRA is generally accepted by predominant users in the market

§§ X931.2 - X931.3
08.12.31

(i.e., issuers, investors, bankers, financial institutions, securities traders); and

(3) The CRA must carry out its rating activities with due diligence to ensure ratings are fair and appropriate.

For purposes of this Section, a subsidiary refers to a corporation, more than fifty percent (50%) of the voting stock of which is owned or controlled directly or indirectly by the CRA while an affiliate refers to a corporation, not more than fifty percent (50%) but not less than ten percent (10%) of the voting stock of which is owned or controlled directly or indirectly by the CRA.

“Control” exists when the parent owns directly or indirectly through subsidiaries 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;

(d) power to cast the majority votes at meetings of the board of directors or equivalent governing body; or

(e) any other arrangement similar to any of the above.

h. *Internal compliance procedures*

(1) The CRA must have the necessary internal procedures to prevent misuse or unauthorized disclosure of confidential/non-public information; and

(2) The CRA must have rules and regulations that prevent insider trading and other conflict of interest situations.

§ X931.3 (2008 - X654.3) Pre-qualification requirements

The application of a domestic CRA for BSP recognition shall be submitted to the appropriate department of the SES of the BSP together with the following information/documents:

a. *An undertaking*

(1) That the CRA shall comply with regulations, directives and instructions which the BSP or other regulatory agency/body may issue from time to time; and

(2) That the CRA shall notify the BSP in writing of any material changes within the organization (i.e., changes in management or organizational structure, rating personnel, modifications of its rating practices, financial deterioration) that may affect its ability to provide reliable and credible ratings.

b. *Other documents/information:*

(1) Brief history of the CRA, major rating activities handled including information on the name of the client, type of instruments rated, size and year of issue;

(2) Audited financial statements for the past three (3) years and such other information as the Monetary Board may consider necessary for selection purposes;

(3) For new entrants, employment of professional analytical staff with experience in the credit rating business;

(4) List of major stockholders/partners (owning at least ten percent (10%) of the voting stocks of the CRA directly or along with relatives within the 1st degree of consanguinity or affinity);

(5) List of directors, officers, members of the rating committee and professional analytical staff of the CRA; including their qualifications, experience related to rating activities, directorship and shareholdings in the CRA and in other companies, if any;

(6) List of subsidiaries and affiliates including their line of business and the nature of interest of the CRA in these companies;

(7) Details of the denial of a previous request for recognition, if any (i.e., application date, date of denial, reason for denial etc.); and

(8) Details of all settled and pending litigations connected with the securities market against the CRA, its directors, officers, stockholders, members of the rating committee and professional analytical staff, if any.

§ X931.4 (2008 - X654.4) Inclusion in Bangko Sentral list. The BSP will regularly circularize to all banks and NBFIs an updated list of recognized CRAs. The BSP, however, shall not be liable for any damage or loss that may arise from its recognition of CRAs to be engaged by users.

§ X931.5 (2008 - X654.5) Derecognition of credit rating agencies

a. *Grounds for derecognition.* Credit rating agencies may be derecognized from the list of BSP recognized CRAs under the following circumstances:

(1) Failure to maintain compliance with the requirements under Subsec. X931.2 or any willful misrepresentation in the information/documents required under Subsec. X931.3;

(2) Involvement in illegal activities such as ratings blackmail; creation of a false market or insider trading; divulging any confidential information about a client without prior consent to a third party without legitimate interest; indulging in unfair competition (i.e., luring clients of another rating agency by assuring higher ratings etc.); and

(3) Any violations of applicable laws, rules and regulations.

b. *Procedure for derecognition.* A CRA shall only be derecognized upon prior notice and after being given the opportunity to defend itself.

§ X931.6 (2008 - X654.6) Recognition of PhilRatings as domestic credit rating agency for bank supervisory purposes

Credit ratings assigned by Philippine Rating Services Corporation (PhilRatings) may be used, among others, for determining appropriate risk weights in ascertaining compliance with existing rules and regulations on risk-based capital requirements.

Sec. X932 (2008 - X659) Internationally Accepted Credit Rating Agencies

Internationally accepted CRAs are recognized for bank supervisory purposes to undertake local and national ratings: *Provided*, That said CRAs shall have at least a representative office in the Philippines. Accordingly, credit ratings assigned by said CRAs may be used, among others, as basis for determining appropriate risk weights in ascertaining compliance with existing rules and regulations on risk-based capital requirements.

§ X932.1 (2008 - X659.6) Recognition of Fitch Singapore Pte., Ltd. as International credit rating agency for bank supervisory purposes.

The national or domestic credit ratings of Fitch Singapore Pte. Ltd., a BSP-recognized international credit rating agency with representative office in the Philippines, is hereby recognized by the BSP for bank supervisory purposes. Accordingly, national or domestic credit ratings assigned by Fitch Singapore Pte. Ltd. may be used, among others, as basis for determining appropriate risk weights in ascertaining compliance with existing rules and regulations on risk-based capital requirements.

§§ X933 - § X934.3
10.12.31

Sec. X933 (Reserved)

Sec. X934 Recognition and Derecognition of Microfinance Institution Rating Agencies

The following regulations shall govern the recognition and derecognition of Microfinance Institution Rating Agencies (MIRA) that provide ratings for banks with microfinance operation.

(Circular No. 685 dated 07 April 2010)

§ X934.1 Statement of policy. Third-party ratings of FIs provide an independent assessment which will ultimately benefit stakeholders, including the management of the covered FI. For microfinance institutions, the enhanced transparency and independent assessment can materially improve access to capital of qualified institutions and generate a useful benchmark vis-à-vis other microfinance institutions. As a matter of policy, the BSP supports an enabling environment for the appropriate use of objective, credible and competent third-party ratings of microfinance institutions.

(Circular No. 685 dated 07 April 2010)

§ X934.2 Pre-qualification requirements

The application of a MIRA for BSP recognition shall be submitted to the appropriate department of the SES together with the following information/documents:

- a. An undertaking that:
 - 1. the MIRA shall comply with regulations, directives and instructions which the BSP may issue from time to time; and
 - 2. the MIRA shall notify the BSP in writing of any material changes within the organization (such as but not limited to changes in management or organizational structure, rating personnel, modifications of its rating practices and financial deterioration) that may affect its ability to provide reliable and credible ratings.
- b. Other documents/information:

1. Brief history of the MIRA, major rating activities handled including information on the name of the client, type of instruments rated, size and year of issue;

2. Audited financial statements for the past three (3) years and such other information that may be considered relevant for selection purposes;

3. List of major stockholders/partners (owning at least ten percent (10%) of the voting stocks of the MIRA directly or together with relatives within the 1st degree of consanguinity or affinity);

4. List of directors, officers, members of the rating committee and professional analytical staff of the MIRA; including their qualifications, experience related to rating activities, directorship and shareholdings in the MIRA and in other companies, if any;

5. List of subsidiaries and affiliates including their line of business and the nature of interest of the MIRA in these companies;

6. Details of the denial of a previous request for recognition, if any (such as application data, date of denial, reason for denial, etc.); and

7. Details of all previous and pending litigations connected with the securities market against the MIRA, its directors, officers, stockholders, members of the rating committee and professional analytical staff, if any.

(Circular No. 685 dated 07 April 2010)

§ X934.3 Minimum eligibility criteria

The BSP will review the application based on the following basic principles:

1. The proposed rating framework that will be used by the applicant-MIRA reflects all the material facets of microfinance operations, its attendant risks and operational challenges; and

2. The applicant-MIRA demonstrates

the technical capability, experience and organization to provide microfinance ratings that are objective, credible and transparent.

Based on the above principles, the BSP, through the Monetary Board, may officially recognize a MIRA upon satisfaction of the following requirements. The official recognition shall be valid for a period of three (3) years and may be renewed upon assessment that the following requirements are satisfied.

a. Organizational structure

1. A MIRA must be duly registered with the SEC and have the necessary permits to operate;

2. A MIRA must have at least five (5) years track record in the issuance of reliable and credible ratings with particular experience in microfinance; and

3. An international MIRA that will undertake local ratings shall have a representative office in the Philippines.

b. Resources

1. Human resources

(a) A MIRA must be staffed by full-time analysts who have the demonstrated capability to competently assess the credit-worthiness of a microfinance institution (MFI). The analysts referred herein preclude support staff engaged in other functions such as, but not limited to, marketing and administration;

(b) A MIRA must have a sufficient number of analyst so as to allow substantive interaction with the senior management and operating units of the assessed/rated entities as a routine component of the surveillance process;

(c) The MIRA shall establish a Rating Committee, independent of its analysts, whose members have unquestionable expertise in the rating business, majority of whom must have at least five (5) years direct professional experience in rating institutions;

(d) The directors of the MIRA must possess a high degree of competency equipped with the appropriate education and relevant experience in the rating business;

(e) The directors, officers, members of the Rating Committee and professional analytical staff of the MIRA have not at any time been convicted of any offense involving moral turpitude or violation of the Securities Regulation Code; and

(f) The directors, officers, members of the Rating Committee and professional analytical staff of the MIRA are not currently involved as a defendant in any litigation connected with violations of the Securities Regulation Code nor included in the BSP watchlist.

2. Financial resources

(a) The MIRA must have financial capability to support viable operations such as, but not limited to, the necessary technology and infrastructure to ensure the effective processing of data/information and the timely release of reliable and credible ratings; and

(b) The MIRA must have financial independence that will allow it to operate free from economic and political pressures.

c. Objectivity

1. The MIRA must employ an assessment methodology which is accepted as a global standard. Where the MIRA uses its own proprietary framework, said methodology must have been in market use for at least three (3) years with demonstrable credibility;

2. The assessment methodology used by the MIRA must be based both on qualitative and quantitative approaches; and

3. Said assessment methodology must be subjected to periodic review to ensure that it is responsive to changes in the operations of assessed/rated entities.

d. Independence

§§ X934.3
10.12.31

- 1. The MIRA must be free from control of and undue influence by the entities it assesses/rates;
- 2. The assessment process must be free from ownership pressures to allow the management of the MIRA to exercise independent professional judgment;
- 3. Persons directly involved in the assessment process of the MIRA are free from conflicts of interest with assessed/rated entities; and
- 4. The MIRA cannot assess/rate its affiliate or subsidy or any other entity in which the MIRA has control.

For purposes of this section, a *subsidiary* refers to a corporation, more than fifty percent (50%) of the voting stock of which is owned or controlled directly or indirectly by the MIRA, while an *affiliate* refers to a corporation, not more than fifty percent (50%) but not less than ten percent (10%) of the voting stock of which is owned or controlled directly or indirectly by the MIRA.

“Control” exists when the parent owns directly or indirectly through subsidiaries more than one half (1/2) 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(1/2) or less of the voting power of an enterprise when there is:

- i. power over more than one half (1/2) of the voting rights by virtue of an agreement with other stockholders;
- ii. power to govern the financial and operating policies of the enterprise under a statute or an agreement;
- iii. power to appoint or remove the majority of the members of the board of directors or equivalent governing body;
- iv. power to cast the majority votes at meeting of the board of directors or equivalent governing body; or

- v. any other arrangement similar to any of the above.

e. Transparency

- 1. A general statement of the assessment methodology used by the MIRA should be publicly available;
- 2. The rationale of ratings issued and risk factors considered in the assessment should be made available to the public; and
- 3. The ratings issued by the MIRA should be available both to domestic and foreign institutions with legitimate interest.

f. Disclosure Requirements

1. Qualitative Disclosures

- (a) Definition of ratings along with corresponding symbols; and
- (b) Material changes within the MIRA (such as but not limited to changes in management or organizational structure, rating personnel, modification of rating practices, financial deterioration) that may affect its ability to provide reliable and credible ratings.

2. Quantitative Disclosures. Rating transitions of assessed/rated entities over time, i.e., the likelihood that the current rating of an entity will change to another rating (either higher or lower) over time.

g. Credibility

- 1. The MIRA must have a general reputation of high standards of integrity and fairness in dealing with its clients and conducts its business in ethical manner;
- 2. The MIRA is generally accepted by predominant users in the market (i.e., issuers, investors, bankers, FIs, securities traders); and
- 3. The MIRA must carry out its rating activities with due diligence to ensure ratings are fair and appropriate.

h. Internal compliance procedures

- 1. The MIRA must have the necessary internal procedures to prevent misuse or unauthorized disclosure of confidential/non-public information; and

2. The MIRA must have rules and regulations that prevent insider trading and other conflict of interest situations.
(Circular No. 685 dated 07 April 2010)

- ▣ **X934.4 Derecognition of MIRA**
- a. Grounds for derecognition. MIRAs may be derecognized, upon evaluation of the appropriate department of the SES, under the following circumstances:
1. Any willful misrepresentation and/or falsification of information/documents required under this Section.
 2. Failure to maintain compliance with the requirements under this Section.
 3. Involvement in illegal activities such as ratings blackmail; creation of a false market or insider trading; divulging any confidential information about a client without prior consent to a third party without legitimate interest; indulging in unfair competition (such as luring clients of another rating agency by assuring higher ratings, etc.)
 4. Failure to deliver credible, objective and transparent ratings as prescribed in this Section; and
 5. Any violation of applicable laws, rules and regulations.
- b. Procedure for derecognition. A MIRA shall only be derecognized upon prior notice and after being given the opportunity to defend itself.

(Circular No. 685 dated 07 April 2010)

Secs. X935 - X946 (Reserved)

Sec. X947 (2008 - X632) Prohibition on the Sale of Foreign-Based Mutual Funds by Banks. Criminal and administrative sanctions prescribed under Sections 36 and 37, respectively, of R.A. No. 7653 (The New Central Bank Act) shall be imposed on banks marketing/selling foreign-based mutual funds using any or all of their

branches as outlets and/or selling such financial products without prior Bangko Sentral approval.

Sec. 1948 (2008 - 1650) Offering in the Philippines of Products by Parent Bank and Branches Abroad of the Parent Bank Philippine branches and subsidiaries of foreign banks shall:

- a. Inform/notify the Bangko Sentral if their parent bank and/or branches abroad of their parent bank offer or market products in the Philippines, either through electronic means (website) or through its local desks (within bank premises); and
- b. In cases when there are products being offered, to submit to the appropriate department of the SES within ten (10) banking days from receipt of Circular Letter dated 12 April 2005, the list of products offered/marketed, the corresponding manuals containing the policies and procedures, the flow chart of transaction and the risk management system for each particular product.

Sec. 2948 (Reserved)

Sec. 3948 (Reserved)

Sec. X949 (Reserved)

D. PHILIPPINE & FOREIGN CURRENCY NOTES & COINS

Sec. X950 (2008 - X610) Philippine and Foreign Currency Notes and Coins. The following rules and regulations shall govern the treatment and disposition of counterfeit Philippine and foreign currency notes and coins, the reproduction and/or use of facsimiles of legal tender Philippine currency notes and coins, the replacement and redemption of legal tender Philippine currency notes and coins considered

X950 - X950.2
14.12.31

mutilated or unfit for circulation, and the treatment and disposition of Philippine currency notes and coins called in for replacement.

The guidelines and procedures governing currency deposits and withdrawals of banks for credit to and debit from their DDAs with the Bangko Sentral is provided in Appendix 80.
 (As amended by Circular No. 829 dated 13 March 2014, M-2009-021 dated 16 June 2009)

X950.1 (2008 - X610.1) Definition of terms.
 For purposes of this Section, the following terms are defined:

- a. Legal Tender Philippine Currency - Notes and coins issued and circulating in accordance with R.A No. 265, as amended, and/or R.A. No. 7653, which when offered for the payment of public or private debt must be accepted.
 - b. Counterfeit Note - An imitation of a legal and genuine note intended to deceive or to be taken for that which is original, legal and genuine.
 - c. Counterfeit Coin - An imitation or forged design of a genuine and legal coin regardless of its intrinsic value or metallic composition, intended to deceive or pass for the genuine coin.
 - d. Unauthorized Reproduction of Legal Tender Philippine Note - A reproduction of a facsimile or any illustration or object bearing the likeness or similitude of legal tender Philippine currency note or any part thereof, without prior authority from the Governor of Bangko Sentral or his duly authorized representative.
 - e. Unauthorized Reproduction of Legal Tender Philippine Coin - A reproduction of a facsimile or any object in metal form bearing the likeness or similitude of legal tender Philippine currency coin or any part thereof, without prior authority from the Governor of Bangko Sentral or his duly authorized representative.
- (As amended by Circular No. 829 dated 13 March 2014)

X950.2 (2008 - X610.2) Treatment and disposition of counterfeit Philippine and foreign currency notes and coins

Any person or entity, public or private, who receives or takes hold of a note or coin which is counterfeit or whose genuineness is questionable, whether Philippine or foreign currency, shall issue a temporary receipt to its owner/holder and must indicate therein his name, address and community tax certificate number or a reference number sourced from any Philippine government-issued ID or passport number, or in case of a foreigner, the date of receipt, the denomination, serial number of the note or the coin series as the case may be. The owner/holder shall be required to countersign the receipt and in case of refusal, the reason shall be stated in the receipt.

Any person or entity, public or private, who receives, takes hold or has in his possession a note or a coin which is counterfeit or whose genuineness is questionable, whether Philippine or foreign currency, shall forward the same within five (5) working days from date of receipt/possession thereof, together with a copy of the temporary receipt required herein for examination to:

THE CURRENCY ISSUE AND INTEGRITY OFFICE
Security Plant Complex
Bangko Sentral ng Pilipinas
East Avenue, Diliman
1101 Quezon City

In cases where personal delivery to the Currency Issue and Integrity Office (CIIO), Bangko Sentral ng Pilipinas, Quezon City, is not feasible, delivery of the aforestated notes or coins may be made through any of the following agencies:
 (1) The Bangko Sentral Regional Offices/Branches; or

(2) Any banking institution under the supervision of the Bangko Sentral.

Any law enforcement agency which conducted any seizure of notes and coins, whether Philippine or foreign, which are counterfeits or suspected to be counterfeit currency, shall within five (5) working days from date of seizure, advise in writing the CIO, Bangko Sentral ng Pilipinas, Quezon City of said seizure enclosing therewith a copy of the receipt and inventory taken on the seized items. All seized notes or coins which are not or no longer needed as evidence in any investigation/legal proceedings shall be immediately turned over to the CIO, Bangko Sentral ng Pilipinas, for proper disposition.

The CIO, Bangko Sentral ng Pilipinas, after examining all notes and coins, whether Philippine or foreign, submitted to it for examination and/or determination as to its genuineness, shall:

- (a) Issue a corresponding certification for the currency examined, if needed;
- (b) Stamp the word COUNTERFEIT on both the front and the back of each note found to be counterfeit; and
- (c) Return to the owner/holder, and/or sender the Philippine or foreign currency notes or coins found to be genuine in accordance with existing accounting and auditing regulations.

All notes and coins, whether Philippine or foreign, determined by the CIO, Bangko Sentral ng Pilipinas, to be counterfeit currency, shall not be returned to the owner/holder, but shall be retained and later disposed of in accordance with such guidelines as may be adopted by the Bangko Sentral, except those which will be used as evidence in an investigation or legal proceedings, in which case, the same shall be retained and preserved by the Bangko Sentral for evidentiary purposes.

The Bangko Sentral shall extend assistance as may be requested of it in the investigation, apprehension and/or prosecution of person/s responsible for counterfeiting of notes and coins, both Philippine or foreign.

(As amended by Circular No. 829 dated 13 March 2014)

☐ **X950.3 (2008 - X610.3) *Reproduction and/or use of facsimiles of legal tender Philippine currency notes.*** No person or entity, public or private, shall design, engrave, print, make or execute in any other manner, or utter, issue, distribute, circulate or use any handbill, advertisement, placard, circular, card, or any other object whatsoever bearing the facsimile, likeness or similitude of any legal tender Philippine currency note, or any part thereof, whether in black and white or any color or combination of colors, without prior authority therefor having been secured from the Governor, Bangko Sentral or his duly authorized representative.

The reproduction and/or use of facsimiles or any illustration bearing the likeness or similitude of legal tender Philippine currency notes referred to above may be authorized by the Governor, Bangko Sentral, or his duly authorized representative, for printed illustrations in articles, books, journals, newspapers, or other similar materials and strictly for numismatic, educational, historical, newsworthy or other purposes which will maintain, promote or enhance the integrity and dignity of said note: *Provided, however,* That any such facsimile or illustration shall be of a size less than three-fifths (3/5) or more than one and one-half (1-1/2) times in size of the currency note being illustrated and that there will be no deviation from the purpose for which the notes will be used.

(As amended by Circular No. 829 dated 13 March 2014)

X950.4 - X950.5
14.12.31

X950.4 (2008 - X610.4) **Reproduction and/or use of facsimiles of legal tender Philippine currency coins.** No person or entity, public or private, shall design, engrave, make or execute in any other manner, or use, issue, distribute any object whatsoever bearing the likeness or similitude as to design, color or the inscription thereon of any legal tender Philippine currency coin or any part thereof, in metal form, irrespective of size and metallic composition, without prior authority from the Governor, Bangko Sentral or his duly authorized representative.

The reproduction and/or use of facsimiles or of any object bearing the likeness or similitude of legal tender Philippine currency coins referred to above may be authorized by the Governor, Bangko Sentral, or his duly authorized representative, strictly for numismatic, educational, historical and other purposes which will maintain, promote or enhance the integrity and dignity of said coins.
(As amended by Circular No. 829 dated 13 March 2014)

X950.5 (2008 - X610.5) **Clean note and coin policy.** To effect an expeditious withdrawal from circulation of unfit Philippine currency notes classified under Subsec. X950.6, banks and their branches shall observe the following guidelines and procedures when making cash deposits with the Cash Department (CD) or any of the Regional Offices/Branches of the Bangko Sentral.

a. Banks shall classify their cash deposits according to: (1) clean or fit notes and (2) dirty or unfit notes, in accordance with the *Currency Guide for Bank Tellers, Money Counters and Cash Custodians* prepared by CIO, Bangko Sentral. The notes thus classified shall be further sorted by series and by denomination.

b. Banks shall provide securely sealed bags or containers separately for the clean or fit notes and for the dirty or unfit notes accompanied by a deposit slip for each type/category. The deposit slip for the unfit currency notes shall be clearly labelled as *unfit*.

c. To facilitate handling of deposits, banks' deposits shall be packed in sealed bags or containers in standard quantity of twenty (20) full bundles per denomination (each bundle containing 1,000 notes in ten (10) equal straps, each strap containing 100 notes).

d. Provincial branches of banks may make direct deposits of currency notes, duly identified and sorted, with the nearest Bangko Sentral Regional Office/Branch. In areas where there are no Bangko Sentral Regional Offices/Branches, provincial branches of banks shall arrange with their respective Head Offices the shipment of their unfit or dirty notes for deposit with the CD, Bangko Sentral in Quezon City. Cost of shipment and other related expenses to be incurred shall be solely for the account of the bank concerned.

e. In order to ensure compliance with the Bangko Sentral s Clean Note Policy, banks shall incorporate measures on the implementation thereof in their compliance program.

Coins submitted by banks to Bangko Sentral for deposit/determination of redemption value shall be packed/bagged in accordance with the following procedure:

a. Coins shall be free from adhesive tapes;

b. Coins shall be sorted into fit, unfit or mutilated, per denomination and per series;

c. Each bag of coins shall contain the following standard number of pieces and amount per denomination:

| Denomination | Pieces Per Bag | Amount Per Bag |
|--------------|----------------|----------------|
| 10-piso | 1,200 | 12,000.00 |
| 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 |

Provided, however, That in the case of unfit or mutilated coins, these could be packed in amounts of One Thousand Pesos (P1,000.00) for denomination 10-,5-, and 1-piso; and fifty pesos (P50.00) for 25-, 10-, 5-, and 1-sentimo.

The CD and the Regional Offices/Branches of Bangko Sentral may refuse acceptance of cash deposits that do not conform to these guidelines and procedures.
 (As amended by Circular No. 829 dated 13 March 2014)

X950.6 (2008 - X610.6) Replacement and redemption of legal tender Philippine currency notes and coins considered mutilated or unfit for circulation

a. *Unfit currency note.* A currency note shall be considered unfit for circulation when:

- (1) It contains heavy creases which break the fiber of the paper and indicate that disintegration has begun; or
- (2) It is badly soiled/contaminated and/or with writings even if it has proper life or sizing; or
- (3) It presents a limp or raglike appearance and/or it can not sustain its upright position when held at the mid portion of one of the shorter borders.

b. *Mutilated currency note.* A currency note shall be considered mutilated when:

- (1) Torn parts of banknote are joined together with adhesive tape aimed at preserving as nearly as possible the original

- design and size of the note; or
- (2) The original size of the note has been reduced/lost through wear and tear or has been otherwise torn, damaged, defaced or perforated through action of insects, chemicals or other causes; or
- (3) It is scorched or burned to such an extent that although recognizable as such, it has become frail and brittle as to render further handling thereof impossible without disintegration or breaking; or
- (4) It is split edgewise; or
- (5) It has lost all the signatures inscribed thereon; or
- (6) The Embedded Security Thread or Windowed Security Thread placed on the banknote is lost.

c. *Unfit currency coin.* A currency coin shall be considered unfit for circulation when:

- (1) It is bent or twisted out of shape or defaced, but its genuineness and/or denomination can still be readily and clearly determined/identified; or
- (2) It has been considerably reduced in weight by natural abrasion/wear and tear.

d. *Mutilated currency coin.* A currency coin shall be considered mutilated when:

- (1) It shows signs of filing, clipping or perforation; or
- (2) It shows signs of having been burned or has been so defaced, that its genuineness and/or denomination cannot be readily and clearly identified.

e. Currency notes and coins considered unfit for circulation shall not be re-circulated, but may be presented for exchange to or deposited with any bank.

f. Banks shall accept from the public mutilated notes and coins for referral/transmittal to CIIO, Bangko Sentral – Quezon City or any of the Bangko Sentral Regional Offices/Branches for determination of redemption value. Banks may charge reasonable handling fees from clients and/or the general public relative to the handling/

¶¶ **X950.6 - X954**
14.12.31

transporting to Bangko Sentral of mutilated notes and coins.

g. The Bangko Sentral shall replace or redeem notes and coins considered unfit for circulation or mutilated except under the following conditions:

(1) Identification of notes and coins is impossible; or

(2) Coins that show signs of filing, clipping or perforations; or

(3) Notes which have lost more than two-fifths (2/5) of their surface or all of the signatures inscribed thereon; or

(4) Notes which are split edgewise resulting in the loss of the whole of or part of, either the face or back portion of the banknote paper; or

(5) Notes where the Embedded Security Thread or Windowed Security Thread placed thereon is completely lost except when the damage appears to be caused by wear and tear, accidental burning, action of water or chemical or bites of rodents/insects and the likes.

Notes and coins falling under any of the classifications mentioned under Item ¶g¶ above shall be withdrawn from circulation and demonetized without compensation to the owner/bearer.

(As amended by Circular No. 829 dated 13 March 2014)

¶ **X950.7 (2008 - X610.7) Treatment and disposition of Philippine currency notes and coins called in for replacement.** Any person or entity, public or private, who receives, takes, holds or has in his possession Philippine currency notes and coins called in for replacement shall forward the same during the redemption period to:

a. Any authorized agent banks of the Bangko Sentral when the notes are still considered legal tender, within one (1) year from the date of call; or

b. The CD or Regional Offices/Branches of the Bangko Sentral, within the redemption

period as may be determined by the Monetary Board.

The CD or Regional Offices/Branches of the Bangko Sentral shall exchange the notes/coins called in for replacement if presented to the Bangko Sentral within the redemption period as determined by the Monetary Board and subsequently dispose the same in accordance with Bangko Sentral procedures for disposal.

(As amended by Circular No. 829 dated 13 March 2014)

¶ **X950.8 (2008 - X610.8) Penalties**

Any violation of the provisions of Subsecs. X950.3 and X950.4, shall subject the offender to imprisonment of not less than five (5) years, but not more than ten (10) years. In case the Revised Penal Code provides for a greater penalty, then that penalty shall be imposed.

(As amended by Circular No. 829 dated 13 March 2014)

Secs. X951 - X953 (Reserved)

Sec. X954 Service Fee for New/Fit Note Deposits with the Bangko Sentral. The following are the guidelines on the imposition of service fee on new and fit note deposit of banks with the Cash Department (CD), Currency Management Sub-Sector (CMSS) and the Regional Offices and Branches, Regional Monetary Affairs Sub- Sector (RMAS):

a. A service fee of P100 for every 1,000 pieces of new/fit note deposits of banks shall be charged effective 04 January 2010 and 01 October 2010, respectively.

b. Banks shall issue a letter of authority in favor of the Bangko Sentral, through the CMSS to debit their respective DDA maintained with the Bangko Sentral, for the service fee on their new/fit note mixed with unfit deposits found by CD during processing using the Automated Bank Processing Machines (ABPMs);

c. New/Fit notes

(1) New notes shall be deemed to include notes in original Bangko Sentral wrappers/bundles and notes in uncirculated condition in individual bank wrappers.

(2) Fit notes shall be deemed to include:

(a) Clean notes such that the prints are clear and the genuineness is obvious;

(b) Notes without writing and/or heavy creases;

(c) Notes that can maintain their upright position when held at the mid portion of one (1) of the shorter borders; and

(d) Notes falling under Items (a) to (c) , which are found upon processing, mixed with unfit notes deposited by a bank.

Deposits of fit note falling under Item (c)(2)(d) shall be charged a service fee of P100.00 per 1,000 pieces provided that deposit of said notes of less than 1,000 pieces shall be charged the proportionate service fee of P10.00 per wrapper or fraction thereof.

Deposits of wrappers of fit notes, including those mixed with unfit notes, shall be charged the applicable service fee which shall be debited against the demand deposit account of the bank concerned with the Bangko Sentral on the day the deposits are processed by CD.

d. Banks shall continue to prepare separate deposit slip/s for new, fit and unfit notes which will serve as basis for the imposition of applicable service fees for fit and new notes.

e. The applicable service fee shall be debited against the DDA of the bank concerned with the Bangko Sentral on the day of deposit based on the deposit slip/s;

f. Banks in Metro Manila shall deposit new/fit notes in separate sealed transparent containers of twenty (20) bundles per denomination. The CD may refuse to accept mixed deposits of new, fit and unfit notes.

g. The Bangko Sentral Regional Offices and Branches may, however, accept deposit

of bundled new and fit notes packed in sealed containers in uniform quantity of twenty (20) complete bundles of one (1) various denominations.

(M-2009-044 dated 09 November 2009, as amended by M-2014-021 dated 03 May 2014, M-2010-030 dated 22 September 2010)

Secs. X955 - X959 (Reserved)

Sec. X960 Personal Equity and Retirement Account (PERA) Market Participants and PERA Investment Products. The following are the guidelines on the qualification/accreditation of PERA Market Participants and PERA Investment Products which are being issued pursuant to R.A. No. 9505, also known as the PERA Act of 2008 (PERA Act), and its implementing Rules and Regulations (the PERA Rules).

The operational guidelines on the administration of the personal equity and retirement account are found in *Appendix 109*.

(Circular No. 860 dated 28 November 2014)

▯ **X960.1 Applicability.** These guidelines apply to banks, trust entities¹ and other entities determined by the Bangko Sentral as eligible that seek to be qualified/accredited and are qualified/accredited as PERA Market Participants, and to PERA Investment Products that are considered eligible by the Bangko Sentral for PERA purposes.

(Circular No. 860 dated 28 November 2014)

▯ **X960.2 Eligibility criteria**

a. *PERA investment products.* The following PERA investment products are considered to be Bangko Sentral-eligible PERA investment products: *Provided*, That with respect to Items "1" and "2" below, they are issued by Bangko Sentral-supervised entities with CAMELS rating of not lower than 3 or its equivalent, to wit:

(1) Unit investment trust fund (UITF);

¹ Trust entity shall refer to a (a) bank or non-bank financial institution, through its specifically designated business unit to perform trust functions, or (b) trust corporation, authorized by the Bangko Sentral ng Pilipinas (BSP) to engage in trust and other fiduciary business under Section 79 of R.A. No. 8791 (the General Banking Law of 2000) or to perform investment management services under Section 53 of R.A. No. 8791.

X960.2 - X960.3
14.12.31

- (2) Debt-instruments such as, but not limited to, long term negotiable certificate of deposits and unsecured subordinated debt;
- (3) Deposits; and
- (4) Government-issued securities.

In the case of UITF, the existing approval process shall be observed. The Bangko Sentral may allow other category of investment products or outlets for PERA purposes: *Provided*, That the product is non-speculative, readily marketable, and with a track record of regular income payments to investors.

b. PERA market participants

| PERA Market Participants | Eligible Entities |
|-----------------------------|---|
| Administrator | Banks, trust entities and other entities as may be determined by the Bangko Sentral as eligible to act as PERA Administrator |
| Investment Manager | Trust entities and other entities as may be determined by the Bangko Sentral as having the qualifications to be accredited as PERA Investment Manager |
| Cash Custodian | Banks |
| Securities Custodian | Banks and trust entities |
| Investment Product Provider | Any Bangko Sentral-supervised entity that wishes to offer PERA Investment Product to Contributors |

(Circular No. 860 dated 28 November 2014)

X960.3 Qualification/Accreditation requirements

a. *As an Administrator.* The Bangko Sentral shall issue a Qualification Certificate as Administrator to an entity upon compliance with the following requirements:

- (1) The applicant maintains a net worth of at least Php100 million at all times.

Net worth shall refer to the combined capital accounts of the Administrator which shall mean the total of the unimpaired paid-

in capital, surplus and undivided profits, less:

- (a) The one percent (1%) of the book value of the total volume of PERA assets administered and other capital adjustments as may be required by the Bangko Sentral;
- (b) Total outstanding unsecured credit accommodations, both direct and indirect, extended by the Administrator to DOSRI; and
- (c) Appraisal surplus or appreciation credit as a result of appreciation or an increase in the book value of the assets of the Administrator.

DOSRI cited in Item "1(b)" above shall refer to that provided in Subsec. X326.1: *Provided*, That for purposes of this provision, references to a bank as an entity shall be understood to include references to any other type of entity acting as Administrator.

- (2) It has adopted a Manual of Corporate Governance approved by the Bangko Sentral, and is in full compliance therewith.

- (3) It has a clear and sufficient organization plan or structure of its personnel who will perform the PERA administration functions, stating the definition of the duties and responsibilities as well as the line and staff functional relationships.

- (4) It possesses adequate systems and technological capabilities, and the necessary technical expertise and personnel to administer all types of PERA investment products, ensure the proper recording and tracking of a contributor s PERA, and perform the other required functions of an Administrator.

- (5) It has sufficient personnel who have undergone the requisite training prescribed by the Bangko Sentral to educate the contributor on:

- (a) The nature of a PERA;
- (b) Privileges, conditions and requirements of a PERA;

(c) The risks and benefits of each type of PERA investment products; and

(d) Respective roles of the Administrator, Investment Manager and Custodian.

(6) It has adopted the following forms that the Administrator shall use in dealing with the Contributor and his PERA:

(a) Pre-Acceptance Disclosure Policy described in PERA Rule 6.A.2.a;

(b) Client Suitability Assessment Questionnaire referred to in PERA Rule 6.A.2.b(i);

(c) Risk Disclosure Statement, which shall include the standard minimum information referred to in PERA Rule 6.A.2.d; and

(d) Contract between the Contributor and the Administrator referred to in PERA Rule 6.A.2.c.

(7) It has a board-approved policy on fees and charges to be imposed for its services as Administrator which shall be subject to Bangko Sentral approval.

Failure to satisfy any of the above requirements shall be a ground for the denial of the application, without prejudice to the re-filing of an application.

An Administrator who has been issued with a Qualification Certificate shall then file an application for accreditation with the PERA Processing Office of the BIR to complete its application process to become a PERA Administrator.

b. *As an Investment Manager.* The Bangko Sentral shall accredit an entity as an Investment Manager upon submission of a written application certified by the Chief Executive Officer (CEO) together with the following documentary requirements:

(1) Written supervision and control procedures for the conduct of the investment management functions;

(2) Proof of at least five (5) years of experience in professional investment

management;

(3) Certified true copy of educational, professional/technical or other academic qualifications of its principal officers;

(4) Copy of its form contract to be utilized. The agreement between the contributor and the Investment Manager shall contain the following minimum contents:

(a) Overall investment philosophy, standards and practices of the Investment Manager; and

(b) Validation of contributor's Client Suitability Assessment and Investment Policy Statement made by contributor's Administrator referred to in PERA Rule 6.A.2.b (i) and (ii); and

(5) A schedule of commission charges and/or other fees it will charge for its services.

c. *As a Custodian*

Cash custodian. In addition to the standard pre-qualification requirements for the grant of banking authorities enumerated in *Appendix 5*, banks applying for authority to act as cash custodian for PERA shall also comply with the following conditions:

(1) The applicant bank must have complied with the minimum capital required under Subsec. X111.1; and

(2) The Bank's CAMELS composite rating in its latest examination is not lower than 3 with Management component score of not lower than 3.

Securities custodian. Only banks and other entities with trust license which have complied with the requirements under Subsec. X441.5 may be accredited as securities custodian.

For purposes of this Subsection, the Bangko Sentral may provide for such other requirements or qualifications as it may deem necessary for the qualification/accreditation of a supervised entity as a PERA Market Participant.

(Circular No. 860 dated 28 November 2014)

□ □ X960.4 - X960.5
14.12.31

□ **X960.4 Application for qualification/ accreditation.** An eligible supervised entity seeking qualification/accreditation as PERA Market Participant (Administrator, Investment Manager, Cash Custodian or Securities Custodian) shall file an application for qualification/accreditation with the appropriate department of the SES. The application shall be signed by the CEO and shall be accompanied by the following documents:

a. Certified true copy of the resolution of the entity's board of directors authorizing the application;

b. Certification signed by the CEO that the entity has complied with all the relevant qualification/accreditation requirements enumerated under Subsec. X960.3 and an undertaking to comply with the aforementioned requirements while it acts as an Administrator, Investment Manager, Cash Custodian and/or Securities Custodian; and

c. Relevant PERA forms, Board-approved policy on fees and charges, and proof of compliance with Subsec. X960.3.a.(5) insofar as the application of the Administrator is concerned.

The qualification/accreditation of PERA Market Participants and accreditation of PERA Investment Products granted by the Bangko Sentral shall be valid until revoked.
(Circular No. 860 dated 28 November 2014)

□ **X960.5 Security for the faithful performance of Administrators.** As a security for the faithful performance of its duties under the PERA Act, an Administrator shall hold eligible government securities, equivalent to at least one percent (1%) of the book value of the total volume of PERA assets administered, earmarked in favor of the Bangko Sentral: *Provided*, That the Administrator shall issue an authorization in favor of the Bangko Sentral to withdraw, dispose and disburse the proceeds thereof to settle any claims arising from the breach

of its duties as evidenced by a final and executory court order: *Provided, further*, That the Administrator shall not withdraw, transfer or replace such earmarked securities without prior written instruction from the Bangko Sentral. The security for the faithful performance of the Administrator's duties shall be in addition to and shall be treated separately from the capital, surplus, and undivided profits of the Administrator.

For this purpose, eligible government securities shall consist of evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines and such other kinds of securities which may be declared eligible by the Monetary Board: *Provided*, That, such securities shall be free, unencumbered, and not utilized for any other purpose: *Provided further*, That such securities shall have remaining maturities of not more than three (3) years from the date the securities have been earmarked in favor of the Bangko Sentral.

a. *Valuation of securities and basis of computation of the basic security deposit requirement.* For purposes of determining compliance with the security for the faithful performance of Administrators under the PERA Act, the amount of securities so earmarked shall be based on their book value, that is, cost as increased or decreased by the corresponding discount or premium amortization. The base amount for the security shall be the average of the month-end balances of administered assets for the quarter.

b. *Compliance period; Sanctions.* The Administrator shall have one (1) week from the end of every calendar quarter within which to replenish any deficiency in the security requirements as abovementioned.

Any non-compliance with the security requirements shall be subject to Sections 36

and 37 of R.A. No. 7653 also known as the New Central Bank Act without prejudice to the imposition of other sanctions as the Monetary Board may consider warranted under the circumstances that may include the suspension or revocation of the entity's authority to engage in PERA administration, and such other sanctions as may be provided by law.

(Circular No. 860 dated 28 November 2014)

¶ **X960.6 Grounds for suspension or revocation of qualification/accreditation of Administrator, Investment Manager or Custodian.** The qualification of an Administrator, and the accreditation of an Investment Manager and Custodian may be refused, restricted, suspended or revoked by the Bangko Sentral if, after due notice and hearing, the Bangko Sentral determines that the applicant or licensee has:

a. Willfully violated any provision of the PERA Act, the PERA Rules or any regulations and issuances by the Bangko Sentral made pursuant thereto, or any other law administered by the Bangko Sentral relevant to its function as a PERA Market Participant, or providing prudential standards for asset management or has aided, abetted, counseled, commanded, induced or procured such violation;

b. Failed to supervise, with a view to preventing such violation, a person associated to the applicant or licensee by virtue of an agreement or other types of arrangement and who commits such violation;

c. Willfully made or caused to be made a materially false or misleading statement in the application for qualification/accreditation or report filed with the Bangko Sentral, or has willfully omitted to state any material fact that is required to be stated therein or necessary to make the statement therein not misleading;

d. Failed to maintain the qualifications or requirements for accreditation prescribed

under the PERA Rules, these guidelines or has failed to maintain compliance with any of them;

e. Failed to carry on and manage its PERA-related business and activities in a proper, diligent and efficient manner to the prejudice of the Contributor;

f. Been subject to regulatory sanctions for (a) violations, which the Bangko Sentral determines to affect its operating conditions and ability as a PERA Market Participant, such as but not limited to violations affecting required capitalization and/or solvency, or (b) any act or behavior prejudicial to the PERA Contributors;

g. Been enjoined or restrained by a competent body from engaging in securities, banking or insurance activities;

h. Failed to enforce or monitor PERA contribution limits entitled to tax incentives; or

i. Failed to manage or adequately address conflicts of interest in the performance of its functions, which may be identified by the Bangko Sentral as prejudicial to the interests of the PERA Contributor.

For purposes of this subsection, the term "competent body" shall include a foreign court of competent jurisdiction and a foreign financial regulator.

(Circular No. 860 dated 28 November 2014)

¶ **X960.7 Penalty.** A fine of not less than Php50 thousand nor more than Php200 thousand or imprisonment of not less than six (6) years and one (1) day to not more than twelve (12) years or both, such fine and imprisonment at the discretion of the court, shall be imposed upon any person, association, partnership or corporation, its officer, employee or agent, who, acting alone or in connivance with others, shall:

a. Act as Administrator, Custodian or Investment Manager without being properly qualified or without being granted prior accreditation by the Bangko Sentral;

¶¶ X960.7 - X999
14.12.31

- b. Invest the contribution without written or electronically authenticated authority from the Contributor, or invest the contribution in contravention of the instructions of the Contributor;
- c. Knowingly and willfully make any statement in any application, report, or document required to be filed under the PERA Act, which statement is false or misleading with respect to any material fact;
- d. Misappropriate or convert, to the prejudice of the Contributor, contributions to and investments or income from the PERA;
- e. By gross negligence, cause any loss, conversion, or misappropriation of the contributions to, or investments from the PERA; or
- f. Violate any provision of the PERA Act or rules and regulations issued pursuant to the PERA Act.

Notwithstanding the foregoing, any willful violation by the accredited Administrator, Custodian or Investment Manager of any of the provisions of the PERA Act, the PERA Rules, relevant rules and regulations issued by the Bangko Sentral or other terms and conditions of the authority to act as Administrator, Custodian or Investment Manager may be subject to

the administrative sanctions provided for in applicable laws such as those set forth in Section 37 of R.A. No. 7653.

The above penalties shall be without prejudice to whatever civil and criminal liability provided for under applicable laws for the same act or omission such as those set forth in Sections 35 and 36 of R.A. No. 7653.

(Circular No. 860 dated 28 November 2014)

¶ **X960.8 Reportorial requirements**
An entity qualified/accredited by the Bangko Sentral to be a PERA Market Participant shall comply with the reportorial requirements that may be prescribed by the Bangko Sentral.
(Circular No. 860 dated 28 November 2014)

Secs. X961 - X998 (Reserved)

Sec. X999 (2008 - X199) General Provision on Sanctions. Except as otherwise provided, any violation of the provisions of this Part shall be subject to Sections 36 and 37 of R.A. No. 7653.
The guidelines for the imposition of monetary penalty for violations/offenses with sanctions falling under Section 37 of R. A. No. 7653 on banks, their directors and/or officers are shown in *Appendix 67*.

PART TEN

BSP REGULATIONS ON FINANCIAL CONSUMER PROTECTION

A. CONSUMER PROTECTION OVERSIGHT FUNCTION

Section X1001 Consumer Protection Oversight Function. The Board of Directors (Board) of BSP-Supervised Financial Institutions (BSFI) is ultimately responsible in ensuring that consumer protection practices are embedded in the BSFI's business operations. BSFIs must adhere to the highest service standards and embrace a culture of fair and responsible dealings in the conduct of their business through the adoption of a bank's Financial Consumer Protection Framework that is appropriate to the BSFI's corporate structure, operations, and risk profile. The BSFI's Financial Consumer Protection Framework shall be embodied in its Board-approved Financial Consumer Protection Manual.
(Circular No. 857 dated 21 November 2014)

X1001.1 *Role and responsibility of the board and senior management.* The board and senior management are responsible for developing the BSFI's consumer protection strategy and establishing an effective oversight over the BSFI's consumer protection programs. The board shall be primarily responsible for approving and overseeing the implementation of the BSFI's consumer protection policies as well as the mechanism to ensure compliance with said policies. While senior management is responsible for the implementation of the consumer protection policies approved by the board, the latter shall be responsible for monitoring and overseeing the performance of senior management in managing the day to day consumer protection activities of the BSFI. The board may also delegate other duties and

responsibilities to senior management and/or committees created for the purpose but not the function of overseeing compliance with the Bangko Sentral-prescribed Consumer Protection Framework and the BSFI's own Consumer Protection Framework.
(Circular No. 857 dated 21 November 2014)

X1001.2 *Consumer protection risk management system (CPRMS).* All BSFIs, regardless of size, should have a CPRMS that is part of the corporate-wide risk management system. The CPRMS is a means by which a BSFI identifies, measures, monitors, and controls consumer protection risks inherent in its operations. These include both risks to the financial consumer and the BSFI. The CPRMS should be directly proportionate to the BSFI's asset size, structure, and complexity of operation. A carefully devised, implemented, and monitored CPRMS provides the foundation for ensuring a bank's adherence to consumer protection standards of conduct and compliance with consumer protection laws, rules and regulations, thus ensuring that the BSFI's consumer protection practices address and prevent identified risks to the bank and associated risk of financial harm or loss to consumers.

a. *Board and senior management oversight.* The board is responsible for developing and maintaining a sound CPRMS that is integrated into the overall framework for the entire product and service life-cycle. The board and senior management should periodically review the effectiveness of the CPRMS, including how findings are reported and whether the audit mechanisms in place enable adequate oversight. The quality and timeliness of the information provided to

□ □ **X1001.2 - X1002**
14.12.31

the board and senior management regarding the BSFI's CPRMS are especially important for assessing the program's effectiveness. The board and senior management must also ensure that sufficient resources have been devoted to the program. The ability to achieve the consumer protection objectives depends, in large part, on the authority and independence of the individuals directly responsible for implementing the CPRMS and for performing audit/review activities, and the support provided by the board and senior management. The board and senior management must also make certain that CPRMS weaknesses are addressed and corrective actions are taken in a timely manner.

b. *Compliance program.* A Consumer Protection Program is an essential component of the CPRMS. The BSFIs should establish a formal, written Consumer Protection Compliance Program that is part of the over-all Compliance System and should be in accordance with the Revised Compliance Framework for Banks under Sec. X180. A well planned, implemented, and maintained Consumer Protection Compliance Program should prevent or reduce regulatory violations and protect consumers from non-compliance and associated harms and loss.

c. *Policies and procedures.* An effective CPRMS should have consumer protection policies and procedures in place, approved by the Board. A comprehensive and fully implemented policies help to communicate the board's and senior management's commitment to compliance as well as expectations. Overall, policies and procedures should a) be consistent with consumer protection policies approved by the board; b) ensure that consumer protection practices are embedded in the BSFI's business operations; 3) address compliance with consumer protection laws, rules, and regulations; and 4) reviewed periodically and kept-to-date as it serve as reference for employees in their day-to-day activities.

d. *Internal audit function.* Independent of the compliance function, the BSFI's audit function should review its consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations. The BSFI's internal audit of the different business units/functions should include the consumer protection audit program. A well-designed and implemented consumer protection audit program ensures that the board or its designated committee shall be able to make an assessment on the effectiveness of implementation as well as adequacy of approved policies and standards in meeting the established consumer protection objectives.

e. *Training.* Continuing education of personnel about consumer protection laws, rules and regulations as well as related bank policies and procedures is essential to maintaining a sound consumer protection compliance program. BSFIs should ensure that all relevant personnel specifically those whose roles and responsibilities have customer interface, receive specific and comprehensive training that reinforces and helps implement written policies and procedures on consumer protection. The BSFI should institute a consumer protection training program that is appropriate to its organization structure and the activities it engages. The training program should be able to address changes in consumer protection laws, rules and regulations and to policies and procedures and should be provided in a timely manner.

(Circular No. 857 dated 21 November 2014)

**B. CONSUMER PROTECTION
STANDARDS OF CONDUCT FOR BSFIs**

Sec. X1002 Consumer Protection Standards. The following consumer protection standards reflect the core principles, which BSFIs are expected to observe at all times in their dealings with

financial consumers. These should be embedded into the corporate culture of the BSFI, enhancing further its defined governance framework while addressing conflicts that are inimical to the interests of the financial consumer.

(Circular No. 857 dated 21 November 2014)

□ **X1002.1 Disclosure and transparency.** BSFIs must take affirmative action to ensure that their consumers have a reasonable holistic understanding of the products and services, which they may be acquiring or availing. In this context, full disclosure and utmost transparency are the critical elements that empower the consumer to make informed financial decisions. This is made possible by providing the consumer with ready access to information that accurately represents the nature and structure of the product or service, its terms and conditions, as well as its fundamental benefits and risks.

The BSFI demonstrates the competencies required of this principle if it complies with the following:

a. *Key information*

(1) Ensures that offering documents of products and services contain the information necessary for customers to be able to make an informed judgment of the product or service and, in particular, meet the full disclosure requirements specified under existing laws or regulations. All key features and risks of the products should be highlighted prominently in a succinct manner. Where a product is being offered on a continuous basis, its offering documents should be updated in accordance with the requirements set out in the regulations.

(2) Readily and consistently makes available to the customer a written copy of the terms and conditions (T&C) that apply to a product or service. The contents of the T&C must be fully disclosed and explained to financial customers before initiating a transaction. Where and when

warranted, reference to the T&C should be made while transacting with the consumer and before consummating the transaction, if such reference is material to the understanding of the consumer of the nature of the product or service, as well as its benefits and risks.

As a written document, the T&C must be complete but concise, easily understandable, accurate, and presented in a manner that facilitates the consumer's comprehension. The latter is taken to mean that the text of the document should be according to Subsec. X320.4 (Amended Regulations to Enhance Consumer Protection in the Credit Card Operations of Banks and Their Subsidiary or Affiliate Credit Card Companies).

The T&C should include at least the following:

(a) The full price or cost to the customer including all interest, fees, charges, and penalties. The T&C must clearly state whether interest, fees, charges, and penalties can change over time. The method for computing said interest, fees, charges, and penalties shall be presented in accordance with Subsec. X305.5;

(b) General information about the operation of the products or services including the customer's obligations and liabilities;

(c) Cooling-off period, if applicable.

(d) Cancellation, return and exchange policies, and any related cost;

(e) The actions and remedies which the BSFI may take in the event of a default by the customer;

(f) Procedures to report unauthorized transactions and other contingencies, as well as the liabilities of parties in such case; and

(g) A summary of the BSFI's complaints handling procedure.

(3) Advises customers to read and understand the applicable T&C, when considering a product or service.

(4) Ensures that its staff communicates in such a manner that clients can understand

□ X1002.1
14.12.31

the terms of the contract, their rights and obligations. Staff should communicate with techniques that address literacy limitations (e.g., materials are available in local language).

(5) Provides customers adequate time to review the T&C of the product or service, asks questions and receives additional information prior to signing contracts or executing the transaction. The staff of the BSFI should be available to answer the questions and clarifications from the financial customer.

(6) Ensures that staff assigned to deal directly with customers, or who prepare advertisement materials (or other material of the BSFI for external distribution) or who markets any product or service should be fully knowledgeable about these products and services, including statutory and regulatory requirements, and are able to explain the nuances to the consumer.

(7) Uses a variety of communication channels to disclose clear and accurate information. Such communication channels should be available to the public without need for special access requirements, which may entail additional expense. Communication channels should be sufficiently responsive to address the literacy limitations of the financial consumer. Said channels may be written and/or verbal as may be warranted.

(8) Discloses pricing information in public domains (e.g., websites).

(9) Updates customers with relevant information, free of charge in a clear, understandable, comprehensive, and transparent manner, for the duration of the contract. Such information covers the characteristics and the risks of the products sold by the BSFI and their authorized agents.

(10) Imparts targeted information to the specific groups of clients to whom specific products are being marketed, with a particular consideration for vulnerable

customers. Communication channels employed for such targeted marketing initiatives may be accordingly calibrated.

(11) Offers enhanced disclosure for more complex products, highlighting the costs and risks involved for the customer. For structured investment products, a Product Highlight Sheet (PHS) is required. The PHS should be clear, concise, and easily understandable by individual customers. It should contain information that empowers the customer to appreciate the key features of the product and its risks. It is prepared in a format that facilitates comparison with other products. The PHS should be available at no cost to the public and made available to consumers upon request. Before signing any contract, the BSFI should ensure that the customer has freely signed a statement to the effect that the customer has duly received, read, and understood the PHS.

(12) Notifies the customer in writing of any change in:

(a) Interest rate to be paid or charged on any account of the customer as soon as possible; and

(b) A non-interest charge on any account of the customer within a number of days as provided under existing regulations prior to the effective date of the change.

If the revised terms are not acceptable to the customer, he or she should have the right to exit the contract without penalty, provided such right is exercised within a reasonable period. The customer should be informed of this right whenever a notice of change is made.

(13) Provides customers with a proof of the transaction immediately after the transaction has been completed. The customer should be given a hard copy of each of the documents signed by the clients (including, but not limited to the contract) with all terms and conditions. The BSFI ensures that documents signed

by the customer are completely filled and that there are no blank terms.

(14) Regularly provides customers with clear and accurate information regarding their accounts (e.g., Statement of accounts that includes, among others, covering period, opening balance/value of transactions, all kinds of interest, fees and charges, closing balance, inquiries for outstanding balances, proof of payments for loans).

(15) Informs customers of their rights and responsibilities including their right to complain and the manner of its submission.

b. *Advertising and promotional materials*

(1) Ensures that advertising and marketing materials do not make false, misleading, or deceptive statements that may materially and/or adversely affect the decision of the customer to avail of a service or acquire a product.

(2) Ensures that advertising and promotional materials are easily readable and understandable by the general public. It should disclose clear, accurate, updated, and relevant information about the product or service. It should be balanced/proportional (reflecting both advantages and risks of the product or service); visible/audible; key information is prominent and not obscured; print is of sufficient size and clearly legible.

(3) Ensures that promotional materials are targeted according to the specific groups of consumers to whom products are marketed and the communication channels employed for marketing financial services.

(4) Ensures that all advertising and promotional materials disclose the fact that it is a regulated entity and that the name and contact details of the regulator are indicated.

c. *Conflict of interest*

(1) Discloses properly to the consumer prior to the execution of the transaction that

the BSFI or its staff has an interest in a direct/cross transaction with a consumer.

(2) Discloses the limited availability of products to consumers when the BSFI only recommends products which are issued by their related companies, particularly when commissions or rebates are the primary basis for recommending the particular product to consumers.

(3) Discloses the basis on which the BSFI is remunerated at the pre-contractual stage.

(4) Ensures that adequate systems and controls are in place to promptly identify issues and matters that may be detrimental to a customer's interest (e.g., cases in which advice may have been given merely to meet sales targets, or may be driven by financial or other incentives).

(Circular No. 857 dated 21 November 2014)

¶ **X1002.2 Protection of client information.** Financial consumers have the right to expect that their financial transactions, as well as relevant personal information disclosed in the course of a transaction, are kept confidential. Towards this end, BSFIs must ensure that they have well-articulated information security guidelines, well-defined protocols, a secure database, and periodically re-validated procedures in handling the personal information of their financial consumers. This should be an end-to-end process that should cover, among others, the array of information that will be pre-identified and collected, the purpose of gathering each information, how these will be sourced from the client, the IT-security infrastructure of the BSFI, and the protocols for disclosure, both within the BSFI and especially to third parties.

The BSFI demonstrates the ability to protect client information if it is able to:

□ X1002.2
14.12.31

a. Confidentiality and security of client information

(1) Have a written privacy policy to safeguard its customers personal information. This policy should govern the gathering, processing, use, distribution, storage, and eventual disposal of client information. The BSFI should ensure that privacy policies and sanctions for violations are implemented and strictly enforced.

(2) Ensure that privacy policies are regularly communicated throughout the organization. Opportunities include employees initial training sessions, regular organization-wide training programs, employee handbooks, posters and posted signs, company intranet and internet websites, and brochures available to clients.

(3) Have appropriate systems in place to protect the confidentiality and security of the personal data of its customers against any threat or hazard to the security or integrity of the information and against unauthorized access. This includes a written information security plan that describes its program to protect customer personal information. The plan must be appropriate to its size and complexity, nature and scope of its activities, and the sensitivity of customer information it handles. As part of its plan, the BSFI must:

(a) Designate employee accountable to coordinate its Information Security Program.

(b) Identify and assess the risks to customer information in each relevant area of the BSFI operation, and evaluate the effectiveness of the current safeguards for controlling these risks.

(c) Design and implement a safeguards program, and regularly monitor and test it.

(d) Select service providers that can maintain appropriate safeguards.

(e) Evaluate and adjust the program in light of relevant circumstances, including

changes in the firm s business or operations, or the results of security testing and monitoring.

(4) Have appropriate policies and practices for employee management and training to assess and address the risks to customer information. These include:

(a) Checking references and doing background checks before hiring employees who will have access to customer information.

(b) Asking new employees to sign an agreement to follow BSFI confidentiality and security standards for handling customer information.

(c) Limiting access to customer information to employees who have a business reason to see it.

(d) Controlling access to sensitive information by requiring employees to use strong passwords that must be changed on a regular basis.

(e) Using automatic time-out or log-off controls to lock employee computers after a period of inactivity.

(f) Training employees to take basic steps to maintain the security, confidentiality, and integrity of customer information. These may include locking rooms and file cabinets where records are kept; ensuring that employee passwords are not posted in work areas; encrypting sensitive customer information when transmitted electronically via public networks; referring calls or other requests for customer information to designated individuals who have been trained in how BSFI safeguards personal data; and reporting suspicious attempts to obtain customer information to designated personnel.

(g) Regularly reminding all employees of company policy to keep customer information secure and confidential.

(h) Imposing strong disciplinary measures for security policy violations.

(i) Preventing terminated employees from accessing customer information by

immediately deactivating their passwords and user names and taking other measures.

(5) Have a strong IT System in place to protect the confidentiality, security, accuracy, and integrity of customer s personal information. This includes network and software design, and information processing, storage, transmission, retrieval, and disposal. Maintaining security throughout the life-cycle of customer information, from data entry to disposal, includes:

(a) Knowing where sensitive customer information is stored and storing it securely. Make sure only authorized employees have access.

(b) Taking steps to ensure the secure transmission of customer information.

(c) Disposing customer information in a secure way.

(d) Maintaining up-to-date and appropriate programs and controls to prevent unauthorized access.

(e) Using appropriate oversight or audit procedures to detect the improper disclosure or theft of customer information.

(f) Having a security breach response plan in the event the BSFI experiences a data breach.

b. Sharing of customer information

(1) Inform its customers in writing and explain clearly to customers as to how it will use and share the customer s personal information.

(2) Obtain the customers written consent, unless in situations allowed as an exception by law or BSP-issued regulations on confidentiality of customer s information, before sharing customers personal information with third parties such as credit bureau, collection agencies, marketing and promotional partners, and other relevant external parties.

(3) Provide access to customers to the information shared and should allow customers to challenge the accuracy and

completeness of the information and have these amended as appropriate.

(4) Appropriate penalties should be imposed by the BSFI to erring employees for exposing or revealing client data to third parties without prior written consent from client.

(Circular No. 857 dated 21 November 2014)

¶ **X1002.3 Fair treatment.** Fair treatment ensures that financial consumers are treated fairly, honestly, professionally and are not sold inappropriate and harmful financial products and services. BSFIs should ensure they have the necessary resources and procedures in place, internal monitoring, and control mechanisms, for safeguarding the best interest of their customers. These include general rules, such as those addressing ethical staff behavior, acceptable selling practices as well as regulating products and practices where customers are more likely to be offered services that are inappropriate for their circumstances.

The BSFI demonstrates the principle of fair treatment towards financial consumers if it is able to:

a. *Affordability and suitability of product or service*

(1) When making a recommendation to a consumer:

(a) Gather, file, and record sufficient information from the customer to enable the BSFI to offer an appropriate product or service to the customer. The information gathered should be commensurate to the nature and complexity of the product or service either being proposed to or sought by the customer and should enable the BSFI to provide an appropriate level of professional service. As a minimum, information includes the customers financial knowledge and experience, financial capabilities, investment objectives, time horizons, needs, priorities, risk affordability, and risk profile.

□ **X1002.3**
14.12.31

(b) Offer products or services that are in line with the needs/risk profile of the consumer. The BSFI should provide for and allow the customer to choose from a range of available products and services that can meet his needs and requirements. Sufficient and right information on the product or service should enable the customer to select the most suitable and affordable product or service.

(2) Inform or warn the customers that if they do not provide sufficient information regarding their financial knowledge and experience, the BSFI is not in a position to accurately determine whether the product or service is appropriate to them, given the limited information available. This information or warning may be provided in a standardized format.

(3) Ensure that the customer certifies in writing the accuracy of the personal information provided.

(4) Ensure to offer market-based pricing.

(5) Design products that are appropriate to the varying needs and interests of different types of consumers, particularly the more vulnerable consumers. Adequate product approval should be in place. Processes should be proper to ensure that products and services are fit for the targeted consumer.

(6) Do not engage in abusive or deceptive acts or practices.

(7) Seek customer feedback for product design and delivery and use this feedback to enhance product development and improve existing products. Likewise, investigate reasons for client drop out.

(8) Do not use high pressure/aggressive sales techniques and do not force clients to sign contracts.

(9) Have a system in place for approval when selling high-risk instruments to consumers.

b. Prevention of over-indebtedness

(1) Have appropriate policies for good repayment capacity analysis. The loan approval does not rely solely on guarantees (co-signers or collateral) as a substitute for good capacity analysis.

(2) Properly assess the creditworthiness and conduct appropriate client repayment capacity analysis when offering a new credit product or service significantly increasing the amount of debt assumed by the customer.

(3) Ensure to have an appropriate system in place for credit analysis and decisions including appropriate criteria to limit the amount of credit.

(4) Monitor enforcement of policies to prevent over-indebtedness. The board and senior management of the BSFIs should be aware of and concerned about the risks of over-indebtedness of its customers.

(5) Draw the customer's attention to the consequences of signing a contract that may affect his financial position and his collateral in case of default in payment of a loan/obligation.

(6) Prepare and submit appropriate reports (e.g., loan quality, write-offs, restructured loans) to management.

(7) Ensure that corrective measures are in place for poor long-term quality of loan portfolio linked to over-indebtedness.

(8) Have specific procedures to actively work out solutions (i.e., through workout plan) for restructured loans/refinancing/writing-off on exceptional basis for clients in default who have the willingness but without the capacity to repay, prior to seizing the assets.

c. Cooling-off period

(1) As may be appropriate, provide the customer with a cooling-off period of a reasonable number of days (at least two (2) banking days) immediately following the signing of any agreement or contract, particularly for financial products

or services with a long-term savings component or those subject to high pressure sales contracts.

(2) Permit the customer to cancel or treat the agreement as null and void without penalty to the customer of any kind on his or her written notice to the BSFI during the cooling-off period. The BSFI may however collect or recover reasonable amount of processing fees. It is further recognized that there may be a need for some qualification to an automatic right of cooling off. For example, the right should not apply where there has been a drawdown of a credit facility and a BSFI should be able to recover any loss arising from an early withdrawal of a fixed rate term deposit which loss arises because of a difference in interest rates. This would be in addition to any reasonable administrative fees associated with closure of the term deposit.

d. Objectivity

(1) Deal fairly, honestly, and in good faith with customers and avoid making statements that are untrue or omitting information which are necessary to prevent the statement from being false or misleading.

(2) Present a balanced view when selling a product or service. While the BSFI highlights the advantages of a product/service, the customer's attention should also be drawn to its disadvantages and downside risks.

(3) Ensure that recommendations made to customer are clearly justified and explained to the customer and are properly documented. If the requested products are of higher risk rating than a customer's risk tolerance assessment results, the BSFI should draw to the customer's attention that the product may not be suitable for him in view of the risk mismatch. In such instances, there should be a written disclosure of consequences which is accepted by the client.

(4) Ensure that the customer's suitability and affordability are assessed against specific risks of the investment products:

(a) Financial Needs Analysis (FNA) and Client Suitability - to assess the customer's risk profile and suitability of the product.

(b) Customer's Declaration Form - to confirm his acceptance and understanding of the highlighted features of the product.

(c) FNA, Client Suitability and Declaration Form should be duly completed to make sure that the product sold is suitable and affordable for the customer.

e. Institutional culture of fair and responsible treatment of clients

(1) There should be a Code of Conduct (Code) applicable to all staff, spelling out the organizational values and standards of professional conduct that uphold protection of customers. This Code should be reviewed and approved by the Board. The staff signs a document by which they acknowledge that they will abide by the Code and not engage in the behaviors prohibited as provided for in the Code. To ensure adherence to the Code, the BSFI is required to implement measures to determine whether the principles of consumer protection are observed, the clients' concerns are appropriately addressed and problems are resolved in a timely manner. These may include among others, the regular conduct of customer satisfaction survey.

(2) Ensure that recruitment and training policies are aligned around fair and responsible treatment of clients.

(3) Ensure that staff, specifically those who interact directly with customers, receive adequate training suitable for the complexity of the products or services they sell.

(4) Ensure that collection practices are covered during the initial training of all staff involved in collections (loan officers,

¶¶ X1002.3 - X1002.4
14.12.31

collections staff, and branch managers). In particular, collection staff should receive training in acceptable debt collection practices and loan recovery procedures.

(5) Strictly comply with Bangko Sentral's existing regulation on what constitutes unfair debt collection practices. The BSFI's Code of Conduct should clearly spell out the specific standards of professional conduct that are expected of all staff involved in collection (including outsourced staff).

(6) Institute policy that guarantees that clients receive a fair price for any foreclosed assets and has procedures to ensure that collateral seizing is respectful of clients' rights.

(7) Ensure that managers and supervisors review ethical behavior, professional conduct, and quality of interaction with customers as part of staff performance evaluations.

(8) Have a system or internal processes in place to detect and respond to customer mistreatment as well as serious infractions. In case of violation of Code of Conduct (e.g., harassment,) sanctions shall be enforced.

(9) Inform staff of penalties for non-compliance with Code of Conduct.

(10) Perform appropriate due diligence before selecting the authorized agents/outsourced parties (such as taking into account the agents' integrity, professionalism, financial soundness, operational capability and capacity, and compatibility with the FI's corporate culture) and implement controls to monitor the agents' performance on a continuous basis. The BSFI retains ultimate accountability for outsourced activities.

(11) Disseminate the main aspect of the Code of Conduct to clients through printed media or other appropriate means.

f. *Remuneration structure*

(1) Design remuneration structure for staff of BSFI and authorized agents in a

manner that encourages responsible business conduct, fair treatment and avoidance/mitigation of conflicts of interest.

(2) Disclose to the customers the remuneration structure where appropriate, such as when potential conflicts of interest cannot be managed or avoided.

(3) Ensure adequate procedures and controls so that sales staff are not remunerated based solely on sales performance but that other factors, including customer's satisfaction (in terms of number of customer complaints served/settled) and compliance with regulatory requirements, best practices guidelines, and Code of Conduct in which certain principles are related to best interest of customers, satisfactory audit/compliance review results and complaint investigation results, are taken into account.

(Circular No. 857 dated 21 November 2014)

¶ **X1002.4 *Effective recourse***. Financial consumers should be provided with accessible, affordable, independent, fair, accountable, timely, and efficient means for resolving complaints with their financial transactions. BSFIs should have in place mechanisms for complaint handling and redress.

The bank demonstrates the ability to provide effective recourse if it is able to:

a. Establish an effective Consumer Assistance Management System (CAMS). Appendix 110 (MORB) provides for the minimum requirements of an effective CAMS.

b. Develop internal policies and practices, including time for processing, complaint response, and customer access.

c. Maintain an up-to-date log and records of all complaints from customers subject to the complaints procedure. This log must contain the following:

- (1) Details of each complaint;
- (2) The date the complaint was received;
- (3) A summary of the BSFI's response;

- (4) Details of any other relevant correspondence or records;
 - (5) The action taken to resolve each complaint; and
 - (6) The date the complaint was resolved.
- d. Ensure that information on how to make a complaint is clearly visible in the bank's premises and on their websites.
- e. Undertake an analysis of the patterns of complaints from customers on a regular basis including investigating whether complaints indicate an isolated issue or a more widespread issue for consumers. This analysis of consumer complaints must be escalated to the BSFI's compliance/risk management function and senior management.
- f. Provide for adequate resources to handle financial consumer complaints efficiently and effectively. Staff handling complaints should have appropriate experience, knowledge, and expertise. Depending on the BSFI's size and complexity of operation, a senior staff member should be appointed to be in charge of the complaint handling process.
- (Circular No. 857 dated 21 November 2014)*

¶ **X1002.5 Financial education and awareness.** Financial education initiatives give consumers the knowledge, skills, and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions. Because BSFIs deal directly with financial consumers, they have the reach, expertise, and established relationships necessary to deliver financial education. Financial education should be integral to the good governance of the BSFIs.

The BSFI demonstrates this principle through various means and in particular:

a. Have a clear and defined financial education and awareness program as part of a wider financial consumer protection and education strategy and corporate governance. It is an integral component of the BSFI's ongoing interaction and

relationship with clients. Dedicated and adequate resources should be provided for the financial education initiatives.

b. Develop financial education and awareness programs, either on their own or in partnership or collaboration with industry associations, which contribute to the improvement of their clients' knowledge and understanding of their rights and responsibilities, basic information and risks of financial products and services, and ability to make informed financial decisions and participate in economic activities. Financial education programs should be designed to meet the needs and financial literacy level of target audiences, as well as those that will reflect how target audience prefers to receive financial information. These may include:

- (1) Delivering public awareness campaigns and information resources that would teach consumers on certain aspects of their financial lives particularly, budgeting, financial planning, saving, investing, borrowing, retirement planning, and self-protection against fraud.
- (2) Developing financial education tools or information materials that are updated and readily understood and transparent such as customized advice and guidance (face to face training); printed brochures, flyers, posters, training videos (e.g., about money management, debt management, saving), and newsletters; websites, and interactive calculators that deliver key messages and call to action concerning better money management (e.g., protect your money, know your product, read and understand the T&C, check your statements, pay credit card bills on time, safeguard your Personal Identification Number, understand fees and charges) and consumer responsibility to ask the right questions.
- (3) Distributing to customers, at the point of sale, a pamphlet on questions, which customers need to ask before accepting a financial product or service.

X1002.5 - X1003
14.12.31

- c. Clearly distinguish between financial education from commercial advice. Any financial advice for business purposes should be transparent. Disclose clearly any commercial nature where it is also being promoted as a financial education initiative. It should train staff on financial education and develop codes of conduct for the provision of general advice about investments and borrowings, not linked to the supply of a specific product.
- d. Provide via the internet or through printed publications unbiased and independent information to consumers through comparative information about the price and other key features, benefits and risks, and associated fees and charges of products and services.
- e. Regularly track, monitor, and assess campaigns and programs and use the results of the evaluation for continuous improvement.

C. ENFORCEMENT ACTIONS

Sec. X1003 Enforcement Actions

- a. Enforcement is the implementation of corrective measures and imposition of sanctions to BSFIs to:
 - (1) Ensure compliance with the Bangko Sentral regulations on consumer protection and consumer protection laws and regulations;
 - (2) Inform the management of the BSFIs of the consequences of their decisions and actions;
 - (3) Instill discipline to the BSFIs; and
 - (4) Serve as deterrent to the commission of violations.
- b. The bases for enforcement actions are the results of the:
 - (1) On-site consumer protection framework assessment;
 - (2) Off-site surveillance;
 - (3) Market monitoring; and

- (4) Bangko Sentral consumer assistance mechanism
- c. The following enforcement action may be taken depending on:
 - (1) *Rating-based enforcement actions for on-site periodic assessment.* To implement the foregoing enforcement actions, the following rules shall apply:
 - (a) A Consumer Protection Rating (CPR) of 4 will require no enforcement action.
 - (b) A CPR of 3 will require issuance of a written reminder on consumer protection areas that may lead to weaknesses in the BSFI s Consumer Protection Framework.
 - (c) A CPR of 2 will require a written Action Plan in response to the written reminder issued by the Bangko Sentral. The written Action Plan shall be duly approved by the board. It shall aim to correct the identified weaknesses in the BSFI s Consumer Protection Framework or the noted violations of the Bangko Sentral Regulations on Consumer Protection. Financial Consumer Protection Department (FCPD) shall assess the viability of the plan and shall monitor the bank s performance.
 - (d) A CPR of 1 shall also be considered as poor/grossly inadequate Financial Consumer Protection Framework. For this reason, a written action plan fully executable within ninety (90) days shall be prepared. The action plan shall be duly approved by the board aimed at instituting immediate and strong measures to restore the BSFI to acceptable consumer protection operating condition, where it does not pose any risk of financial loss or harm to the financial consumers.
- In the event of non-submission of the written Action Plan within the deadline or failure to implement its action plan, FCPD shall recommend appropriate enforcement actions on the BSFI and its responsible officers including monetary penalties to be computed on a daily basis until improvements are satisfactorily implemented.

| | Composite Rating | | | |
|----------------------|----------------------------------|-----------------------------|--------------------------------------|---|
| Numerical Rating | 4 | 3 | 2 | 1 |
| Adjectival Rating | Strong | Acceptable | Marginal | Poor |
| Supervisory Approach | No cause for supervisory concern | Minimal supervisory concern | More than normal supervisory concern | Immediate and close supervisory attention and monitoring |
| Enforcement Action | None | Written reminder | Written Action plan | Written action plan suspension of introduction of new products and services or suspension of existing products/services that poses a consumer protection concern or suspension of further distribution or issuance of consumer products and services |

Table No. 2. Enforcement Actions for Consumer Protection Ratings

d. *Enforcement actions for violations of consumer protection regulations.*

Depending on the seriousness and impact of the breaches of Bangko Sentral Regulations on consumer protection and specific consumer protection rules and regulations, the following administrative sanctions shall be imposed:

| | |
|--------------------------|---|
| Administrative sanctions | Whenever applicable, the following administrative sanctions shall be imposed: <ul style="list-style-type: none"> (a) Fines in amount as may be determined by the Monetary Board to be appropriate; (b) Stopping/suspending operations/products or restricting approval of new operations/products; (c) Requiring the withdrawal/modification of advertising/marketing materials; and (d) Requiring submission of additional reports for monitoring. |
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Table No. 3. Administrative Sanctions for Violations of Consumer Protection Regulations.

(Circular No. 857 dated 21 November 2014)

Secs. X1004 - X1099 (Reserved)