



MANUAL OF REGULATIONS

FOR BANKS

Volume 2

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

I. QUALIFICATION REQUIREMENTS

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

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

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

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

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

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

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

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

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

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

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

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

II. FEASIBILITY STUDY

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

A. Capitalization and Ownership

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

B. Organization and Management

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

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

C. Financial Capability and Previous Year’s Operation.

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

D. Corporate Strategy

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

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

E. Financial Projections

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

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

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

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

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

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

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

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

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

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

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

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

**III. PUBLIC OFFERING AND LISTING
OF BANK SHARES**

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

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

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

(d) Features of the offer:

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

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

(iii) The proposed means of distribution;

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

(v) The expiry date of the offer.

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

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

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

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

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

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

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

APPLICATION REQUIREMENTS FOR THE ENTRY OF FOREIGN BANKS
(Appendix to Subsections X105.1 and X105.2)

The information contained in the application to be filed by foreign banks, which are interested to operate in the Philippines through any of the modes of entry, shall cover the criteria enumerated in the table below. Supporting documents attached to the application shall include but are not limited to the items enumerated below.

Entry Criteria	Acquisition of Existing Domestic Bank	Establishment of	
		New Domestic Subsidiary	Branch with Full Banking Authority
A. Contribution to the Philippine economy The applicant should describe the bank and its Home Country's current and expected contributions to the Philippine economy especially in terms of foreign direct investments and trade.	✓	✓	✓
B. Contributions to the local banking industry, including undertaking to share banking technology The applicant should describe how it can contribute positively to the improvement of the Philippine financial system.	✓	✓	✓
C. Corporate Plan The applicant should describe in meaningful details its business model and corporate strategy which should be consistent with the policy objectives of R.A. No. 7721, as amended by R.A. No. 10641 and supportive of Philippine economic policy. 1. Business model 2. Corporate strategy 3. Financial projections (including underlying assumptions)	✓	✓	✓
D. Financial Capability and Ownership Structure The applicant should demonstrate that it is financially sound and capable of conducting business in the Philippines in a safe and sound manner. It should describe its ownership and control structure in adequate detail, including whether it is a part of a financial or commercial conglomerate, and disclosing related parties, if any, that are operating in the Philippines.	✓	✓	✓

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Entry Criteria	Acquisition of Existing Domestic Bank	Establishment of	
		New Domestic Subsidiary	Branch with Full Banking Authority
The following documents should be presented: 1. Latest annual report; 2. Basic corporate background: i. Date and place of incorporation; ii. Number of branches and agencies in the home country; iii. List of foreign branches, agencies, other offices parent (if any), subsidiaries and affiliates, and their location and line of business (if different from banking); and iv. Range of banking services offered. 3. Articles of incorporation and by-laws; 4. Major stockholders and their corresponding percentage of ownership; 5. List of directors and principal officers as well as their respective citizenship; 6. Latest audited financial statements; and			
7. Proof of financial capacity and fitness of other investors in the bank, such as Audited Financial Statements and business references.	✓	✓	✗
E. Head Office Guarantee (with sample guarantee)	✗	✗	✓
F. Certification from the foreign bank applicant's home country supervisory authority that: 1. It has no objection to the foreign bank's investment; 2. It will provide the Bangko Sentral ng Pilipinas with relevant supervisory information, including derogatory information, related to the applicant bank, to the extent allowed under existing laws; 3. The foreign bank applicant is compliant with the capital requirements as prescribed by the laws and regulations of its country of origin; and 4. Philippine banks may establish subsidiaries and/or branches in the foreign bank applicant's home country, subject to compliance with the host country's rules and regulations governing admission generally applicable to all foreign banks.	✓	✓	✓
G. Transition Plan (for existing foreign banks opting to change their original mode of entry)	✓	✓	✓
H. Divestment Plan for the disposal of title/interest in all land properties held by the acquired domestic bank within a five (5)-year period reckoned from the date of Monetary Board approval of the foreign bank entry ¹	✓	✗	✗

¹ Also applicable for change in mode of entry (i.e., from subsidiary to branch)

Entry Criteria	Acquisition of Existing Domestic Bank	Establishment of	
		New Domestic Subsidiary	Branch with Full Banking Authority
I. Other Documentation Requirements			
1. Agreement between investor and investee domestic bank/Agreement to organize a bank (with sample)	✓	✓	✗
2. Board Resolution authorizing the foreign bank applicant to (i) invest in a domestic bank/establish a subsidiary/branch; and (ii) designate person/s who will represent the foreign bank, duly authenticated by the Philippine Consulate	✓	✓	✓
3. Certification from the foreign bank applicant's Corporate Secretary or any officer holding equivalent position containing the information that the bank is widely-owned and publicly-listed, duly authenticated by the Philippine Consulate	✓	✓	✓
4. Certification by the responsible officer of the Home Country Stock Exchange that the foreign bank applicant is listed therein, duly authenticated by the Philippine Consulate	✓	✓	✓
5. Names of proposed principal officers with designation and duties	✓	✓	✓
6. Authority to obtain information from other relevant regulatory authorities	✓	✓	✓
7. Payment of application fee (non-refundable) of P500,000 upon filing of application ^{1,2}	✓	✓	✓
8. Payment of franchise fee of P25 million upon approval of application ¹ .	✓	✓	✓

¹Also applicable for conversion of mode of entry
² Creditable to the franchise fee

Sample Guarantee Undertaking to Establish Branch/es of Foreign Banks

GUARANTEE

KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, under the provisions of Republic Acts (R.A.) No. 8791 (“The General Banking Law of 2000”) and No. 7721 (“An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for Other Purposes”), as amended by R.A. No. 10641, of the Republic of the Philippines, the licensing, supervision and regulation of banks, both foreign and domestic, are vested with the Bangko Sentral ng Pilipinas;

WHEREAS, under said R.A. 7721, as amended by R.A. No. 10641, {Name of Bank} (hereinafter called Guarantor) has been authorized to operate a branch or branches in the Philippines.

WHEREAS, under the provisions of R.A. No. 7721, as amended by R.A. No. 10641, banks organized under laws other than those of the Republic of the Philippines shall guarantee the full payment of all liabilities of its branch or branches in the Philippines for the purpose of providing effective protection and security to the interests of the depositors and other creditors of said branch or branches; and

WHEREAS, Guarantor is willing, desirous and ready at any time to give such full guarantee as well as to comply with whatever conditions required in said R.A. No. 7721, as amended by R.A. No. 10641.

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

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

The right on this Guarantee is independent of and separate from whatever right, security or action which any depositor or creditor of said branch or branches in the Philippines may have, take or pursue to protect his interest, and whatever action or measure the Bangko Sentral ng Pilipinas may adopt in the exercise of its supervisory and regulatory powers allowed and provided for in said R.A. No. 8791 and No. 7721, as amended by R.A. No. 10641, of the Republic of the Philippines, such as requiring Guarantor to assign to its Philippine Branch or Branches an amount of capital sufficient to meet the minimum capital required in said R.A. No. 7721, as amended by R.A. No. 10641, or any measure it may be authorized to take under the provisions of said R.A. No. 8791, in the case of capital deficiencies; in such case or cases, the liability created hereunder shall not in the least be minimized or affected, it being the purpose of this undertaking that Guarantor shall at all times be responsible and obligated for any such obligations or liabilities of its branch or branches in the Philippines, and to the extent that the same has been fully paid or satisfied only will said Guarantor be relieved from its primary obligations hereunder.

No technicality in the law or in the language of this Guarantee or in any contract, agreement or security, held by or with said branch or branches in the Philippines, shall defeat the nature and purpose of this Guarantee as a primary and direct obligation of Guarantor to the end that the interest of the depositors and creditors of the said branch or branches in the Philippines may be fully protected and satisfied in accordance with Section 5 of R.A. No. 7721, as amended by R.A. No. 10641. Guarantor hereby acknowledges having full knowledge of said R.A. No. 7721, as amended by R.A. No. 10641, in accordance with which this primary and principal obligation is given. Guarantor hereby recognizes the jurisdiction of Philippine courts and hereby authorizes its branch office and/or offices in the Philippines to accept summons, processes and notices from the Philippine courts.

The Guarantee shall be governed by Philippine law.

IN WITNESS WHEREOF, this Guarantee has been executed by Guarantor acting by and through its Officers thereunto duly authorized this ____ day of _____, 20__.

Sample Agreement to Organize a Subsidiary Bank

AGREEMENT TO ORGANIZE A

(Specify type of Bank)

BANK

An agreement, made this _____ day of _____, 20____ by and among the following:

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

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

1. That a corporation to be known as _____ shall forthwith be formed for the purpose of carrying on the business of a _____ bank as provided for by law;

2. That the place where the principal office of the corporation is to be established or located is in _____;

3. That the number of directors of the said corporation shall be _____ and that the names, residences and citizenship of the proposed directors of the corporation are, as follows:

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

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

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

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

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

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

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

SIGNATURES

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

SIGNED IN THE PRESENCE OF:

_____	_____
Witness	Witness

NOTARIAL ACKNOWLEDGMENT

(As amended by Circular No. 858 dated 21 November 2014 and 774 dated 16 November 2012)

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

**I. QUALIFICATION AND
DOCUMENTATION REQUIREMENTS**

A. Minimum Capital Required. The capital, as defined under prevailing rules and regulations, of a foreign bank branch applying for a universal banking (UB) authority shall be equivalent to at least the amount prescribed by the Monetary Board for UBs.

B. Financial Resources, Past Performance and General Compliance with Banking Laws and Regulations. Applicant bank shall comply with capital adequacy ratios (Common Equity Tier 1, Tier 1, Capital Adequacy Ratio, and Capital Conservation Buffer) under Section 34 of R.A. No. 8791, Subsec. X105.6 and *Appendix 63b*, for the year preceding the filing of application. It shall have sufficient valuation reserves to cover estimated losses.

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

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

C. Knowledge, Competence, Experience and Integrity of Officers and Key Personnel.

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

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

II. PROJECT FEASIBILITY STUDY

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

A. Organization and Management

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

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

B. Corporate Strategy

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

2. The lending program and special policies lined up for the first five (5) years

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including details on guidelines and standards to be established on exposure limits, portfolio diversification, collateral requirements, geographical expansion, assistance to pioneer and priority areas of economic activities and relationship with clients.

3. Investment policies and program to be implemented within the first five (5) years of operation including the broad categories of undertakings in which the UB may invest, the portfolio mix to be observed, the extent of control over subscribed capital stock and voting stock to be exercised in financial allied undertakings, quasi-banks and non-financial allied undertakings.

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

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

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

C. Financial Projections

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

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

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

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

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

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

(As amended by Circular Nos. 858 dated 21 November 2014 and 696 dated 29 October 2010)

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

REPUBLIC OF THE PHILIPPINES)
_____) S.S.

AFFIDAVIT

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

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

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

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

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

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

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

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

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

Affiant

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

Notary Public

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

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

A. Banks Applying For Authority to –

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

B. Standard Pre-Qualification Requirements

Banking Authorities

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

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

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

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

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

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

a - applicable
n/a - not applicable

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORTS REQUIRED OF BANKS						
Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
A. UBs/KBs						
A-1	Form 2B/2B.1 (BSP-7-16-03)	X192.9 (Cir. No. 576 dated 08.08.07, M-030 dated 10.04.07, M-020 dated 04.22.14, M-026 dated 06.23.14 as amended by Cir. No. 890 dated 11.02.15)	Balance Sheet (BS)/Consolidated Balance Sheet(CBS) Published BS/CBS	Quarterly	12th banking day from the date of the Call Letter 20th banking day from the date of the Call Letter	sdckb-pbs@bsp.gov.ph or CD to SDC Hard Copy to SDC
A-1	Unnumbered	X191.2 (Cir. No. 512 dated 02.03.06, as amended by M-006 dated 07.07.06, MAB dated 03.07.06, Cir. No. 568 dated 05.08.07, M-015 dated 05.28.07, M-026 dated 09.20.07, Cir. No. 600 dated 02.04.08, M-011 dated 03.07.08, M-012 dated 03.14.08, M-016 dated 06.16.10, M-021 dated 07.20.10, M-032 dated 09.27.10, Cir. No. 701 dated 12.13.10, M-052 dated 11.29.12, M-058 dated 12.17.12, Cir. No. 773 dated 11.20.12 M-04 dated 01.30.13, M-053 dated 12.06.13, M-015 dated 03.24.14)	Financial Reporting Package (FRP) Balance Sheet (FRP) -Solo basis (Head Office and branches) -Consolidated basis (together with applicable schedules) -Control Prooflist Income Statement (FRP): -Solo basis (Head Office and branches) -Consolidated basis (together with applicable schedules) -Control Prooflist	Monthly Quarterly Monthly Quarterly	15th banking day after end of reference month 30th banking day after end of reference quarter 15th banking day after end of reference month 30th banking day after end of reference quarter	SDC sdckb-frp@bsp.gov.ph do do do do

¹ Only banks with financial allied subsidiaries, excluding insurance subsidiaries, shall submit the reports on consolidated basis

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
		X191.2 (M-020 dated 04.22.14, Cir. No. 836 dated 06.13.14, Cir. No. 837 dated 06.18.14, M-025 dated 06.23.14, Cir. No. 880 dated 05.22.15, Cir. No. 883 dated 07.10.15, M-028 dated 07.31.15, Cir. No. 885 dated 08.14.15, Cir. No. 886 dated 09.08.15, M-029 dated 09.14.15, M-030 dated 09.14.15, M-031 dated 09.14.15, M-032 dated 09.14.15, M-033 dated 09.14.15, M-034 dated 09.14.15, Cir. No. 890 dated 11.02.15, Cir. No. 903 dated 02.29.16 and M-008 dated 06.23.16)	Schedules (Solo Report):			
			1 - Checks and Other Cash Items (COCI)	Monthly	15th banking day after end of reference month	SDC sdckb-frp@bsp.gov.ph
			2 - Due from Other Banks	do	do	do
			3 - Financial Assets Held for Trading	do	do	do
			3a - Breakdown of Held for Trading (HFT) Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15th banking day after end of reference quarter	do
			4 - Derivatives Held for Trading (HFT)	do	do	do
			4a - Derivatives Held for Trading - Matrix of Counterparty and Type of Derivatives Contracts	Monthly	15th banking day after end of reference month	do
			5 - Financial Assets Designated at Fair Value through Profit or Loss	do	do	do
			6 - Available-for-Sale Financial Assets	do	do	do
			6a - Breakdown of Available for Sale Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15th banking day after end of reference quarter	do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
			6b to 6b4 - Available-for-Sale Financial Assets- Classified as to Status	Quarterly	15th banking day after end of reference quarter	SDC ¹ sdckb-frp@bsp.gov.ph
			6c to 6c4 - Available-for-Sale Financial Assets Movements in Allowances for Credit Losses	Annually	15th banking day after end of reference year	do
			7 - Held to Maturity (HTM) Financial Assets	Monthly	15th banking day after end of reference month	do
			7a - Breakdown of Held to Maturity Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15th banking day after end of reference quarter	do
			7b - Fair Value of Held to Maturity (HTM) Financial Assets	Annually	15th banking day after end of reference year	do
			7c to 7c4 - Held to Maturity Financial Assets Classified as to Status	Quarterly	15th banking day after end of reference quarter	do
			7d to 7d4 - Held to Maturity Financial Assets Movements in Allowances for Credit Losses	Annually	15th banking day after end of reference year	do
			8 - Unquoted Debt Securities Classified as Loans	Monthly	15th banking day after end of reference month	do
			8a - Fair Value of Unquoted Debt Securities Classified as Loans	Annually	15th banking day after end of reference year	do
			8b to 8b4 - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	15th banking day after end of reference quarter	do

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			8c to 8c4 - Unquoted Debt Securities Classified as Loans-Movements in Allowances for Credit Losses	Quarterly	15th banking day after end of reference quarter	SDC ¹ sdckb-frp@bsp.gov.ph
			9 - Investment in Non-Marketable Equity Securities	Monthly	15th banking day after end of reference month	do
			10 - Interbank Loans Receivables	do	do	do
			11 - Loans and Receivables – Others (Net Carrying Amount)	do	do	do
			11a to 11a4 - Loans and Receivables – Others Classified as to Status	do	do	do
			11b to 11b4 - Restructured Loans and Receivables Classified as to Status	do	do	do
			11c to 11c4 - Loans and Receivables – Others Movements in Allowances for Credit Losses	Quarterly	15th banking day after end of reference quarter	do
			11d to 11d4 - Gross Loans and Receivables – Others Classified as to Type of Business/ Industry of Counterparty	Monthly	15th banking day after end of reference month	do
			11e to 11e4 - Loans and Receivables – Others Classified as to Status per PAS 39	Annually	15th banking day after end of reference year	do
			11f - Schedule of Agri/Agra, Microfinance and SME Loans and Receivables Classified as to Counterparty	Monthly	15th banking day after end of reference month	do

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			11g1 - Real Estate Exposure	Quarterly	15th banking day after end of reference quarter	SDC ¹ sdckb-frp@bsp.gov.ph
			11g2 - Investment in Debt and Equity Securities issued by Real Estate Companies	do	do	
			11g3 - Original Maturity and Earliest Repricing of Real Estate Exposure	do	do	do
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	Monthly	15th banking day after end of reference month	do
			12a to 12a4 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions-Matrix of Counterparty and Issuer of Collateral Securities	Quarterly	15th banking day after end of reference quarter	do
			13 - Fair Value Adjustments in Hedge Accounting	do	do	do
			13a - Derivatives Held for Fair Value Hedge	do	do	do
			13b - Derivatives Held for Cash Flow Hedge	do	do	do
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	do	do	do
			13d - Financial Derivatives Held for Portfolio Hedge of Interest Rate Risk (Market to Market Amount)	do	do	do

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			14 - Accrued Interest Income/Expense from Financial Assets and Liabilities	Quarterly	15th banking day after end of reference quarter	SDC ¹ sdckb-frp@bsp.gov.ph
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	Monthly	15th banking day after end of reference month	do
			15a - Equity Investment in Subsidiaries, Associates and Joint Ventures – Classified as to Nature of Business	Quarterly	15th banking day after end of reference quarter	do
			15b - Details of Equity Investment in Subsidiaries, Associates and Joint Ventures	do	do	do
			16 - Bank Premises, Furniture, Fixture and Equipment	do	do	do
			17 - Real and Other Properties Acquired/Noncurrent Assets Held for Sale	do	do	do
			17a - Aging of ROPA and NCAHS Accounts	Annually	15th banking day after end of reference year	do
			17b - Movement in ROPA and NCAHS Accounts	do	do	do
			18 - Schedule of Tax Assets and Liabilities	do	do	do
			19 - Other Assets	Monthly	15th banking day after end of reference month	do

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			20 - Breakdown of Due from and Due to Head Office/Branches/Agencies Abroad - Philippine Branch of Foreign Banks	Monthly	15th banking day after end of reference month	SDC ¹ sdckb-frp@bsp.gov.ph
			21 - Liability for Short Position	Quarterly	15th banking day after end of reference quarter	do
			22 - Deposit Liabilities Classified as to Type of Deposit	Monthly	15th banking day after end of reference month	do
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/Branches	Quarterly	15th banking day after end of reference quarter	do
			23 - Due to Other Banks	Monthly	15th banking day after end of reference month	do
			24 - Bills Payable	do	do	do
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	Quarterly	15th banking day after end of reference quarter	do
			26 - Fair Value of Financial Liabilities	Annually	15th banking day after end of reference year	do
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	15th banking day after end of reference quarter	do
			28 - Other Liabilities	Monthly	15th banking day after end of reference month	do
			29 - Interest Income/Expense from Financial Instruments	Quarterly	15th banking day after end of reference quarter	do

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			29a - Interest Income from Due from Other Banks Classified as to Type of Deposits	Quarterly	15th banking day after end of reference quarter	SDC ¹ sdckb-frp@bsp.gov.ph
			29b - Interest Income from Held for Trading, Designated at FVPL, Available for Sale, Held to Maturity Financial Assets and Unquoted Debt Securities Classified as Loans	do	do	do
			29c - Interest Income from Interbank Loans Receivables	do	do	do
			29d to 29d4 - Interest Income from Loans and Receivables- Others - Classified as to Status	do	do	do
			29e - Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse and Securities Lending and Borrowing Transactions	do	do	do
			30a - Interest Expense on Deposit Liabilities - Classified as to type of deposit	do	do	do
			30b - Interest Expense on Bills Payable	do	do	do
			30c - Interest Expense on Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	do	do	do
			31 - Dividend Income	do	do	do

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			32 - Gains/(Loss) on Financial Assets and Liabilities Held for Trading	Quarterly	15th banking day after end of reference quarter	SDC ¹ sdckb-frp@bsp.gov.ph
			33 - Gains/(Losses) from Sale/Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities	do	do	do
			34 - Compensation/Fringe Benefits	do	do	do
			35 - Other Administrative Expenses	do	do	do
			36 - Depreciation/Amortization Expense	do	do	do
			37 - Impairment Loss	do	do	do
			38 - Off-Balance Sheet	do	do	do
			38a, 38a1, 38a3 & 38a4 - Report by the PERA Administrator on Personal Equity and Retirement Account	do	do	do
			39 & 39a - Residual Maturity Performing Financial Assets and Financial Liabilities	do	do	do
			40 & 40a - Repricing - Performing Financial Assets and Financial Liabilities	do	do	do
			41 - Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs	do	do	do
			42 - Disclosure of Due From FCDU/RBU and Due to FCDU/RBU	do	do	do
			Schedules (Consolidated Report): Control Prooflist	do	30th banking day after end of reference quarter	do

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			1 - Checks and Other Cash Items	Quarterly	30th banking day after end of reference quarter	SDC ¹ sdckb-frp@bsp.gov.ph
			2 - Due from Other Banks	do	do	do
			3 - Financial Assets Held for Trading	do	do	do
			3a - Breakdown of Held for Trading (HFT) Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	do	do	do
			4 - Derivatives Held for Trading (HFT)	do	do	do
			4a - Derivatives Held for Trading-Matrix of Counterparty and Type of Derivative Contracts	do	do	do
			5 - Financial Assets Designated at Fair Value through Profit or Loss	do	do	do
			6 - Available-for-Sale Financial Assets	do	do	do
			6a - Breakdown of Available-For-Sale Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, Securities Lending and Borrowing Agreements	do	do	do
			6b - Available-for-Sale Financial Assets- Classified as to Status	do	do	do

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			6c - Available-for-Sale Financial Assets Movements in allowances for credit losses	Annually	30th banking day after end of reference year	SDC ¹ sdckb-frp@bsp.gov.ph
			7 - Held to Maturity (HTM) Financial Assets	Quarterly	30th banking day after end of reference quarter	do
			7a - Breakdown of Held to Maturity Financial Assets Purchased/ Sold/ Lent Under Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, Securities Lending and Borrowing Agreements	do	do	do
			7b - Fair Value of Held to Maturity Financial Assets	Annually	30th banking day after end of reference year	do
			7c - Held to Maturity Financial Assets Classified as to Status	Quarterly	30th banking day after end of reference quarter	do
			7d - Held to Maturity Financial Assets Movements in Allowances for Credit Losses	Annually	30th banking day after end of reference year	do
			8 - Unquoted Debt Securities Classified as Loans	Quarterly	30th banking day after end of reference quarter	do
			8a - Fair Value of Unquoted Debt Securities Classified as to Status	Annually	30th banking day after end of reference year	do
			8b - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	30th banking day after end of reference quarter	do
			8c - Unquoted Debt Securities Classified as Loans Movements in allowances for Credit Losses	Annually	30th banking day after end of reference year	do

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			9 - Investment in Non-Marketable Equity Securities	Annually	30th banking day after end of reference year	SDC ¹ sdckb-frp@bsp.gov.ph
			10 - Interbank Loans Receivables	Quarterly	30th banking day after end of reference quarter	do
			11 - Loans and Receivables – Others	do	do	
			11a - Loans and Receivables – Others Classified as to Status	do	do	do
			11b - Restructured Loans and Receivables Classified as to Status	do	do	do
			11c - Loans and Receivables – Others Movements in Allowances for Credit Losses	do	do	do
			11d - Gross Loans and Receivables – Others Classified as to Type of Business/Industry of Counterparty	do	do	do
			11e - Loans and Receivables – Others Classified as to status per PAS 39	Annually	30th banking day after end of reference year	do
			11f - Schedule of Agri/Agra SME, DIL and Microfinance Loans and Receivables Under Sched 11 Classified as to Counterparty	Quarterly	30th banking day after end of reference quarter	do
			11g1 - Report on Real Estate Exposure	do	do	do
			11g2 - Investment in Debt and Equity Securities Issued by Real Estate companies	do	do	do

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			11g3 - Original Maturity and Earliest Repricing of Real Estate Exposure	Quarterly	30th banking day after end of reference quarter	SDC ¹ sdckb-frp@bsp.gov.ph
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions - By Counterparty	do	do	do
			12a - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing transactions Matrix of Counterparty and Issuer of Collateral Securities	do	do	do
			13 - Fair Value Adjustments in Hedge Accounting	do	do	do
			13a - Derivatives Held for Fair Value Hedge	do	do	do
			13b - Derivatives Held for Cash Flow Hedge	do	do	do
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	do	do	do
			13d - Derivatives Held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount)	do	do	do
			14 - Accrued Interest Income/Expense from Financial Assets and Liabilities	do	do	do

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			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	Quarterly	30th banking day after end of reference quarter	SDC ¹ sdckb-frp@bsp.gov.ph
			15a - Equity Investment in Subsidiaries, Associates and Joint Ventures - Classified as to Nature of Business	do	do	do
			15b - Details of Equity Investment in Subsidiaries, Associates and Joint Ventures	do	do	do
			16 - Bank Premises, Furniture, Fixture and Equipment	do	do	do
			17 - Real and Other Properties Acquired/Non- Current Assets Held for Sale	do	do	do
			17a - Aging of ROPA and NCAHs Accounts	Annually	30th banking day after end of reference year	do
			17b - Movement in ROPA and NCAHs Accounts	do	do	do
			18 - Schedule of Tax Assets & Liabilities	do	do	do
			19 - Other Assets	Quarterly	30th banking day after end of reference quarter	do
			20 - Breakdown of Due from and Due to Head Office/Branches/Agencies Abroad – Philippine Branch of a Foreign Bank	do	do	do
			21 - Liability for Short Position	do	do	do

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			22 - Deposit Liabilities Classified as to Type of Deposit	Quarterly	15th banking day after end of reference quarter	SDC ¹ sdckb-frp@bsp.gov.ph
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/ Branches	do	30th banking day after end of reference quarter	
			23 - Due to Other Banks	do	do	do
			24 - Bills Payable	do	do	do
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	do	do	do
			26 - Fair Value of Financial Liabilities	Annually	30th banking day after end of reference year	do
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	30th banking day after end of reference quarter	do
			28 - Other Liabilities	do	do	do
			29 - Interest Income/Expense from Financial Instruments	do	do	do
			29a - Interest Income from Due from Other Banks Classified as to Type of Deposits	do	do	do
			29b - Interest Income from Held for Trading, Designated at FVPL, Available for Sale, Held to Maturity Financial Assets and Unquoted Debt Securities Classified as Loans	do	do	do

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			29c - Interest Income from Interbank Loans Receivables	Quarterly	30th banking day after end of reference quarter	SDC ¹ sdckb-frp@bsp.gov.ph
			29d - Interest Income from Loans and Receivables - Others - Classified as to Status	do	do	do
			29e - Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse and Securities Lending and Borrowing Transactions	do	do	do
			30a - Interest Expense on Deposit Liabilities Classified as to Type of Deposit	do	do	do
			30b - Interest Expense on Bills Payable	do	do	do
			30c - Interest Expense on Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	do	do	do
			31 - Dividend Income	do	do	do
			32 - Gains/(Losses) on Financial Assets and Liabilities Held for Trading	do	do	do
			33 - Gains/(Losses) from Sale/Redemption Derecognition of Non-Trading Financial Assets and Liabilities	do	do	do
			34 - Compensation/Fringe Benefits	do	do	do
			35 - Other Administrative Expenses	do	do	do

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			36 - Depreciation/Amortization Expense	Quarterly	30th banking day after end of reference quarter	SDC ¹ sdckb-frp@bsp.gov.ph
			37 - Impairment Loss	do	do	do
			38 - Off-Balance Sheet	do	do	do
			38a - Report by the PERA Administrator on Personal Equity and Retirement Account	do	do	do
			39 - Residual Maturity Performing Financial Assets and Financial Liabilities	do	do	do
			40 - Repricing - Performing Financial Assets and Financial Liabilities	do	do	do
			41 - Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs	do	do	do
			42 - Disclosure of Due from FCDU/RBU and Due to FCDU/RBU	do	do	do
A-1	Unnumbered	X115 (Cir. No. 842 dated 07.25.14, as amended by M-2016-024 dated 12.28.16)	Basel III Capital Adequacy Ratio (CAR) Report and Control Prooflist			sdckb-car574@bsp.gov.ph
			Basel III CAR Summary Report			sdckb- CARsummary@bsp.gov.ph
		1115.2 (Cir. No. 538 dated 08.10.06 and Cir. No. 574 dated 07.10.07 as amended by Cir. No. 740 dated 11.16.11, M-062 dated 12.12.11, M-049 dated 10.22.12, M-028 dated 06.19.13, M-056 dated 12.10.13, M-019 dated 04.10.13, M-020 dated 04.22.14, M-044 dated 11.24.14, M-001 dated 01.07.15, Cir. No. 890 dated 11.02.15 and Cir. No. 903 dated 02.29.16)	- solo basis (head office and branches)	do	within 15 banking days after end of reference quarter	Hard Copy: SDC
			- consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies)	do	within 30 banking days after end of reference quarter	do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-1		(M-046 dated 09.21.12 as amended by M-057 dated 12.18.12 and M-020 dated 04.22.14 and Cir. No. 890 dated 11.02.15)	Expanded Report on Real Estate Exposures (solo and consolidated)	do	do	sdckb-ree@bsp.gov.ph
			- Consolidated (Parent banks with subsidiary banks and other financial allied undertakings excluding insurance companies)			
A-1	Unnumbered	X611.5 (Cir. No. 594 dated 01.08.08, as amended by M-009 dated 02.27.08)	Derivatives Report	Monthly	15th banking day after end of reference month	CMSG cc: SDC at cmsg@bsp.gov.ph sdc-derivatives@bsp.gov.ph
			Schedules:			
			Report on Outstanding Derivatives Contracts (Stand - Alone - RBU, Stand - Alone - FCDU, Hybrid)			
			Report on Trading (Gains/Losses) on Financial Derivatives			
			Certification (Hard Copy)	do	do	CMSG cc mail: SDC sdckb-pfrs@bsp.gov.ph
A-1	Unnumbered	X136.4 (Cir. No. 888 dated 10.09.15)	Report on Dividends Declared		10th banking/business day after date of dividend declaration	Appropriate department of the SES
A-1	Unnumbered	X191.3 X388.5 (As amended by Cir. No. 708 dated 01.10.11, 733 dated 05.08.11, M-048 dated 08.26.11, Cir. No. 761 dated 07.20.12, M-020 dated 04.22.14 and Cir. No. 890 dated 11.02.15)	Reports on Initial Adoption of PFRS 9	Upon initial application of PFRS 9	15 banking days from the end of the calendar or fiscal year of initial application of PFRS 9	sdckb-pfrs@bsp.gov.ph

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-1	Unnumbered	(M-020 dated 04.22.14 as amended by Cir. No. 890 dated 11.02.15)	Supplementary Report on Early Adoption of PFRS 9	Monthly	15th banking day after end of reference month	sdckb-frp@bsp.gov.ph
A-1	Unnumbered	X146.3 (Circular Nos. 757 dated 05.08.12 and 749 dated 02.27.12 as amended by Cir. Nos. 895 dated 12.14.15 and 917 dated 07.08.16)	Report on Conglomerate Structures ¹	Annually	30 calendar days after the end of calendar year	Hardcopy to the appropriate department of the SES
A-1	Unnumbered	X141.3c(9) (Circular No. 749 dated 02.27.12)	Replacement of the Chief Risk Officer	As changes occur	5 calendar days from the time of approval of the board of directors	Appropriate department of the SES
A-1	Unnumbered	X146.3 (Circular Nos. 757 dated 05.08.12 and 749 dated 02.27.12 as amended by Cir. Nos. 895 dated 12.14.15 and 917 dated 07.08.16)	Report on Material Related Party Transactions	Quarterly	20 calendar days after end of reference quarter	Hard copy to the appropriate department of the SES
A-1	Unnumbered	X309.5 (Cir. No. 814 dated 09.27.13)	NPL Movements and Aging	do	Within 15 banking days after end of reference quarter	Appropriate department of the SES
A-1		X115.6 (Cir. No. 881 dated 06.09.15 and M-026 dated 07.16.15 as amended by Cir. No. 890 dated 11.02.15 and Cir. No. 903 dated 02.29.16)	Basel III Leverage Ratio (BLR) Report - Solo basis (head office and branches) For Reference Date: 30 June 2015 For Reference Dates: 31 December 2015, 30 June 2016 & 31 December 2016 - Consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies) For Reference Dates: 30 June 2015, 31 December 2015, 30 June 2016 & 31 December 2016	Semi-annually	30 banking days from submission reference date 15 banking days from submission reference date 30 banking days from submission reference date	sdckb-leverage@bsp.gov.ph

¹ The report for the year ended 31 December 2011 and was due on or before 31 March 2012.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
	KAR 230KB (BSP-SES1.03) KAR 240KB (BSP-SES1.04) KAR 250KB (BSP 7-16-07) KAR 260KB (BSP 7-16-01.1-3) KUB 265DR		CARE Reports Reports on Required and Available Reserves on: - Deposit Substitutes/Interbank Loans; and - Deposit Liabilities Reports on Minimum Capital Required Under Section 34 of R.A. No. 8791 Summary Utilization of Available Reserves & Liquidity Floor on Gov't Funds Held	Weekly	Upon completion of Processing by SDC	(Note: CDRC-sourced reports generated by SDC are furnished to the appropriate department of the SES)
A-1	Unnumbered	X115.5 (Cir. No. 856 dated 10.25.14, as amended by M-004 dated 01.12.15)	Report on Selected Accounts and Activities for the Identification of Domestic Systemically Important Banks ¹ (DSIBs Report) (Consolidated Basis)	Semestral Annual	30 banking days after end of reference period	Sdckb-dsib@bsp.gov.ph or CD - SDC
A-1	Unnumbered	1176.1 (Circular No. 905 dated 03.10.16, as amended by M- 010 dated 06.27.16)	Basel III Liquidity Coverage Ratio Report ² Solo basis Consolidated bases	Monthly Quarterly	15 banking days after end of LCR measurement date 30 banking days after end of LCR measurement	SDCKB-LCR@bsp.gov.ph -do-
A-1		X907.6 (Circular No. 885 dated 08.14.15)	Broker Customer Accounts for Settlement of Customer Trades - Cash Accounts / Securities Accounts ³ - End-of-week balance	Monthly	15th banking day after end of reference month	Sdckb-dsib@bsp.gov.ph or CD - SDC
A-2	DCB I/II Form 1 (Revised June 2001)	X258 X192.1 (As amended by M-058 dated 12.13.13, M-010 dated 03.10.14, M-020 dated 04.22.14, Circular No. 870 dated 02.20.15, M-015 dated 03.16.15, Cir. No. 890 dated 11.02.15 and Cir. No. 903 dated 02.29.16)	Consolidated Daily Report of Condition (CDRC) (SES01000.CSV) Schedules: Schedule 2 - Selected Domestic Accounts and Control Prooflist (CDRC-CP.PDF) Notarized and signed by authorized bank officials Annexes - Weekly Inventory of GS Held	Weekly	3rd banking day after end of reference week	sdckb-cdrc@bsp.gov.ph or CD to SDC through postal/messengerial service SDC via Fax No. (02)708-7554 or postal/messengerial service

¹ For guidelines and line item instructions please refer to <http://www.bsp.gov.ph/regulations/regulations.asp?type=1&id=3371>.

² During the observation period, quarterly submissions shall start with quarter ended 30 June 2016 shall start 15 banking days thereafter and shall conclude with quarterly report ended 30 September 2017. Henceforth, regular monthly (solo basis) and quarterly (consolidated basis) reports shall be submitted 15 and 30 banking days, respectively, after end of reference period starting with 31 December 2017.

³ Beginning with the reporting period ending 30 September 2015.

Category	Form No.	Report Title	Frequency	-	Submission Procedure/ e-mail Address
A-2	Unnumbered	X405.9 (As amended by M-057 dated 12.13.13, M-020 dated 04.22.14 and Cir. No. 890 dated 11.02.15)	Report on Peso-Denominated Common Trust Fund and Other Similarly Managed Funds	Weekly	3rd banking day after end of reference week sdckb-trust@bsp.gov.ph
A-2	Unnumbered	X405.9 (CL dated 08.20.98, as amended by M-057 dated 12.13.13, M-020 dated 04.22.14 and Cir. No. 890 dated 11.02.15)	Reserve Required on Trust and Other Fiduciary Accounts (TOFA)	do	3rd banking day after end of reference week do
A-2	Unnumbered	X425.2 (Cir. 609 dated 05.26.08 as amended by M-022 dated 06.26.08, M-020 dated 04.22.14, Cir. 880 dated 05.22.15, M-028 dated 07.31.15, M-030 dated 09.14.15, M-031 dated 09.14.15, M-032 dated 09.14.15, Cir. No. 890 dated 11.02.15, Cir. No. 903 dated 02.29.16, Cir. No. 913 dated 06.05.16, M-009 dated 06.23.16 and Cir. No. 920 dated 08.18.16)	Financial Reporting Package for Trust Institutions (FRPTI) Schedules: Balance Sheet A1 to A2 Main Report B to B2 Details of Investments in Debt and Equity Securities C to C2 Details of Loans and Receivables D to D2 Wealth/Asset/Fund Management - UITF E Other Fiduciary Accounts E1 to E1b Other Fiduciary Services - UITF Income Statement Control Prooflist	Quarterly 	

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Procedure/ e-mail Address</u>
A-2	Unnumbered (no prescribed form)	X141.9 (Cir. No. 758 dated 05.11.12, as amended by Cir. No. 887 dated 10.07.15)	Certification under oath of directors that they have received copies of the general responsibility and specific duties and responsibilities of the board of directors and of a director and that they fully understand and accept the same	Upon election as first-time director within a bank or banking group	20th banking day after date of election Hardcopy to appropriate department of the SES
A-2	Unnumbered	X807 (Revised May 2002, as amended by Cir. Nos. 612 dated 06.03.08 and 706 dated 01.05.11)	Covered Transaction Report (CTR) Suspicious Transaction Report (STR)	As transaction occurs do	10th banking day from the occurrence of the transaction do Original and duplicate to Anti-Money Laundering Council (AMLC)
A-2	Unnumbered	(Cir. No. 607 dated 04.30.08, as amended by M-020 dated 04.22.14, M-021 dated 06.16.08, Cir. No. 836 dated 06.13.14, M-024 dated 06.23.14 and Cir. No. 890 dated 11.02.15)	Report on Microfinance Products Control Prooflist	Monthly do	15th banking day after end of the reference month do sdckb-micro@bsp.gov.ph
A-2	Unnumbered	(Cir. No. 607 dated 04.30.08, as amended by M-021 dated 06.16.08, M-020 dated 04.22.14, Cir. No. 836 dated 06.13.14, M-024 dated 06.23.14 and Cir. No. 890 dated 11.02.15)	Income Statement on Retail Microfinance Operations Control Prooflist	Quarterly do	15th banking day after end of the reference quarter do do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-2	Unnumbered	X181.5 (Cir. No. 620 dated 09.03.08)	Self-Assessment and Certification of Compliance with Rules and Regulations on Bank Protection/Updated Security Program	Annually	On or before 30 January	Appropriate department of the SES
A-2	DCB I/II Form 4 (BSP 7-16-11)	X192.7 (Cir. No. 533 dated 06.19.06, as amended by Cir. No. 718 dated 04.28.11)	Consolidated List of Stockholders and their Stockholdings	Annually/ quarterly when any change occurs	12th banking day after end of calendar year and if there are changes, 12th banking day after end of the reference quarter	Original – Appropriate department of the SES
A-2	BSP-7-16-32 A (Rev. August 2003)	X192 (M-020 dated 04.22.14 as amended by Cir. No. 890 dated 11.02.15)	Report on Credit and Equity Exposures to Individuals/Companies/Groups aggregating P1.0 million and above (Bank Proper and Trust Department) (CREDEX)	Quarterly	15th banking day after end of reference quarter	srso-credex@bsp.gov.ph or CD to SDC
A-2	Unnumbered	X192.3 (Cir. No. 866 dated 01.07.15)	List of bank personnel acting as salesmen or asociated persons	Annually	Not later than December 15 every year	Appropriate department of the SES
			List of licenses granted by SEC and/or BOF-BTr (as broker, dealer, broker-dealer, GSED and/or transfer agent)	do	do	
			Notarized Certification	do	do	
			1192.3 (Cir. No. 866 dated 01.07.15)	do	do	Appropriate department of the SES
A-2	Unnumbered	X393 (Cir. No. 613 dated 06.18.08, as amended by M-032 dated 10.31.08, M-020 dated 04.22.14, M-035 dated 09.16.14 and Cir. No. 890 dated 11.02.15)	Report of Selected Branch Accounts	Semestral	20th banking day after end of reference semester	sdckb-bris@bsp.gov.ph
			Schedules			
			Selected Balance Sheet Accounts			
			Selected Balance Sheet and Income Statement Accounts			
			Aging of Loans and Receivables – Others			
			Breakdown of Deposit Liabilities Bank Loans-to-Deposits Ratio			
			Reconciling Items Outstanding for More than Six (6) Months on the Due From/Due To Head Office, Branches and Agencies Account			

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
		X149.8 (Cir. No. 848 dated 09.08.14)	Bank Deposit Interest Rate	do	do	
A-3	DES-RREPI (Form I)	X192.17 (Cir. No. 892 dated 11.16.15, M-2015-042 dated 12.02.15, as amended by Cir. No. 917 dated 07.08.16)	Bank Quarterly Report on Residential Real Estate Loans for the Generation of the Residential Real Estate Price Index	Quarterly	20th banking day from reference quarter	DES - e-mail esligdes@bsp.gov.ph Unable to transmit electronically - CD - DES through messengerial or postal services
A-3	DCB I/II Form 5 (BSP-7-16-07-A)	X331 X409.3	Daily Report on Compliance with Aggregate Ceiling on Direct/Indirect Credit Accommodations to Directors/Officers/ Stockholders (DOSRI), Secured and Unsecured Loans	Weekly	4th banking day after end of reference week	Original and duplicate- Appropriate department of the SES, as combined report w/ Form 5 above
A-3	DCB I/II Form 5A (BSP-7-16-07-B)	X330 X409.3	Daily Report on Compliance with Ceiling on Outstanding Unsecured Direct and Indirect Credit Accommodations to Directors/Officers/ Stockholders (DOSRI)	do	do	Original and duplicate- Appropriate department of the SES, as supporting schedules to Form 5A above
A-3	SES I/VI Form 5A.1 (BSP-716-07B.1)	X330 X409.3	Daily Report on Compliance with Individual Ceilings on Direct/Indirect Credit Accommodations to DOSRI, secured and unsecured loans together with a certification by authorized signatories that no one has exceeded the prescribed individual ceilings	do	do	Original and duplicate- Appropriate department of the SES
A-3	DCB I/II Form 5B (BSP-7-16-13)	X335 X409.3	Consolidated Report on Compliance With Aggregate Ceiling on Credit Accommodations to DOSRI	Semestral	15th banking day after end of reference semester	do
A-3	DCB I/II Form 5D (BSP-7-16-17)	X334	Report on Compliance with Section 36 of R.A. No. 8791 Transmittal of Board resolution/Written approval on credit Accommodation to DOSRI in compliance with Sec. 36 R.A. No. 8791	As loan to DOSRI is approved	20th banking day after approval of direct or indirect loan granted any director or officer, stockholder (DOSRI)	do
A-3	Unnumbered	X328.5 (Cir. No. 560 dated 01.31.07)	Transmittal of Board Resolution/Written Approval On Credit Accommodation to Subsidiaries and/or Affiliates	As loan to subsidiaries and/or affiliates is approved	20th banking day after approval	do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-3	DCB I/II Form 6	X342.6 (MAB dated 04.28.03, M-035 dated 11.19.08 and Cir. No. 625 dated 10.14.08 as amended by Cir. No. 890 dated 11.02.15)	Report on Compliance with Mandatory Credit Allocation Required by R.A. No. 6977 as amended by R.A. Nos. 8289 and 9501 (Solo and Consolidated Reports)	Quarterly	15th banking day after end of reference quarter	sdckb-sme@bsp.gov.ph
			Schedules:			
			1A - Computation of Total Loan Portfolio for Purposes of Determining Amount of Mandatory Credit Allocation for MSMEs			
			1A-1 - Wholesale Lending of a Bank to Conduit NBFIs w/o QB Authority other than those for On-Lending to MSMEs			
			1A-2 - Loans Granted under Special Financing Program other than for MSMEs			
			1A-3 - Loans Granted to MSMEs other than to BMBEs which are Funded by Wholesale Lending of or Rediscounted with Another Bank			
			1B - Details of Eligible Investments for Compliance with the Required Credit Allocation for MSMEs			
			1B-1 - Loans Granted to MSMEs Other Than to BMBEs which are Funded by Wholesale Lending of or Rediscounted with Another Bank			
			1B-2 - Wholesale Lending or Rediscounting Facility Granted to Participating Financial Institutions for On-Lending to MSMEs other than to BMBEs			
			2 - Loans Granted to BMBEs			
			3 - Reconciliation of Loans granted to MSMEs as Reported Under Schedules 1B,1B-1 and 2 and FRP Balance of Microfinance and SME Loans			
			Control Prooflist, duly notarized and signed by the authorized official	do	do	Via Fax at (632) 5233461 or 5230230

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-3	DCB I/II Form 2E	X192.12	Statement of Condition (For subsidiaries/affiliates abroad of domestic banks) with schedules, as follows:	Quarterly	15th banking day after end of reference quarter	Original and duplicate- Appropriate department of the SES
			1 - Analysis of Due to Parent Firm/Bank and/or Other Subsidiaries/Affiliates; and	Semestral		ID
			2 - Schedule of Selected Accounts – Classified by Country	do		Attachment to Main Report
A-3	DCB I/II Form 3D	X192.12	Statement of Income and Expenses (For subsidiaries/affiliates abroad of domestic KBs)	Quarterly	15th banking day after end of reference quarter	Original and duplicate- Appropriate department of the SES
A-3	Unnumbered	(CL-050 dated 10.04.07 and CL-059 dated 11.28.07)	Report on Borrowings of BSP Personnel	do	do	Hard Copy to SDC
A-3	BSP 7-16-27	X192.2 (Cir No. 736 dated 7.20.11, M- 052 dated 09.16.11, M- 064 dated 12.15.11, M-020 dated 04.22.14, M-036 dated 10.09.15, Cir. No. 890 dated 11.02.15 and Cir. No. 903 dated 02.29.16)	Report on Compliance with the Mandatory Agri-Agra Credit	do	do	sdckb-agra@bsp.gov.ph
			Control Prooflist	do	do	do
A-3	Unnumbered	X320.17 (Cir. No. 812 dated 09.23.13, M-060 dated 12.20.13, M-020 dated 04.22.14, Cir. No. 890 dated 11.02.15 and M-002 dated 03.10.16)	Credit Card Business Activity Report	do	do	sdccbar@bsp.gov.ph
B	DCB I/II Form 6C (BSP 7-16-20)	X339.4 (Revised June 2005 per Cir. No. 487 dated 06.03.05)	Availments of Financial Assistance to Officers and Employees Under an Approved Plan	Semestral	15th banking day after end of reference semester	Original and duplicate- Appropriate department of the SES
B	DCB I/II Form 6E (BSP 7-16-16)	X156.2	Report on New Schedule of Banking Days/Hours	As changes occur	7th banking day before the intended effectivity of the change	do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
B	DCB I/II Form 6F (BSP 7-16-18)	X144 (CL dated 01.19.01, M-024 dated 07.31.08) MAB dated 09.02.04, Cir. No. 758 dated 05.11.12, as amended by Cir. No. 887 dated 10.07.15 and Cir. No. 890 dated 11.02.15)	Biographical Data of Directors/Officers with ID pictures If submitted in CD form- Notarized first page of each of the directors'/officers' Biographical Data saved in CD and control prooflist If sent by electronic mail - Notarized first page of Biographical Data or Notarized list of names of Directors/Officers whose Biographical Data were submitted thru electronic mail to be faxed to SDC	Upon every election/re-election or appointment/promotion or if change in name occurs or if requesting for approval of interlocks	20th banking day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted 20th banking day from the date change of name occurred	Hard copy to appropriate department of the SES do
		X144 (Cir. No. 758 dated 05.11.12, as amended by Cir. No. 887 dated 10.07.15)	Certification under oath of the independent director that he/she is an independent director as defined under Subsec. X141.2 and that all the information thereby supplied are true and correct	Upon election	20th banking day from date of election	do
		X144 (Cir.No. 758 dated 05.11.12, as amended by Cir. No. 887 dated 10.07.15)	Duly accomplished and notarized authorization form for querying the BSP watchlist files	Upon election or appointment/promotion as first time director/officer within a bank or banking group	20th banking day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	do
B	Unnumbered (no prescribed form)	X141.9 (Cir. No. 758 dated 05.11.12, as amended by Cir. No. 887 dated 10.07.15)	Certification under oath of directors/officers with rank of senior vice-president and above, and officer whose appointment requires prior Monetary Board approval	Upon election	20th banking day from date of election	

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
		X143.3 (Cir. No. 513 dated 02.10.06)	Verified statement of director/officer that he/she has all the qualifications and none of the disqualifications	A f t e r election or appointment and as changes occur	7th banking day as changes occur or after election/appointment	Hard copy to appropriate department of the SES
B	Unnumbered	X144 (Cir. No. 758 dated 05.11.12)	Notarized List of Members of the Board of Directors and Officers	Annually	10th banking day from the annual election of the board of directors	do
B	SES Form 6G	X192.4 (Cir. Nos. 587 dated 10.26.07 and 486 dated 06.01.05)	Report on Crimes/Losses	As crimes or incidents occur	Not later than ten (10) calendar days from knowledge of crime/ incident and complete report not later than twenty (20) calendar days from termination of investigation	Hard Copy to SDC and SITD
B	Unnumbered (no prescribed form)	X143.4	Report on Disqualification of Director/Officer	As disqualification occurs	Within 72 hours from receipt of report by the BOD	Appropriate department of the SES
B	DCB I/II Form 6H (BSP-7-16-21)	X178.19 (Cir. No. 745 dated 01.10.12, as amended by Cir. No. 855 dated 10.29.14)	Notice/Application for Write-Off of Loans, Other Credit Accommodations, Advances and Other Assets	As write-off occurs	Within 30 banking days after every write-off	Original and duplicate- Appropriate department of the SES
B	Unnumbered	X192.10	Report on Consolidated Financial Statements of Banks and their Subsidiaries Engaged in Allied Financial Undertakings together with audited financial reports of such subsidiaries	Annually	120th calendar day after the end of reference year or adopted fiscal period	do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
B	Unnumbered	X190.6	Annual Report of Management to Stockholders Covering Results of Operations for the Past Year	Annually	180th calendar day after the close of the calendar/ fiscal year elected by the bank	Original and duplicate- Appropriate department of the SES
B	Unnumbered	X190	Financial Audit Report - Bank Proper a. Audited Financial Statements ¹ b. Opinion of the Auditor Together with attachments listed in Appendix 61	do	120th calendar day after the close of the calendar or fiscal year	do
B		X426.2	Financial Audit Report - Trust Department a. Audited Financial Statements ¹ b. Opinion of the Auditor together with attachments listed in Appendix 61	do	do	do
B	Unnumbered	X190 X190.1	Annual Audit Report ² - Bank Proper a. Audited Financial Statements ¹ b. Opinion of the Auditor together with attachments listed in Appendix 61	do	30th banking day after receipt of the report	do
B	Unnumbered	X426.2	Annual Audit Report ² - Trust Department a. Audited Financial Statements ¹ b. Opinion of the Auditor together with attachments listed in Appendix 61	do	do ³	do
B	Unnumbered	X192.12	Audited Financial Statements of the Foreign Banking Offices and Subsidiaries	do	30th banking day from date of submission/release of said reports to the foreign banking offices and subsidiaries of Philippine banks	do

¹ Solo and Consolidated Basis

² For banks under the concurrent jurisdiction of the BSP and COA.

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

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
B	Unnumbered	X192.12	Examination Reports Done by the Foreign Bank Supervisory Authority	As examination occurs	30th banking day from date of submission/release of said reports to the foreign banking offices and subsidiaries of Philippine banks	Original and duplicate-Appropriate department of the SES
			Report on Change of Required Information on Bank's Profiles, Organizational Structure and Operating Policies	do	do	do
B	Unnumbered	X192.18 (Circular No. 923 dated 08.31.16, as amended by M-2016-025 dated 12.28.16)	Solo Report on Repurchase Agreements (Repos) - Pilot run	One-time	Within 45 banking days from 30 November 2016	By electronic mail to SDC
			Solo Report on Repurchase Agreements (Repos)	Monthly ¹	Within 30 banking days from the end of reference month	do
B	Unnumbered	X233.9	Certification of Compliance with Section 55.4 of R.A. No. 8791(prohibits banks from employing casual, non-regular personnel)	Semestral	10th banking day after end of reference month	Original – Appropriate department of the SES
B	Unnumbered	X262.3	Certification on Funds Borrowed from FCDU/EFCDU	Monthly	7th banking day after end of June and Dec.	Original and duplicate-Appropriate department of the SES
B	Unnumbered	(Cir. 342 as amended by Cir. No. 366 dated 01.21.03 Section 72, Item 3 of Part V)	Conversion/Transfer of FCDU loans to RBU (A report is not required if no transfers were effected during the month)	do	5th banking day after end of reference month	Appropriate department of the SES

¹ Effective 30 June 2017 reference period.

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
B		X409.16	Waiver of the Confidentiality of Information under Sections 2 and 3 of R.A. No. 1405, as amended	As transaction occurs		Appropriate department of the SES
B		(M-005 dated 02.04.08)	Disclosure Statement on SPV Transactions	Quarterly	15th banking day after end of reference quarter	Hard Copy to SDC
B	Form 1 Schedule 1	X780 (Cir. No. 649 dated 03.09.09 and M-020 dated 04.22.14 as amended by Cir. No. 890 dated 11.02.15)	Report on Electronic Money Transactions Statement of E-Money Balances and Activity - Volume of Amount of E-Money Transactions Schedule 1 - E - Money Balances	do	do	sdckb-emoney@bsp.gov.ph
B		X192.13 (Cir. 850 dated 09.08.14, M-046 dated 12.03.14 as amended by Cir. No. 890 dated 11.02.15)	Report on Cross-Border Financial Positions (Phase 1)	One-time	Within 120 calendar days from 30 September 2014	sdckb-rcbp@bsp.gov.ph
		X192.13 (Cir. 850 dated 09.08.14, as amended by M-021 dated 04.22.15, Cir. No. 890 dated 11.02.15 and Cir. No. 903 dated 02.29.16)	Report on Cross-Border Financial Positions (Phase 2)	Quarterly	Within 30 banking days from end of reference quarter starting 31 March 2015	sdckb-rcbp@bsp.gov.ph

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
B		X192.13 (Cir. 850 dated 09.08.14, as amended by Cir. No. 890 dated 11.02.15)		Quarterly	Within 30 banking days from end of reference quarter starting 31 March 2015	SDCKB-rcbp@bsp.gov.ph
B		(Cir. 857 dated 11.21.14)	Complaints Report	Quarterly	Not later than one (1) month after the end of every quarter	SDC
	Unnumbered	X177.8 (Cir. 808 dated 08.22.13 and M-020 dated 04.22.14 as amended by Cir. No. 890 dated 11.02.15)	IT Profile Report	Annual	25 calendar days after end of reference year	sdckb-itprofile@bsp.gov.ph
	Unnumbered	(M-020 dated 04.22.14 as amended by Cir. No. 890 dated 11.02.15)	Registration Form (e-correspondences)	As changes occur		Sdckb_rf@bsp.gov.ph
DES/IOD Reports:						
A-2	Unnumbered	Appendix 57 (Cir. No. 926 dated 09.13.16)	Sworn Certification on Lending to Local Government Units	Semestral	15 banking days after end of reference semester	Hardcopy to the appropriate department of the SES
A-2	Unnumbered	Appendix 57a (Cir. No. 926 dated 09.13.16)	Sworn Certification on Lending to Borrowing Government Entities	Semestral	15 banking days after end of reference semester	Hardcopy to the appropriate department of the SES
A-3	Unnumbered (Per CL dated 09.05.97)	X503 (As amended by Cir. No. 445 dated 08.20.04)	Consolidated FX Position Report of Bank's branches/offices, subsidiaries/affiliates, here and abroad with certification of its CEO and treasurer at month-end	Daily	3rd banking day after end of reference date	cc: Mail to appropriate department of the SES/DES/ID & hardcopy to ID
A-3	FX Form 1 Sch. 1 (Formerly FED Form I, Sch.16)	1192.13	Consolidated Foreign Exchange Assets and Liabilities in Original Currency - RBU & FCDU	Monthly	15th banking day after end of reference month	cc: Mail to appropriate department of the SES/DES/ID
B	RS Form 1A (CBP 5-17-30 (Revised July 2001)	1192.13	Volume and Interest Rates on Loans and Discounts Granted	Weekly	Not later than 4:00 p.m. Thursday after the reference week	Original-DES
B	RS Form 1B (CBP 5-17-30) (Revised July 2001)	1192.13	Report on the Weighted Average Interest Rates on Outstanding Loans and Discounts and Weighted Average Interest Rates on Savings Deposits	Monthly	Not later than 10 banking days after reference month	do
B	RS Form 1B (BSP-5-17-27)	1192.13	Daily Report on Volume of Money Market Transactions	Daily	Not later than 3:00 p.m. on reference day	do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
B	RS Form 2A (BSP 5-17-33) (Revised July 2001)	1192.13	Report on the Volume and Interest Rates on Deposits Audit Line Availments Under Short Term Present Rates	Monthly	Five (5) banking days after end of reference month	Original-DES
B	RS Form 2C (BSP 5-17-36) (Revised July 2001)		Report on Quoted Rates of Dollar Savings and Time Deposits	Weekly	Not later than 2:00 p.m. of Thursday after the reference week	do
B	TCRKB.dbf	(As amended by CL dated 01.11.06)	Report of Outstanding Loans, Advances, Discounts and Trading Account Securities	Semestral	15th banking day after the semester	e-mail to des@bsp.gov.ph
			Control Prooflist for Outstanding Loans and Loans Granted	do	do	Fax to DEX (523-7985)
B	Combined BSP 05-17-02 and BSP 05-17-31		Reports on Credits Granted and Outstanding – By Banking Limits	Monthly	15th banking day after end of reference month	In Diskette – format to DES
B	Unnumbered		Post Borrowing Report	As transaction occurs	30 days after the final disbursement of the loan proceeds	DER
B	Unnumbered		Post Bond Flotation Report	do	30 days after bond issuance	do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
	Unnumbered	X398.1 (Cir. No. 769 dated 09.26.12)	Post Loan Release Report on LGU loans	As transaction occurs	Within 30 days after the end of each semester	DER, e-mail to mb_opinion_des@bsp.gov.ph
B	Daily Quoted Lending and SSA Rate Report		Daily Report on the Quoted Lending Rate and 30-Day Special Savings Deposit Rate	Daily	Not later than 3:00 p.m. on reference date	Original-DES
	Unnumbered	(M-019 dated 05.03.08, as amended by M-2011-028 dated 05.26.11, M-018 dated 05.07.13, M-020 dated 04.22.14 and Cir. No. 890 dated 11.02.15)	Report on Non-Deliverable Forward Transactions against Philippine Peso Control Prooflist	do	2nd banking day after end of reference date	e-mail to SDC at sdc- ndf@bsp.gov.ph cc: fx-omo@bsp.gov.ph
B	Combined BSP 05-1702 and BSP 05-17-31		Report on Credits granted by outstanding - By banking unit	Monthly	15th banking day after end of reference month	In Diskette format to DES
B	Unnumbered	1625.5 (As amended by Cir. No. 591 dated 12.27.07)	Report on Cancellations, Roll-overs and Non-Delivery of FX Forwards Purchase - Sales Contracts and Forward Leg of Swap Contracts (For banks with derivatives license)	do	5th banking day after end of reference month	iod@bsp.gov.ph cc: sdcfxkbdom@bsp.gov.ph (for domestic banks) and sdcfxkbf@bsp.gov.ph (for foreign banks)
	Unnumbered	(CL-003 dated 01.11.08)	Report on Purchase of Foreign Currency (FC) from Refund of Advance Payment of Importations up to \$100,000.00	do	Within the first 5 days of the month succeeding the receipt of the refund	SDC at e-mail address: sdcfxkbdom@bsp.gov.ph sdcfxkbf@bsp.gov.ph
B	IOS Form 4 (BSP 6-22-01)		Consolidated Report on Loans Granted by FCDUs/EFCDUs	do	15th banking day after end of reference month	Original – Appropriate department of the SES Duplicate – ID

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
B	Unnumbered	(As amended by Cir. No. 591 dated 12.27.07)	Report on FX Swaps with Customers ¹ where 1st Leg is a Purchase of FX Against Pesos (For banks with derivatives license)	Monthly	5th banking day after end of reference month	e-mail at iod@bsp.gov.ph cc: sdcfxkbdom@bsp.gov.ph (for domestic banks) and sdcfxfor@bsp.gov.ph (for foreign banks)
B	Unnumbered	(M-026 dated 06.11.13 and M-020 dated 04.22.14 as amended by Cir. No. 890 dated 11.02.15)	Report on the Inventory of Banking Network Affidavit	Quarterly	20 banking days after the end of the reference quarter	e-mail: sdckb-ibn@bsp.gov.ph or cd : SDC
B	Unnumbered	(M-002 dated 01.27.14, M-032 ² dated 08.11.14 as amended by Cir. No. 890 dated 11.02.15)	Stress Testing Report Covering Credit and Market Risk - UB/KB and Subsidiary TBs - Control Prooflist	Decemer-end June-end	30 banking days from end of reference period	sdckb_stressteting@bsp.gov.ph
For other DES/IOD Reports:		Please refer to Chapter I, Part V, Manual of Regulations on Foreign Exchange Transactions using this link: http://www.bsp.gov.ph/downloads/Regulations/MORFX/MORFXT.pdf				
Domestic Operation Sector Report						
	DOS Form I (DLC Form G)		Report on Negotiation of Accounts Rediscounted with Bangko Sentral	Monthly	15th banking day after end of reference month	Original - DLC
		(M-029 dated 08.14.09)	Quarterly monthly report for medium and long-term loans	Quarterly	30th day of the month following the end of the quarter	do

¹ Excluding cross country swaps

² M-032 dated 08.11.14 was published on 27 March 2015 at the Philippine Star

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			3a - Breakdown of Held for Trading (HFT) Financial Assets Purchased/Sold/Lent under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15 banking day after end of the reference quarter	SDC ¹ sdctb-frp@bsp.gov.ph
			4 - Derivatives Held for Trading (HFT)	do	do	do
			4a - Derivatives Held for Trading - Matrix of Counterparty and Type of Derivative Contracts	Monthly	15th banking day after end of the reference month	do
			5 - Financial Assets Designated at Fair Value through Profit or Loss	do	do	do
			6 - Available-for-Sale Financial Assets	do	do	do
			6a - Breakdown of Available for Sale Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15th banking day after end of the reference quarter	do
			6b to 6b3 - Available-for-Sale Financial Assets Classified as to Status	do	do	do
			6c to 6c3- Available-for-Sale Financial Assets Movements in Allowances for Credit Losses	Annually	15th banking day after end of the reference year	do
			7 - Held to Maturity (HTM) Financial Assets	Monthly	15th banking day after end of the reference month	do
			7a - Breakdown of Held to Maturity Financial Assets Purchase/Sold/Lent Under Repurchase	Quarterly	15th banking day after end of the reference quarter	do

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			Agreements, Certificates of Assignment Participation with Recourse, Securities Lending and Borrowing Agreements			
			7b - Fair Value of Held to Maturity (HTM) Financial Assets	Annually	15th banking day after end of the reference year	SDC ¹ sdctb-frp@bsp.gov.ph
			7c to 7c3 - Held to Maturity Financial Assets Classified as to Status	Quarterly	15th banking day after end of the reference quarter	do
			7d to 7d3 - Held to Maturity Financial Assets Movements in Allowances for Credit Losses	Annually	15th banking day after end of the reference year	do
			8 - Unquoted Debt Securites Classified as Loans	Monthly	15th banking day after end of the reference month	do
			8a - Fair Value of Unquoted Debt Securities Classified as Loans	Annually	15th banking day after end of the reference year	do
			8b to 8b3 - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	15th banking day after end of the reference quarter	do
			8c to 8c3 - Unquoted Debt Securities Classified as Loans-Movements in Allowances for Credit Losses	Annually	15th banking day after end of the reference year	do
			9 - Investment in Non-Marketable Equity Securities	Monthly	15th banking day after end of the reference month	do
			10 - Interbank Loans Receivables	do	do	do
			11 - Loans and Receivables - Others (Net of Carrying Amount)	do	do	do

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			11a to 11a3 - Loans and Receivables – Others Classified as to Status	Monthly	15th banking day after end of the reference month	SDC ¹ sdctb-frp@bsp.gov.ph
			11b to 11b3 - Restructured Loans and Receivables Classified as to Status	do	do	do
			11c to 11c3 - Loans and Receivables – Others Movements in Allowances for Credit Losses	Quarterly	15th banking day after end of the reference quarter	do
			11d to 11d3 - Gross Loans and Receivables – Others Classified as to Type of Business/Industry of Counterparty	Monthly	15th banking day after end of the reference month	do
			11e to 11e3 - Loans and Receivables – Others Classified as to Status per PAS 39	Annually	15th banking day after end of the reference year	do
			11f - Schedule of Agri/Agra, Microfinance and SME Loans and Receivables as to Counterparty	Monthly	15th banking day after end of the reference month	do
			11g1 - Real Estate Exposure	Quarterly	15th banking day after end of the reference quarter	do
			11g2 - Investment in Debt and Equity Securities Issued by Real Estate Companies	do	do	do
			11g3 - Original Maturity and Earliest Repricing of Real Estate Exposure	do	do	do
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	Monthly	15th banking day after end of the reference month	do

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			12a to 12a3 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions-Matrix of Counterparty and Issuer of Collateral Securities	Quarterly	15th banking day after end of the reference quarter	SDC ¹ sdctb-frp@bsp.gov.ph
			13 - Fair Value Adjustments in Hedge Accounting	do	do	do
			13a - Derivatives Held for Fair Value Hedge	do	do	do
			13b - Derivatives Held for Cash Flow Hedge	do	do	do
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	do	do	do
			13d - Derivatives Held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount)	do	do	do
			14 - Accrued Interest Income/Expenses from Financial Assets and Liabilities	do	do	do
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	Monthly	15th banking day after end of the reference month	do
			15a - Equity Investment in Subsidiaries, Associates and Joint Ventures - Classified as to Nature of Business	Quarterly	15th banking day after end of the reference quarter	do
			15b - Details of Equity Investment in Subsidiaries, Associates and Joint Ventures	do	do	do

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			16 - Bank Premises, Furniture, Fixture and Equipment	Quarterly	15th banking day after end of the reference quarter	SDC ¹ sdctb-frp@bsp.gov.ph
			17 - Real and Other Properties Acquired/Non-Current Assets Held for Sale	do	do	do
			17a - Aging of ROPA and NCAHS Accounts	Annually	15th banking day after end of the reference year	do
			17b - Movement in ROPA and NCAHS Accounts	do	do	do
			18 - Schedule of Tax Assets and Liabilities	do	do	do
			19 - Other Assets	Monthly	15th banking day after end of the reference month	do
			20 - Breakdown of Due from and Due to Head Office/Branches/Agencies Abroad - Philippine Branch of a Foreign Bank	do	do	do
			21 - Liability for Short Position	Quarterly	15th banking day after end of the reference quarter	do
			22 - Deposit Liabilities Classified as to Type of Deposit	Monthly	15th banking day after end of the reference month	do
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices Branches	Quarterly	15th banking day after end of the reference quarter	do
			23 - Due to Other Banks	Monthly	15th banking day after end of the reference month	do

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			24 - Bills Payable	Monthly	15th banking day after end of the reference month	SDC ¹ sdctb-frp@bsp.gov.ph
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	Quarterly	15th banking day after end of the reference quarter	do
			26 - Fair Value of Financial Liabilities	Annually	15th banking day after end of the reference year	do
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	15th banking day after end of the reference quarter	do
			28 - Other Liabilities	Monthly	15th banking day after end of the reference month	do
			29 - Interest Income/Expense from Financial Instruments	Quarterly	15th banking day after end of the reference quarter	do
			29a - Interest Income from Due from Other Banks Classified as to Type of Deposits	do	do	do
			29b - Interest Income from Held for Trading, Designated at FVPL, Available for Sale, Held to Maturity Financial Assets and UDSCL	do	do	do
			29c - Interest Income from Interbank Loans Receivables	do	do	do
			29d to 29d4 - Interest Income from Loans and Receivables - Others - Classified as to Status	do	do	do
			29e - Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse and Securities Lending and Borrowing Transactions	do	do	do

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			30a - Interest Expense on Deposit Liabilities - Classified as to Type of Deposit	Quarterly	15th banking day after end of the reference quarter	SDC ¹ sdctb-frp@bsp.gov.ph
			30b - Interest Expense on Bills Payable	do	do	do
			30c - Interest Expense on Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	do	do	do
			31 - Dividend Income	do	do	do
			32 - Gains/(Loss) on Financial Assets and Liabilities Held for Trading	do	do	do
			33 - Gains/(Losses) from Sale/Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities	do	do	do
			34 - Compensation/Fringe Benefits	do	do	do
			35 - Other Administrative Expenses	do	do	do
			36 - Depreciation/Amortization Expense	do	do	do
			37 - Impairment Loss	do	do	do
			38 - Off-Balance Sheet	do	do	do
			38a, 38a1, 38a3 & 38a4 - Report by the PERA Administrator on Personal Equity and Retirement Account	do	do	do
			39 and 39a - Residual Maturity Performing Financial Assets and Financial Liabilities	do	do	do

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			40 and 40a - Repricing- Performing Financial Assets and Financial Liabilities	Quarterly	15th banking day after end of the reference quarter	SDC ¹ sdctb-frp@bsp.gov.ph
			41 - Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs	do	do	do
			42 - Disclosure of Due From FCDU/RBU and Due to FCDU/RBU	do	do	do
			Schedules (Consolidated Report):	do	30th banking day after end of the reference quarter	do
			1 - Checks and Other Cash Items	do	do	do
			2 - Due from Other Banks	do	do	do
			3 - Financial Assets Held for Trading	do	do	do
			3a - Held for Trading (HFT) Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment Participation with Recourse, Securities Lending and Borrowing Agreements	do	do	do
			4 - Derivatives Held for Trading (HFT)	do	do	do
			4a - Derivatives Held for Trading-Matrix of Counterparty and Type of Derivative Contracts	do	do	do
			5 - Financial Assets Designated at Fair Value through Profit or Loss	do	do	do
			6 - Available-for-Sale Financial Assets	do	do	do

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			6a - Breakdown of Available for Sale Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, Securities Lending and Borrowing Agreements	Quarterly	15th banking day after end of the reference quarter	SDC ¹ sdctb-frp@bsp.gov.ph
			6b - Available-for-Sale Financial Assets-Classified as to Status	do	do	do
			7 - Held to Maturity (HTM) Financial Asset	do	do	do
			7a - Breakdown of Held to Maturity Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, Securities Lending and Borrowing Agreements	do	do	do
			7c - Held to Maturity Financial Assets Classified as to Status	do	do	do
			7d - Held to Maturity Financial Assets Movements in allowances for Credit Losses	Annually	30th banking day after end of the reference year	do
			8 - Unquoted Debt Securities Classified as Loans	Quarterly	30th banking day after end of the reference quarter	do
			8a - Fair Value of Unquoted Debt Securities Classified as to Status	Annually	30th banking day after end of the reference year	do
			8b - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	30th banking day after end of the reference quarter	do

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			8c - Unquoted Debt Securities Classified as Loans Movements in allowances for Credit Losses	Annually	30th banking day after end of the reference year	SDC ¹ sdctb-frp@bsp.gov.ph
			9 - Investment in Non-Marketable Equity Securities	Quarterly	30th banking day after end of the reference quarter	do
			10 - Interbank Loans Receivables	do	do	do
			11 - Loans and Receivables - Others	do	do	do
			11a - Loans and Receivables - Others Classified as to Status	do	do	do
			11b - Restructured Loans and Receivable Classified as to Status	do	do	do
			11c - Loans and Receivables - Others Movements in Allowances for Credit Losses	do	do	do
			11d - Gross Loans and Receivables – Others Classified as to Type of Business/Industry of Counterparty	do	do	do
			11e - Loans and Receivables - Others Classified as to Status per PAS 39	Annually	30th banking day after end of the reference year	do
			11f - Schedule of Agri/Agra SME, DIL and Microfinance Loans and Receivables Under Sched 11 Classified as to Counterparty	Quarterly	30th banking day after end of the reference quarter	do
			11g1 - Report on Real Estate Exposure	do	do	do

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			11g2 - Investment in Debt and Equity Securities issued by Real Estate Companies	Quarterly	30th banking day after end of the reference quarter	SDC ¹ sdctb-frp@bsp.gov.ph
			11g3 - Original Maturity and Earliest repricing of the Real Estate Exposure	do	do	do
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions - By Counterparty	do	do	do
			12a - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions Matrix of Counterparty and Issuer of Collateral Securities	do	do	do
			13 - Fair Value Adjustments in Hedge Accounting	do	do	do
			13a - Derivatives Held for Fair Value Hedge	do	do	do
			13b - Derivatives Held for Cash Flow Hedge	do	do	do
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	do	do	do
			13d - Derivatives held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount)	do	do	do

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

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

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
			21 - Liability for Short Position	Quarterly	30th banking day after end of the reference quarter	SDC ¹ sdctb-frp@bsp.gov.ph
			22 - Deposit Liabilities Classified as to Type of Deposit	do	do	do
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/Branches	do	do	do
			23 - Due to Other Banks	do	do	do
			24 - Bills Payable	do	do	do
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	do	do	do
			26 - Fair Value of Financial Liabilities	Annually	30th banking day after end of the reference year	do
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	30th banking day after end of the reference quarter	do
			28 - Other Liabilities	do	do	do
			29 - Interest Income/Expense from Financial Instruments	do	do	do
			29a - Interest Income from Due from Other Banks Classified as to Type of Deposits	do	do	do
			29b - Interest Income from Held for Trading, Designated at FVPL, Available-for-Sale, Held to Maturity Financial Assets and Unquoted Debt Securities Classified as Loans	do	do	do

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

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

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

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
			35 - Other Administrative Expenses	Quarterly	30th banking day after end of the reference quarter	SDC ¹ sdctb-frp@bsp.gov.ph
			36 - Depreciation/Amortization Expense	do	do	do
			37 - Impairment Loss	do	do	do
			38 - Off-Balance Sheet	do	do	do
			38a - Report by the PERA Administrator on Personal Equity and Retirement Account	<u>do</u>	<u>do</u>	<u>do</u>
			39 - Residual Maturity Performing Financial Assets and Financial Liabilities	do	do	do
			40 - Repricing - Performing Financial Assets and Financial Liabilities	do	do	do
			41 - Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs	do	do	do
			42 - Disclosure of Due from FCDU/RBU and Due to FCDU/RBU	do	do	do

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

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-1	Unnumbered	X115 (Cir. Nos. 475 dated 02.14.05, 503 dated 12.22.05, as amended by M-2016-024 dated 12.28.16)	Basel III Capital Adequacy Ratio (CAR) Report and Control Prooflist			sdctb-car574@bsp.gov.ph
			Basel III Capital Adequacy Summary Report			sdctb-CARsummary@bsp.gov.ph
			- Solo basis (head office and branches)	Quarterly	15th banking day after end of the reference quarter	Hard copy: SDC
			- Consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies)	do	30th banking day after end of the reference quarter	Hard copy: SDC
A-1	Unnumbered	X611.5 (Cir. No. 594 dated 01.08.08, as amended by M-009 dated 02.27.08)	Derivatives Report	Monthly	15th banking day after end of the reference month	CMSG cc: SDC cmsg@bsp.gov.ph sdc-derivatives@bsp.gov.ph
			Schedules:			
			- Report on Outstanding Derivatives Contracts (Stand - Alone - RBU, Stand - Alone			
			- FCDU, Hybrid)			
			- Report on Trading Gains/(Losses) on Financial Derivatives			
		Certification (Hard Copy)		do	do	Receiving Section, SES

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-1	Unnumbered	X136.4 (Cir. No. 888 dated 10.09.15)	Report on Dividends Declared		10th banking/business day after date of dividend declaration	Appropriate department of the SES
A-1	Unnumbered	X191.3 X388.5 (As amended by Cir. Nos. 761 dated 07.20.12, 708 dated 01.10.11, 733 dated 05.08.11 and M-048 dated 08.26.11)	Reports Relative to the Initial Adoption of PFRS 9	One-time	For FIs which initially apply PFRS 9 on or after 01 January 2012 - not later than fifteen (15) banking/business days from the end of the calendar or fiscal year of initial application of PFRS 9	cc mail: SDC sdctb-pfrs@bsp.gov.ph
			Supplementary Report on Early Adoption of PFRS 9	Quarterly	15th banking day after end of reference quarter	do
A-1	Unnumbered	X146.3 (Circular Nos. 749 dated 02.27.12 and 757 dated 05.12.12 as amended by Cir. Nos. 895 dated 12.14.15 and 917 dated 07.08.16)	Report on Conglomerate Structures	Annually	30 calendar days after end of the calendar year	Hardcopy to the Appropriate department of the SES
A-1	Unnumbered	X141.3c(9) (Circular No. 749 dated 02.27.12)	Appointment of the Chief Risk Officer	As changes occur	5 calendar days from the time of approval of the board of directors	do
A-1		(M-046 dated 09.21.12 as amended by M-057 dated 12.18.12)	Expanded Report on Real Estate Exposures (solo and consolidated)	Quarterly	Within 30 banking days after the end of the reference quarter	e-mail to sdctb-ree@bsp.gov.ph

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-1		X115.6 (Cir. No. 881 dated 06.09.15, M-026 dated 07.16.15 and Cir. No. 903 dated 02.29.16)	Basel III Leverage Ratio (BLR) Report - Solo basis (head office and branches) For Reference Date: 30 June 2015 For Reference Dates: 31 December 2015, 30 June 2016 & 31 December 2016 - Consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies) For Reference Dates: 30 June 2015, 31 December 2015, 30 June 2016 & 31 December 2016	Semi-annually	30 banking days from submission reference date 15 banking days from submission reference date 30 banking days from submission reference date	sdctb-leverage@bsp.gov.ph
A-1		X907.6 (Circular No. 885 dated 08.14.15)	Broker Customer Accounts for Settlement of Customer Trades - Cash Accounts / Securities Accounts ¹ - End-of-week balance	Monthly	15th banking day after end of reference month	do
A-2	TB Form 1	X105.5 X258 X192.1 (As amended by M-058 dated 12.13.13, M-010 dated 03.10.14, Circular No. 870 dated 02.20.15, M-015 dated 03.16.15 and Cir. No. 903 dated 02.29.16)	Consolidated Daily Report of Condition (CDRC) (SES01000.CSV) and Control Prooflist (CDRC-CP.PDF) Notarized and signed by authorized bank officials	Monthly	6th banking day after end of week	sdctb-cdrc@bsp.gov.ph or CD to SDC through postal/messengerial services

¹ Beginning with the reporting period ending 30 September 2015

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
			Control Prooflist, together with the cover page of the report	Weekly	6th banking day after end of reference week	Appropriate department of the SES
A-2	TB Form 1 Schedule		Weekly Inventory List of Govt. Securities Held - On a Daily Basis	do	do	By electronic mail to SDC
			Weekly Inventory List of Government Securities Held Set Aside for the Intra-Day Liquidity Facility from Week Starting Monday to Friday	do	Every Thursday	do
A-2	Unnumbered	X118 (Cir. No. 688 dated 05.26.10, M-014 dated 05.15.10, M-054 dated 10.06.11, M-017 dated 05.07.13, M-017 dated 03.21.14, M-020 dated 04.22.14, M-014 dated 03.10.15, Cir. No. 890 dated 11.02.15 and Cir. No. 903 dated 02.29.16)	Computation of the Risk-Based Capital Adequacy Ratio Covering Combined Credit Market and Operational Risks (for stand alone TBs) - Solo basis (Head office and branches) - Consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies) - Control Prooflist	Quarterly do	15th banking day after end of reference quarter 30th banking day after the end of reference quarter	sdctb-car@bsp.gov.ph sdctb-car@bsp.gov.ph
A-2	Unnumbered (no prescribed form)	X141.9	Acknowledgement receipt of copies of specific duties and responsibilities of the board of directors and of a director and certification that they fully understand the same TBs with resources of P1.0 billion and above	Annually or as directors are elected	30th banking day after the date of election	Appropriate department of the SES
A-2	Form 2B/2B.1	X192.9 (Cir. No. 576 dated 08.08.07, M-030 dated 10.04.07, M-026 dated 06.23.14 as amended by Cir. No. 890 dated 11.02.15)	Balance Sheet/Consolidated Balance Sheet Control Prooflist duly notarized and signed by the authorized official of the reporting bank Published Balance Sheet/Consolidated Balance Sheet (together with the publisher's certificate) TBs with resources of less than P1.0 billion	Quarterly do do	12th banking day from the date of the Call Letter do 20th banking day from the date of the Call Letter	sdctb-pbs@bsp.gov.ph Fax to 523-3461 or 523-0230 Fax to 523-3461 or 523-0230 or via postal/ messengerial services to SDC

TBs
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<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-2	Unnumbered	(Cir. No. 607 dated 04.30.08, as amended by M-021 dated 06.16.08, Cir. No. 836 dated 06.13.14, M-024 dated 06.23.14 and Cir. No. 890 dated 11.02.15)	Report on Microfinance Products Control Prooflist	Monthly	15th banking day after the end of reference month	sdctb-micro@bsp.gov.ph
A-2	Unnumbered	(Cir. No. 607 dated 04.30.08, as amended by M-021 dated 06.16.08, Cir. No. 836 dated 06.13.14, M-024 dated 06.23.14 and Cir. No. 890 dated 11.02.15)	Income Statement on Retail Microfinance Operations Control Prooflist	Quarterly	15th banking day after end of the reference quarter	do
A-2	Unnumbered	X181.5 (Cir. No. 620 dated 09.03.08)	Self-Assessment and Certification of Compliance with Rules and Regulations on Bank Protection/Updated Security Program	Annually	On or before 30 January	Appropriate department of the SES
A-2	TB Form 20A	X405.9 (As amended by M-057 dated 12.13.13)	Report on Peso-Denominated Common Trust Funds and Other Similarly Managed Funds (for TBs engaged in Trust and Other Fiduciary Business, and submitting TB Form 1 in diskette form) Control Prooflist Control Prooflist, together with the cover page of the report	Weekly	3rd banking day after end of reference week Immediately after receipt of BSP acknowledgment receipt 3rd banking day after end of reference week	sdctb-trust@bsp.gov.ph Fax - SDC SDC

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-2	TB Form 20B	X405.9 (M-057 dated 12.13.13)	Report on Trust and Other Fiduciary Accounts (TOFA) – Others	do	do	sdctb-trust @bsp.gov.ph
			Control Prooflist	do	Immediately after receipt of BSP acknowledgment receipt	Fax - SDC
			Control Prooflist, together with the cover page of the Report	do	3rd banking day after end of reference week	SDC
A-2	TB Form 7 (BSP 7-16-11)	X192.7 (Cir. No. 533 dated 06.19.06, as amended by Cir. No. 718 dated 04.26.11)	Consolidated List of Stockholders and their Stockholdings	Annually/ Quarterly when any change occurs	12th banking day after end of reference year and if there are changes, 12th banking day after end of reference quarter	Original - Appropriate department of the SES
A-2	BSP-7-16-32 A (Rev. August 2003)	X192	Report on Credit and Equity Exposures to Individuals/ Companies/Groups aggregating P1.0 million and above (Bank Proper and Trust Department)	Quarterly	15th banking day after end of reference quarter	SDC
A-2	Unnumbered	X807 (Revised May 2002, as amended by Cir. Nos. 612 dated 06.03.08 and 706 dated 01.05.11)	Report on Suspicious Transaction	As transaction occurs	10th banking day from the occurrence of the transaction	Original and duplicate- Anti-Money Laundering Council (AMLC)
			Covered Transaction Report	do	do	do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-3	Unnumbered	X393 (Cir. No. 613 dated 06.18.08, as amended by M-032 dated 10.31.08, Cir. No. 848 dated 09.08.14 and Cir. No. 890 dated 11.02.15)	Report of Selected Branch Accounts Schedules: Selected Balance Sheet Accounts Selected Balance Sheet and Income Statement Accounts Aging of Loans and Receivables – Others Breakdown of Deposit Liabilities Bank Loans-to-Deposits Ratio Reconciling Items Outstanding for More than Six (6) Months on the Due From/Due to Head Office, Branches and Agencies Account Bank Deposit Interest Rate	Quarterly	20th banking day after end of reference quarter	
A-3	TB Form 8	X335 X409.3	Consolidated Report on Compliance with Aggregate Ceiling on Credit Accommodations to Directors/Officers/Stockholders/Related Interest	do	7th banking day after end of reference quarter	Appropriate department of the SES
A-3	TB Form 9 Page 1	X335 X409.3	Consolidated Report on Compliance with Individual Ceiling on Direct Credit Accommodations to Directors/Officers/ Stockholders/Related Interest	Semestral	15th banking day after end of reference semester	do
A-3	TB Form 9 Page 2	X338.3 X339.4 (Revised June 2005 per Cir. No. 487 dated 06.03.05)	Availments of Financial Assistance to Officers and Employees under Bangko Sentral Approved Plan	do	do	do

[illegible]

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-3	Unnumbered	X192 (CL-050 dated 10.04.07 CL-059 dated 11.28.07)	Report on Borrowings of BSP Personnel	Quarterly	15th banking day after end of reference quarter	Original to SDC
A-3	BSP 7-16-27	X192.2 (Cir. No. 736 dated 7.20.11 and M-2011-052 dated 9.16.11, as amended by M-2011-064 dated 12.15.11, M-036 dated 10.09.15 and Cir. No. 903 dated 02.29.16)	Report on Compliance with the Mandatory Agri-Agra Credit Control Prooflist	do do	do do	sdctb-pfrs@bsp.gov.ph do
A-3	Unnumbered	X320.17 (Cir. No. 812 dated 09.23.13, M-060 dated 12.20.13, M-020 dated 04.22.14, Cir. No. 890 dated 11.02.15 and M- 002 dated 03.10.16)	Credit Card Business Activity Report	do	do	sdccbar@bsp.gov.ph
A-3	DES-RREPI (Form I)	X192.17 (Cir. No. 892 dated 11.16.15 and M-2015- 042 dated 12.02.15, as amended by Cir. No. 917 dated 07.08.16)	Bank Quarterly Report on Residential Real Estate Loans for the Generation of the Residential Real Estate Price Index	Quarterly	20th banking day from reference quarter	DES - e-mail esligdes@bsp.gov.ph Unable to transmit electronically - CD - DES through messengerial or postal services
B	TB Form 15	X192 (Revised August 2003 per CL dated 08.06.03)	Report on Credit and Equity Exposures to Individuals/Groups/Companies Aggregating P1M and above	do	do	do
			Control Prooflist, notarized and signed by the authorized officer of the bank	do	do	do
B	Unnumbered	X190 X426.2	Financial Audit Report - Bank Proper	Annually	120th calendar day after the close of the calendar or fiscal year	Original and duplicate - Appropriate department of the SES
			a. Audited Financial Statements ¹			
			b. Opinion of the Auditor together with attachments listed in Appendix 61			
			Financial Audit Report - Trust Department	do	do	do
			a. Audited Financial Statements ¹			
			b. Opinion of the Auditor together with attachments listed in Appendix 61			

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

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
B	Unnumbered	X190	Annual Audit Report ¹ - Bank Proper	Annually	30th banking day after receipt of the report	Original and duplicate - Appropriate department of the SES
B	Unnumbered		a. Audited Financial Statements	do	do	do
			b. Opinion of the Auditor together with attachments listed in Appendix 61	do	do	do
		X426.2	Annual Audit Report ² - Trust Department			
			a. Audited Financial Statements	do	do	do
			b. Opinion of the Auditor together with attachments listed in Appendix 61	do	do	do
B	Unnumbered	X262.3	Certification of Compliance with Section 55.4 of R. A. No. 8791	Semestral	7th banking day after end of June and December	Original and duplicate - Appropriate department of the SES
	Unnumbered	(Cir. No. 342, as amended by Cir. No. 366, Section 72, Item 3 of Part V)	Certification on Funds Borrowed from FCDU/EFCDU	Monthly	5th banking day from end of reference month	do

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

¹ Solo and consolidated basis

² For banks under the current jurisdiction of the BSP and COA

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

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
		(MAAB dated 09.02.05)	Certification under oath of the independent directors that he/she is an independent director as defined under Subsec. X141.2 and that all the information thereby supplied are true and correct	Upon election	20th banking day from date of election	Hard copy to appropriate department of the SES
B		X144 (Cir. No. 758 dated 05.11.12, as amended by Cir. No. 887 dated 10.07.15)	Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist files	Upon election or appointment/promotion as first time director/officer within a bank or banking group	20th banking day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	do
B		X144 (Cir. No. 758 dated 05.11.12)	Certification under oath of director/officer that he/she has the qualifications and none of the disqualifications	Upon every election/re-election or appointment/promotion	20th banking day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	do
B	SES Form 6H (CBP 7-16-21) Revised	X178.19 (As amended by Cir. Nos. 745 dated 01.10.12 and 855 dated 10.29.14)	Notice/Application for Write-off of Loans, Other Credit Accommodations, Advances and Other Assets	As write-off occurs	Within 30 banking days after every write-off	Appropriate department of the SES
B	Unnumbered	X146.3 (Circular Nos. 757 dated 05.08.12 and 749 dated 02.27.12, as amended by Cir. Nos. 895 dated 12.14.15 and 917 dated 07.08.16) (Cir. No. 513 dated 02.10.06)	Report on Material Related Party Transaction Verified statement of director/officer that he/she has all the aforesaid qualifications and none of the disqualifications	Quarterly	20 calendar days after end of reference quarter	do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
B	SES Form6G	X192.4 (As amended Cir. Nos. 587 dated 10.26.07 and 486 dated 06.01.05)	Report on Crimes and Losses	As crime/ incident occurs	Not later than ten (10) calendar days from knowledge of crime/ incident and complete report not later than twenty (20) calendar days from termination of investigation	SDC and SITD
B	Unnumbered (no prescribed form)	X143.4	Report on Disqualification of Director/Officer	As disqualification occurs	Within 72 hours from receipt of report by the BOD	Appropriate department of the SES
B	SES II Form 26	X192.3	Information/Documents Required under Appendices 7 & 8 (MOR)	Only once; as change occurs	15th banking day from date of change	do
B	SES III Form 27	X192.1	Specimen Signature of Authorized Signatories and Board Resolution Designating Authorized Signatories	As change occurs	3rd banking day from date of resolution	Appropriate department of the SES & SDC
B	Unnumbered (NP09-TB)	X144 (As amended by Cir. Nos. 758 dated 05.11.12 and 887 dated 10.07.15)	List of Members of the Board of Directors and Officers	Annually	20th banking day after annual election of the board of directors	Hard copy to appropriate department of the SES
B		X151.8 X151.9	Notice of transfer of branches/voluntary closure of branches	As transfer occurs	5th banking day from date of transfer	do
B		X153.4	Notice of Actual Date of Opening a Branch	As it occurs	10th banking day after opening	do
B	Unnumbered	X565	Conversion/Transfer of FCDU Loans to RBU ¹	Monthly	10th banking day from end of reference month	do
		X409.16 (f)	Waiver of the Confidentiality of Information under Sections 2 and 3 of R.A. No. 1405	As transaction occur	Within 72 hours from knowledge of transactions	do
		(M-005 dated 02.04.08)	Disclosure Statement on SPV Transactions	Quarterly	15 banking day after end of reference quarter	SDC

Category	Form No.	MOR Ref.	Report Title	Frequency	Submission Deadline	Submission Procedure/ e-mail Address
B	Form No. 1	X780 Schedule 1 (M-031 dated 09.11.09 and Cir. No. 649 dated 03.09.09)	Report on Electronic Money Transactions Statement of E-Money Balances and Activity - Volume and Amount of E-Money Transactions Schedule 1 - E-Money Balances IT Profile Report	Quarterly Annual	15 banking day after end of reference quarter 25 calendar days after end of reference year	sdctb-emoney@ bsp.gov.ph or hardcopy – SDC sdckb-itprofile@bsp.gov.ph
B	Unnumbered	Sec. X192.13 (Cir. 850 dated 09.08.14, M-046 dated 12.03.14 as amended by Cir. No. 890 dated 11.02.15)	Report on Cross-Border Financial Positions (Phase 1)	One-time	Within 120 calendar days from 30 September 2014	sdckb-rcbp@bsp.gov.ph
		X192.13 (Cir. 850 dated 09.08.14, M-021 dated 04.22.15, Cir. No. 890 dated 11.02.15 and Cir. No. 903 dated 02.29.16)	Report on Cross-Border Financial Positions (Phase 2)	Quarterly ¹	Within 30 banking days from end of reference quarter starting 31 March 2015	sdckb-rcbp@bsp.gov.ph
	Unnumbered	(M-020 dated 04.22.14 as amended by Cir. No. 890 dated 11.02.15)	Registration Form (e-correspondences)	As changes occur		Sdctb_rf@bsp.gov.ph
B	Unnumbered	Sec. X192.18 (Circular No. 923 dated 08.31.16, as amended by M-2016-025 dated 12.28.16)	Solo Report on Repurchase Agreements (Repos) - Pilot run	One-time	Within 45 banking days from 30 November 2016	By electronic mail to SDC
			Solo Report on Repurchase Agreements (Repos)	Monthly ²	Within 30 banking days from the end of reference month	do
B	Unnumbered	(M-002 dated 01.27.14, M- 032 ³ dated 08.11.14 as amended by Cir. No. 890 dated 11.02.15)	Stress testing Report a. Covering Credit & Market Risks Stand-alone TBs with total assets of at least P5.0 billion; or total cap of at least P1.0 billion b. Credit Risk Only Stand-alone TBs that did not qualify above	December-end June -end	30 banking days from end of reference period	sdctb_stresstesting@bsp. gov.ph

¹ For TBs which are subsidiaries of UBs and KBs starting 31 March 2015 reference period.

² Only TBs that are subsidiaries of UBs/KBs shall submit the report effective 30 June 2017.

³ M-032 dated 08.11.14 was published on 27 March 2015 at the Philippine Star

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
DES/IOD						
A-2	Unnumbered	Appendix 57 (Cir. No. 926 dated 09.13.16)	Sworn Certification on Lending to Local Government Units	Semestral	15 banking days after end of reference semester	Hardcopy to the appropriate department of the SES
A-2	Unnumbered	Appendix 57a (Cir. No. 926 dated 09.13.16)	Sworn Certification on Lending to Borrowing Government Entities	Semestral	15 banking days after end of reference semester	Hardcopy to the appropriate department of the SES
A-3	Unnumbered (Per CL dated 09.05.97)	X503 (As amended by Cir. No. 445 dated 08.20.04)	Consolidated FX Position Report of Bank's branches/offices, subsidiaries/affiliates, here and abroad with certification of its CEO and treasurer at month-end	Daily	3rd banking day after end of reference date	cc: Mail to appropriate department of the SES/ DES/ID & hardcopy to ID
A-3	FX Form 1 Sch. 1 (Formerly FED Form I, Sch.16)		Consolidated Foreign Exchange Assets and Liabilities in Original Currency - RBU & FCDU	Monthly	15th banking day after end of reference month	cc: Mail to appropriate department of the SES/DES/ ID
B	RS Form 1A (CBP 5-17-30) (Revised July 2001)	1192.13	Volume and Interest Rates on Loans and Discounts Granted	Weekly	Not later than 4:00 p.m. Thursday after the reference week	Original – DES
B	RS Form 1B (CBP 5-17-30) (Revised July 2001)	1192.13	Report on the Weighted Average Interest Rates on Outstanding Loans and Discounts and Weighted Average Interest Rates on Savings Deposits	Monthly	Not later than 10 banking days after reference month	do
B	RS Form 1B (BSP 5-17-27)	1192.13	Daily Report on Volume of Money Market Transactions	Daily	Not later than 3:00 P.M. on reference day	Appropriate department of the SES
B	RS Form 2A (BSP-5-17-33) (Revised July 2001)	1192.13	Report on the Volume of Interest Rates on Deposits	Weekly	Not later than 4:00 P.M. of Thursday after the reference week	Original – DES
B	RS Form 2C (BSP 5-17-36) (Revised July 2001)		Report on Quoted Rates of Dollar Savings and Time Deposits	do	do	do
B	Unnumbered		Certification as to the veracity and accuracy of the Consolidated Report on FX Assets and Liabilities and all supporting schedules, to be signed by an officer of the bank with the rank of AVP or equivalent rank	Monthly	Next banking day following the prescribed date of submission of the report and schedules	do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
	RS Form 1B (5-17-27) DER (TR-DO1-TB)		Report on Volume of Money Market Transactions	As Transaction occurs	2nd banking day after transaction occurs	DES
	Unnumbered	X398.1 (Cir. No. 769 dated 09.26.12)	Post Borrowing Report	do	30 days after the final disbursement of the loan proceeds	do
	Unnumbered	X398.1 (Cir. No. 769 dated 09.26.12)	Post Bond Flotation Report	do	30th day after bond issuance	DER
	Unnumbered	X398.1 (Cir. No. 769 dated 09.26.12)	Post-Loan Release Report on LGU Loans	do	Within 30 days after end of each semester	mb_opinion_des@bsp.gov.ph
B	Daily Quoted Lending and SSA Rate Report		Daily Report on the Quoted Lending Rate and 30-Day Special Savings Deposit Rate	Daily	Not later than 3:00 P.M. on reference day	Original – DES
	Unnumbered	(M-019 dated 05.03.08, as amended by M-2011-028 dated 05.26.11, M-018 dated 05.07.13, M-020 dated 04.22.14 and Cir. No. 890 dated 11.02.15)	Report on Non-Deliverable Forward Transactions against Philippine Peso Control Prooflist	do	2nd banking day after end of reference date	sdcmndf@bsp.gov.ph cc: Treasury Dept. fx-omo@bsp.gov.ph
B	Unnumbered	1625.5 (As amended by Cir. No. 591 dated 12.27.07)	Report on Cancellations, Roll-overs and Non-Delivery of FX Forwards Purchase - Sales Contracts and Forward Leg of Swap Contracts / (For banks with derivatives license)	Monthly	5th banking day after end of reference month	SDC via Fax at (632) 523-3461 or 523-0230
	Unnumbered	(CL-003 dated 01.11.08)	Report on Purchase of Foreign Currency (FC) from Refund of Advance Payment of Importations up to \$100,000.00	do	Within the first 5 days of the month succeeding the receipt of the refund	sdcmxtbdom@bsp.gov.ph sdcmxtbfor@bsp.gov.ph
B	IOS Form 4 (BSP 6-22-01)		Consolidated Report on Loans Granted by FCDUs/EFCDUs	do	15th banking day after end of reference month	Original – Appropriate department of the SES Duplicate – ID
			Report on FX Swaps with Customers ¹ / where 1st Leg is a Purchase of FX Against Pesos (For TBs with derivatives License)	do	5th banking day after end of reference month	IOD iod@bsp.gov.ph SDC sdcmxtbdom@bsp.gov.ph sdcmxtbfor@bsp.gov.ph

¹ Excluding cross country swaps

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
B	Unnumbered	(M-026 dated 06.11.13)	Report on the Inventory of Bank Network Affidavit	Quarterly	20 banking days after the end of the reference quarter	SDCTB-IBN@bsp.gov.ph or cd : SDC
	Unnumbered	X149.8 (Cir. No. 848 dated 09.08.14)	Schedule of Bank Deposit Interest Rates	Quarterly	do	
B		(Cir. No. 857 dated 11.21.14)	Complaints Report	Quarterly	Not later than one (1) month after the end of every quarter	SDC
For other DES/IOD Reports:		Please refer to Chapter I, Part V, Manual of Regulations on Foreign Exchange Transactions using this link: http://www.bsp.gov.ph/downloads/Regulations/MORFX/MORFXT.pdf				

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
C. RBs/Coop Banks						
A-1	Unnumbered	X191.2 (Cir. No. 512 dated 02.03.06, MAB dated 03.07.06, M-006 dated 07.07.06, Cir. No. 568 dated 05.08.07, M-015 dated 05.28.07, M-026 dated 09.20.07, M-011 dated 03.07.08, M-012 dated 03.14.08, Cir. No. 644 dated 02.10.09, M-035 dated 09.28.09, M-016 dated 06.16.10, M-021 dated 07.20.10, Cir. No. 701 dated 12.13.10, M-045 dated 12.14.10, Cir. No. 733 dated 11.20.12, M-052 dated 11.29.12 and M-058 dated 12.17.12, M-004 dated 01.30.13, M-053 dated 12.06.13, M-015 dated 03.24.14, Cir. No. 836 dated 06.13.14, Cir. No. 837 dated 06.18.14, M-025 dated 06.23.14, Cir. No. 880 dated 05.22.15, Cir. No. 883 dated 07.10.15, M-028 dated 07.31.15, Cir. No. 885 dated 08.14.15, Cir. No. 886 dated 09.08.15, M-029 dated 09.14.15, M-030 dated 09.14.15, M-031 dated 09.14.15, M-032 dated 09.14.15, M-033 dated 09.14.15, M-034 dated 09.14.15, Cir. No. 890 dated 11.02.15, Cir. No. 903 dated 02.29.16 and M-008 dated 06.23.16)	Financial Reporting Package (FRP)			
			Balance Sheet (FRP):			
			- Solo basis (head office and branches)	Quarterly	15th banking day after end of reference quarter	CD ² sdcrb-frp@bsp.gov.ph
			- Consolidated basis (together with applicable schedules) ¹	do	30th banking day after end of reference quarter	do
			Income Statement (FRP):			
			- Solo basis (head office and branches)	do	15th banking day after end of reference quarter	do
			- Consolidated basis (together with applicable schedules) ¹	do	30th banking day after end of reference quarter	do
			Schedules (Solo Report):			
			1 - Checks and Other Cash Items (COCI)	do	15th banking day after end of reference quarter	do
			2 - Due from Other Banks	do	do	do
			3 - Financial Assets Held for Trading	do	do	do

¹ Only banks with financial allied subsidiaries, excluding insurance subsidiaries, shall submit the reports on consolidated basis.

² Control Prooflist duly signed by the authorized official of the reporting bank and a Notary Public, shall be submitted within the prescribed submission deadlines to SDC via Fax No. (02) 523-3461 or hard copy via postal/messengerial services.

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

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			7 - Held to Maturity (HTM) Financial Asset	Quarterly	15th banking day after end of the reference quarter	CD ¹ sdcrb-frp@bsp.gov.ph
			7a - Breakdown of Held to Maturity Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, Securities Lending and Borrowing Agreements	do	do	do
			7b - Fair Value of Held to Maturity (HTM) Financial Asset	Annually	15th banking day after end of the reference year	do
			7c to 7c3- Held to Maturity Financial Assets Classified as to Status	Quarterly	15th banking day after end of the reference quarter	do
			7d to 7d3 - Held to Maturity Financial Assets Movements in Allowances for Credit Losses	Annually	15th banking day after end of the reference year	do
			8 - Unquoted Debt Securities Classified as Loans	Quarterly	15th banking day after end of the reference quarter	do
			8a - Fair Value of Unquoted Debt Securities Classified as Loans	Annually	15th banking day after end of the reference year	do
			8b to 8b3 - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	15th banking day after end of the reference quarter	do
			8c to 8c3 - Unquoted Debt Securities Classified as Loans Movements in Allowances for Credit Losses	Annually	15th banking day after end of the reference year	do
			9 - Investment in Non-Marketable Equity Securities	Quarterly	15th banking day after end of the reference quarter	do

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			10 - Interbank Loans Receivables	Quarterly	15th banking day after end of the reference quarter	CD ¹ sdcrb-frp@bsp.gov.ph
			11 - Loans and Receivables – Others	do	do	do
			11a to 11a3 - Loans and Receivables – Others Classified as to Status	do	do	do
			11b to 11b3 - Restructured Loans and Receivables Classified as to Status	do	do	do
			11c to 11c3 - Loans and Receivables – Others Movements in Allowances for Credit Losses	do	do	do
			11d to 11d3 - Gross Loans and Receivables – Others Classified as to Type of Business/Industry of Counterparty	Monthly	15th banking day after end of the reference month	do
			11e to 11e3- Loans and Receivables – Others Classified as to Status Per PAS 39	Annually	15th banking day after end of the reference year	do
			11f - Schedule of Agri/Agra SME, DIL and Microfinance Loans and Receivables Under Sched 11 Classified as to Counterparty	Quarterly	15th banking day after end of the reference quarter	do
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions	do	do	do
			12a to 12a3 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions Matrix of Counterparty and Issuer of Collateral Securities	do	do	do

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			13 - Fair Value Adjustments in Hedge Accounting	Quarterly	15th banking day after end of the reference quarter	CD ¹ sdcrb-frp@bsp.gov.ph
			13a - Derivatives Held for Fair Value Hedge	do	do	do
			13b - Derivatives Held for Cash Flow Hedge	do	do	do
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	do	do	do
			13d - Derivatives Held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount)	do	do	do
			14 - Accrued Interest Income/Expense from Financial Assets and Liabilities	do	do	do
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	do	do	do
			15a - Investment in Subsidiaries, Associates and Joint Arrangements - Classified as to Nature of Business	do	do	do
			15b - Details of Equity Investment in Subsidiaries, Associates and Joint Ventures	do	do	do
			16 - Bank Premises, Furniture, Fixture and Equipment	do	do	do

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			17 - Real and Other Properties Acquired/Non-Current Assets Held for Sale	Quarterly	15th banking day after end of the reference quarter	CD ¹ sdcrb-frp@bsp.gov.ph
			17a - Aging of ROPA and NCAHS Accounts	Annually	15th banking day after end of the reference year	do
			17b - Movement in ROPA and NCAHS	do	do	do
			18 - Schedule of Tax Assets and Liabilities	do	do	do
			19 - Other Assets	Quarterly	15th banking day after end of the reference quarter	
			20 - Breakdown of Due from and Due to Head Office/Branches/Agencies Abroad - Philippine Branch of a Foreign Bank	do	do	do
			21 - Liability for Short Position	do	do	do
			22 - Deposit Liabilities Classified as to Type of Deposit	do	do	do
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/Branches	do	do	do
			23 - Due to Other Banks	do	do	do
			24 - Bills Payable	do	do	do
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	do	do	do

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			26 - Fair Value of Financial Liabilities	Annually	15th banking day after end of the reference year	CD ¹ sdcrb-frp@bsp.gov.ph
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	15th banking day after end of the reference quarter	
			28 - Other Liabilities	do	do	do
			29 - Interest Income/Expense from Financial Instruments	do	do	do
			29a - Interest Income from Due from Other Banks Classified as to Type of Deposits	do	do	do
			29b - Interest Income from Held for Trading, Designated at FVPL, Available for Sale, Held to Maturity Financial Assets and Unquoted Debt Securities Classified as Loans	do	do	do
			29c - Interest Income from Interbank Loans Receivables	do	do	do
			29d to 29d3 - Interest Income from Loans and Receivables - Others - Classified as to Status	do	do	do
			29e - Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse and Securities Lending and Borrowing Transactions	do	do	do
			30a - Interest Expense on Deposit Liabilities Classified as to Type of Deposit	do	do	do

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			30b - Interest Expense on Bills Payable	Quarterly	15th banking day after end of the reference quarter	CD ¹ sdcrb-frp@bsp.gov.ph
			30c - Interest Expense on Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	do	do	do
			31 - Dividend Income	do	do	do
			32 - Gains/(Losses) on Financial Assets and Liabilities Held for Trading	do	do	do
			33 - Gains/(Losses) from Sale/Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities	do	do	do
			34 - Compensation/Fringe Benefits	do	do	do
			35 - Other Administrative Expenses	do	do	do
			36 - Depreciation/Amortization Expense	do	do	do
			37 - Impairment Loss	do	do	do
			38 - Off-Balance Sheet	do	do	do
			38a, 38a1, 38a3 & 38a4 - Report by the PERA Administrator on Personal Equity and Retirement Account	<u>do</u>	<u>do</u>	<u>do</u>
			39 & 39a - Residual Maturity Performing Financial Assets and Financial Liabilities	do	do	do
			40 & 40a - Repricing - Performing Financial Assets and Financial Liabilities	do	do	do

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			41 - Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs	Quarterly	15th banking day after end of the reference quarter	CD ¹ sdcrb-frp@bsp.gov.ph
			42 - Disclosure of Due From FCDU/RBU and Due To FCDU/RBU	do	do	do
			Schedules (Consolidated Report):	do	30th banking day after end of the reference quarter	do
			1 - Checks and Other Cash Items	do	do	do
			2 - Due from Other Banks	do	do	do
			3 - Financial Assets Held for Trading	do	do	do
			3a - Breakdown of Held for Trading (HFT) Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements	do	do	do
			4 - Derivatives Held for Trading (HFT)	do	do	do
			4a - Derivatives Held for Trading-Matrix of Counterparty and Type of Derivative Contracts	do	do	do
			5 - Financial Assets Designated at Fair Value through Profit or Loss	do	do	do
			6 - Available-for-Sale Financial Assets	do	do	do
			6a - Breakdown of Available for Sale Financial Assets Purchased/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, Securities Lending and Borrowing Agreements	do	do	do

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			6b - Available-for-Sale Financial Assets-Classified as to Status	Quarterly	30th banking day after end of the reference quarter	CD ¹ sdcrb-frp@bsp.gov.ph
			6c - Available-for-Sale Financial Assets Movements in Allowances for Credit Losses	Annually	30th banking day after end of the reference year	
			7 - Held to Maturity (HTM) Financial Asset	Quarterly	30th banking day after end of the reference quarter	
			7a - Breakdown of Held to Maturity Financial Assets Purchase/Sold/Lent Under Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, Securities Lending and Borrowing Agreements	do	do	do
			7b - Fair Value of Held to Maturity (HTM) Financial Assets	Annually	30th banking day after end of the reference year	do
			7c - Held to Maturity Financial Assets Classified as to Status	Quarterly	30th banking day after end of the reference quarter	do
			7d - Held to Maturity Financial Assets Movements in Allowances for Credit Losses	Annually	30th banking day after end of the reference year	do
			8 - Unquoted Debt Securities Classified as Loans	Quarterly	30th banking day after end of the reference quarter	do

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			8a - Fair Value of Unquoted Debt Securities Classified as to Status	Annually	30th banking day after end of the reference year	CD ¹ sdcrb-frp@bsp.gov.ph
			8b - Unquoted Debt Securities Classified as Loans Classified as to Status	Quarterly	30th banking day after end of the reference quarter	do
			8c - Unquoted Debt Securities Classified as Loans Movements in Allowances for Credit Loans	Annually	30th banking day after end of the reference year	do
			9 - Investment in Non-Marketable Equity Securities	Quarterly	30th banking day after end of the reference quarter	do
			10 - Interbank Loans Receivables	do	do	do
			11 - Loans and Receivables – Others	do	do	do
			11a - Loans and Receivables - Others Classified as to Status	do	do	do
			11b - Restructured Loans and Receivables Classified as to Status	do	do	do
			11c - Loans and Receivables - Others Movements in Allowances for Credit Losses	do	do	do
			11d - Gross Loans and Receivables – Others Classified as to Type of Business/Industry of Counterparty	do	do	do
			11e - Loans and Receivables - Others Classified as to Status per PAS 39	Annually	30th banking day after end of the reference year	do

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

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
			11f - Schedule of Agri/Agra, Microfinance and SME Loans and Receivables Classified as to Counterparty	Quarterly	30th banking day after end of the reference quarter	CD ¹ sdcrb-frp@bsp.gov.ph
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse and Securities Lending and Borrowing Transactions	do	do	do
			12a - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions Matrix of Counterparty and Issuer of Collateral Securities	do	do	do
			13 - Fair Value Adjustments in Hedge Accounting	do	do	do
			13a - Derivatives Held for Fair Value Hedge	do	do	do
			13b - Derivatives Held for Cash Flow Hedge	do	do	do
			13c - Derivatives Held for Hedges of Net Investment in Foreign Operations	do	do	do
			13d - Derivatives Held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount)	do	do	do
			14 - Accrued Interest Income/Expense from Financial Assets and Liabilities	do	do	do
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	do	do	do

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

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
			15a - Equity Investment in Subsidiaries, Associates and Joint Arrangements- Classified as to Nature of Business	Quarterly	30th banking day after end of the reference quarter	CD ¹ sdcrb-frp@bsp.gov.ph
			15b - Details of Equity Investment in Subsidiaries, Associates and Joint Ventures	do	do	do
			16 - Bank Premises, Furniture, Fixture and Equipment	do	do	do
			17 - Real and Other Properties Acquired/Non-Current Assets Held for Sale	do	do	do
			17a - Aging of ROPA and NCAHS Accounts	Annually	30th banking day after end of reference year	do
			17b - Movements in ROPA and NCAHS Accounts	do	do	do
			18 - Schedule of Tax Assets and Liabilities	do	do	do
			19 - Other Assets	Quarterly	30th banking day after end of the reference quarter	do
			20 - Breakdown of Due from and Due to Head Office/Branches/Agencies Abroad - Philippine Branch of a Foreign Bank	do	do	do
			21 - Liability for Short Position	do	do	do
			22 - Deposit Liabilities Classified as to Type of Deposit	do	do	do
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/Branches	do	do	do
			23 - Due to Other Banks	do	do	do

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

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
			24 - Bills Payable	Quarterly	30th banking day after end of the reference quarter	CD ¹ sdcrb-frp@bsp.gov.ph
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	do	do	do
			26 - Fair Value of Financial Liabilities	Annually	30th banking day after end of reference year	do
			27 - Financial Liabilities Associated with Transferred Assets	Quarterly	30th banking day after end of the reference quarter	do
			28 - Other Liabilities	do	do	do
			29 - Interest Income/Expense from Financial Instruments	do	do	do
			29a - Interest Income from Due from Other Banks Classified as to Type of Deposits	do	do	do
			29b - Interest Income from Held for Trading, Designated at FVPL, Available for Sale, Held to Maturity Financial Assets and Unquoted Debt Securities Classified as Loans	do	do	do
			29c - Interest Income from Interbank Loans Receivables	do	do	do
			29d - Interest Income from Loans and Receivables - Others - Classified as to Status	do	do	do
			29e - Interest Income from Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse and Securities Lending and Borrowing transactions	do	do	do

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

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
			30a - Interest Expense on Deposit Liabilities	Quarterly	30th banking day after end of the reference quarter	CD ¹ sdcrb-frp@bsp.gov.ph
			30b - Interest Expense on Bills Payable	do	do	do
			30c - Interest Expense on Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	do	do	do
			31 - Dividend Income	do	do	do
			32 - Gains/(Losses) on Financial Assets and Liabilities Held for trading	do	do	do
			33 - Gains/(Losses) from Sale/Redemption/ Derecognition of Non-Trading Financial Assets and Liabilities	do	do	do
			34 - Compensation/Fringe Benefits	do	do	do
			35 - Other Administrative Expenses	do	do	do
			36 - Depreciation/Amortization Expense	do	do	do
			37 - Impairment Loss	do	do	do
			38 - Off-Balance Sheet	do	do	do
			38a, 38a1, 38a3 & 38a4 - Report by the PERA Administrator on Personal Equity and Retirement Account	<u>do</u>	<u>do</u>	<u>do</u>
			39 - Residual Maturity Performing Financial Assets and Financial Liabilities	do	do	do
			40 - Repricing - Performing Financial Assets and Financial Liabilities	do	do	do
			41 - Investment in Debt Instruments Issued by LGUs and Loans Granted to LGUs	do	do	do
			42 - Disclosure of Due From FCDU/RBU and Due to FCDU/RBU	do	do	do

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

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

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
			11 - Loans and Receivables – Others	Quarterly	15th banking day from end of reference quarter	cc: Mail – SDC
			11a1 - Loans and Receivables – Others Classified as to Status - Peso Accounts	do	do	do
			11b1 - Restructured Loans and Receivables Classified as to Status - Peso Accounts	do	do	do
			11c1 - Loans and Receivables – Others Movements of Allowances for Credit Losses - Peso Accounts	do	do	do
			11d1 - Loans and Receivables – Others (At Amortized Cost) - Peso Accounts	do	do	do
			11e1 - Loans and Receivables – Others Classified as to Status per PAS 39 – Peso Accounts (For Annual Submission)	Annually	15th banking day from end of reference year	do
			11f - Schedule of Agri/Agra, SME, DIL and Microfinance Loans and Receivables under Schedule 11 - Classified as to Counterparty	Quarterly	15th banking day from end of reference quarter	do
			12 - Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse and Securities Lending and Borrowing Transactions -By Counterparty	do	do	do
			12a1 - Loans and Receivables Arising from Repurchase Agreements and Securities Lending and Borrowing Transactions Matrix of Counterparty and Issuer of Collateral Securities - Peso Accounts	do	do	do
			14 - Accrued Interest Income/Expense from Financial Assets and Liabilities	do	do	do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
			15 - Equity Investment in Subsidiaries, Associates and Joint Ventures	Quarterly	15th banking day from end of reference quarter	cc: Mail – SDC
			15a - Equity Investment in Subsidiaries Associates and Joint Ventures – Classified as to Nature of Business	do	do	do
			15b - Details of Equity Investment in Subsidiaries, Associates and Joint Ventures	do	do	do
			16 - Bank Premises, Furniture, Fixture and Equipment	do	do	do
			17 - Real and Other Properties Acquired/Non-Current Assets Held for Sale	do	do	do
			17a - Aging of ROPA and NCAHS Accounts	Annually	15th banking day from end of reference year	cc: Mail – SDC
			17b - Movement in ROPA and NCAHS Accounts	do	do	do
			19 - Other Assets	Quarterly	15th banking day from end of reference quarter	do
			22 - Deposit Liabilities - Classified as to Type of Deposit	do	do	do
			22a - Deposit Liabilities by Size of Accounts Excluding Deposits in Foreign Offices/Branches	do	do	do
			24 - Bills Payable	do	do	do
			25 - Bonds Payable, Unsecured Subordinated Debt and Redeemable Preferred Shares	do	do	do
			27 - Financial Liabilities Associated with Transferred Assets	do	do	do
			28 - Other Liabilities	do	do	do

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

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

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
			Supplementary Report on Early Adoption of PFRS 9	Monthly	15th banking day after the end of the reference month	Receiving Section, SES
A-1	Unnumbered	X146.3 (Circular nos. 749 dated 02.27.12 and 757 dated 05.08.12 as amended by Cir. Nos. 895 dated 12.14.15 and 917 dated 07.08.16)	Report on Conglomerate Structures	Annually	30 calendar days after the end of the calendar year	Appropriate department of the SES
A-1	Unnumbered	X141.3c(9) (Circular No. 749 dated 02.27.12)	Replacement of the Chief Risk Officer	As changes occur	5 banking days from the time of approval of the board of directors	do
A-1	Unnumbered	X115 (Cir. Nos. 475 dated 02.14.05, 503 dated 12.22.05, as amended by M-2016-024 dated 12.28.16)	Basel III Capital Adequacy Ratio (CAR) Report and Control Prooflist			sdcrb-car574@bsp.gov.ph
			CAR Summary Report			sdcrb-CARsummary@bsp.gov.ph
			- Solo basis (head office and branches) CAR Summary Report	Quarterly	within 15 banking days after end of reference quarter	Hard copy: SDC
			- Consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies)	do	within 30 banking days after end of reference quarter	do
		1115.2 (Cir. 538 dated 4 August 2006, and Cir. 574 dated 07.10.07, as amended by 740 dated 11.16.11 and M-062 dated 12.12.11, M-049 10.22.12, M-028 dated 06.19.13, M-056 dated 12.10.13, M-044 dated 11.24.14, M-001 dated 01.07.15, Cir. No. 890 dated 11.02.15 and Cir. No. 903 dated 02.29.16)				

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-1		X115.6 (Cir. No. 881 dated 06.09.15, M-026 dated 07.16.15 and Cir. No. 903 dated 02.29.16)	Basel III Leverage Ratio (BLR) Report - Solo basis (head office and branches) For Reference Date: 30 June 2015 For Reference Dates: 31 December 2015, 30 June 2016 & 31 December 2016 - Consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies) For Reference Date: 30 June 2015, 31 December 2015, 30 June 2016 & 31 December 2016	Semi-annually	30 banking days from submission reference date 15 banking days from submission reference date 30 banking days from submission reference date	sdcrb-leverage@bsp.gov.ph
A-1	Unnumbered	X136.4 (Cir. No. 888 dated 10.09.15)	Report on Dividends Declared		10th banking/business day after date of dividend declaration	Appropriate department of the SES
A-1		X907.6 (Circular No. 885 dated 08.14.15)	Broker Customer Accounts for Settlement of Customer Trades - Cash Accounts / Securities Accounts ¹ - End-of - week balance	Monthly	15th banking day after end of reference month	do
A-2	Unnumbered	X118 (Cir. 688 dated 05.26.10 and M- 014 dated 05.15.10, M-054 dated 10.06.11, and M-017 dated 05.07.13, M-017 dated 03.21.14, M-014 dated 03.10.15, Cir. No. 890 dated 11.02.15 and Cir. No. 903 dated 02.29.16)	Basel 1.5 Capital Adequacy Ratio - Solo basis (head office and branches) - Consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies) - Control Prooflist	Quarterly Quarterly	15th banking day after end of reference month 30th banking day after end of reference quarter	sdcrb-car@bsp.gov.ph

¹ Beginning with the reporting period ending 30 September 2015

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-2	RB/COB Form1		Consolidated Daily Report of Condition (CDRC)	Weekly	4th banking day after end of reference week	SDC
A-2	Unnumbered (no prescribed form)	X141.9	Acknowledgment receipt of copies of specific duties and responsibilities of the board of directors and of a director and certification that they fully understand the same	Annually or as directors are elected	30th banking day after date of election	Appropriate department of the SES
A-2	Unnumbered (no prescribed form)	X141.9 (Cir. No. 887 dated 10.07.15)	Certification under oath of directors that they have received copies of the general responsibility and specific duties and responsibilities of the board of directors and of a director that they fully understand and accept the same	Upon election as first-time director within a bank or banking group	20th banking day after date of election	Hard copy to appropriate department of the SES
A-2	Form 2B/2B.1	X192.9 (Cir. No. 576 dated 08.08.07, M-030 dated 10.04.07, M-026 dated 06.23.14 as amended by Cir. No. 890 dated 11.02.15)	RBs with resources of P1.0 billion and above Balance Sheet/Consolidated Balance Sheet Control Prooflist duly notarized and signed by the authorized official of the reporting bank			CD/ sdcrbpbs@bsp.gov.ph hard copy to SDC Fax to 523-3461 or 523-0230
A-2	Form 2B/2B.1	(Cir. No. 576 dated 08.08.07 and M-030 dated 10.04.07)	Published Balance Sheet/Consolidated Balance Sheet (together with the publisher's certificate) RBs with resources of less than P1.0 billion Balance Sheet/Consolidated Balance Sheet Control Prooflist duly notarized and signed by the authorized official of the reporting bank	do	20 banking days from the date of the Call Letter 20 banking days after the end of reference quarter	Fax to 523-3461 or 523-0230 or via postal/ messengerial services to SDC CD/ sdcrbpbs@bsp.gov.ph hard copy to SDC
			Published/Posted Balance Sheet/Consolidated Balance Sheet (together with the publisher's certificate if applicable)	do	do	do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-2	Unnumbered	X425.2 (Cir. No. 609 dated 05.26.08, M-022 dated 06.26.08, Cir. 880 dated 05.22.15, M-028 dated 07.31.15, M-030 dated 09.14.15, M-031 dated 09.14.15, M-032 dated 09.14.15, Cir. No. 903 dated 02.29.16, Cir. No. 913 dated 06.05.16, M- 009 dated 06.23.16 and Cir. No. 920 dated 08.18.16)	Financial Reporting Package for Trust Institution ¹ Schedules: Balance Sheet A1 to A2 - Main Report B to B2 - Details of Investments in Debt and Equity Securities C to C2 - Details of Loans and Receivables D to D2 - Wealth/Asset/Fund Management- UITF E - Other Fiduciary Accounts E1 to E1b - Other fiduciary Services – UITF Income Statement Control Prooflist	Quarterly	20th banking day after the end of reference quarter	sdcrb-frpti@bsp.gov.ph
A-2	Unnumbered	X192/X361 (Cir. No. 607 dated 04.30.08, M-021 dated 06.16.08, Cir. 836 dated 06.13.14 and M-024 dated 06.23.14 as amended by Cir. No. 890 dated 11.02.15)	Report on Microfinance Products	Monthly	15th banking day after end of the reference month	sdcrb-micro@bsp.gov.ph
A-2	Unnumbered	X192 (Cir. No. 607 dated 04.30.08, M-021 dated 06.16.08, Cir. 836 dated 06.13.14 and M-024 dated 06.23.14 as amended by Cir. No. 890 dated 11.02.15)	Income Statement on Retail Microfinance Operations	Quarterly	15th banking day after end of the reference quarter	sdcrb-micro@bsp.gov.ph

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

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A-2		X181.5 (Cir. No. 620 dated 09.03.08)	Self-Assessment and Certification of Compliance with Rules and Regulations on Bank Protection/Updated Security Program	Annually	On or before 30 January	Appropriate department of the SES
A-2		X361 §3277.6	Report on Microfinance Transactions	Monthly	5th banking day after end of reference month	Original - DLC/BSPRLC
A-2	RB/COB Form 7	X258 (As amended by M-048 dated 11.07.13, M-020 dated 04.22.14 and Cir. No. 890 dated 11.02.15)	Weekly Report on Required and Available Reserves Against Deposit Liabilities (CDRC - Form 1)	Weekly	4th banking day after end of reference week	sdcrb-wrrar@bsp.gov.ph
A-2	RB/COB Form 8	X254	Control Prooflist of WRRAR Against Deposit Liabilities	do	do	do
A-2	RB/COB Form 8	X240.8	Government Funds Held/Compliance with Liquidity Floor Requirement	Quarterly	15th banking day after end of the reference quarter	Original - Appropriate department of the SES Duplicate – SDC
A-2	Unnumbered	X807 (Rev. May 2002 as amended by Cir. Nos. 612 dated 06.13.08 and 706 dated 01.05.11)	Covered Transaction Report (CTR)	As transaction occurs	10th banking day from the occurrence of the transaction	
			Suspicious Transaction Report (STR)	do	do	do
A-2	BSP 7-16-11	X192.7 (As amended by Cir. No. 718 dated 04.26.11 533 dated 06.19.06)	Consolidated List of Stockholders and Their Stockholdings and Changes thereto	Annually/ Quarterly when changes occurs	30th banking day after end of calendar year and if there are changes, 12th banking day after end of the reference quarter	Original - Appropriate department of the SES

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-2	Unnumbered	X393 (Cir. No. 613 dated 06.18.08, M- 032 dated 10.31.08 and Cir. No. 848 dated 09.08.14)	Report of Selected Branch Accounts Schedules: Selected Balance Sheet Accounts Selected Balance Sheet and Income Statement Accounts Aging of Loans and Receivables – Others Breakdown of Deposit Liabilities Bank Loans-to- Deposits Ratio Reconciling Items Outstanding for More than Six (6) Months on the Due From/Due to Head Office, Branches and Agencies Account Bank Deposit Interest Rate	Quarterly	20th banking day after end of reference quarter	
A-3	RB/COB Form 4A	X335 X409.3	Consolidated Report on Compliance with Individual Ceiling on Direct Credit Accommodations to Directors/Officers/ Stockholders/Related Interests (DOSRI) Schedule: 1 - Compliance with Individual Ceiling on Credit Accommodations to DOSRI	Quarterly do	15th banking day after end of reference quarter do	Original – Appropriate department of the SES do

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
A-3	RB/COB Form 4B	X335 X409.3	Consolidated Report on the Compliance with Aggregate Ceiling on Credit Accommodations to DOSRI Schedules: 1 - Secured and Unsecured DOSRI Loans			
A-3	RB/COB Form 5B	X342.6 (Cir. No. 625 dated 10.14.08 and M-035 dated 11.19.08, Cir. No. 736 dated 7.29.11 and M-2011-052 dated 9.16.11, M-2011-064 dated 12.15.11, M-020 dated 04.22.14 as amended by Cir. No. 890 dated 11.02.15)	Report on Compliance with Mandatory Credit Allocation Required under R.A. 6977, as amended by R.A. Nos. 8289 and 9501 Schedules: 1A - Computation of Total Loan Portfolio for Purposes of Determining Amount of Mandatory Credit Allocation for MSMEs 1A-1 - Wholesale Lending of a Bank to Conduit NBFIs w/o QB authority other than those for On-Lending to MSMEs 1A-2 - Loans Granted Under Special Financing Program Other Than for MSMEs 1A-3 - Loans Granted to MSMEs Other Than to BMBEs which are Funded by Wholesale Lending of or Rediscounted with Another Bank 1B - Details of Eligible Investments for Compliance with the Required Credit Allocation for MSMEs 1B-1 - Loans Granted to MSMEs Other than to BMBEs which are Funded by Wholesale Lending of or Rediscounted with Another Bank 1B-2 - Wholesale Lending or Rediscounting Facility Granted to Participating Financial Institutions for On-Lending to MSMEs other than to BMBEs	Quarterly	15th banking day after end of reference quarter	sdcrb-sme@bsp.gov.ph

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
			2 - Loans Granted to BMBEs			
			3 - Reconciliation of Loans Granted to MSMEs as Reported Under Schedules 1B, 1B-1 and 2 and FRP Balance of Microfinance and SME Loans			
			Control Prooflist	Quarterly	15th banking day after end of reference quarter	SDC
A-3	Unnumbered	3277.6	Summary of Loans Granted	Annually	15th banking day after end of reference year	Original – SDC
A-3	Unnumbered	X192 (CL-050 dated 10.04.07 CL-059 dated 11.28.07)	Report on Borrowings of BSP Personnel	Quarterly	15th banking day after end of reference quarter	do
A-3	Unnumbered	X192.2 (Cir. No. 736 dated 07.29.11 and M-2011-052 dated 09.16.11, as amended by M-2011-064 dated 12.15.11, M-036 dated 10.09.15 and Cir. No. 903 dated 02.29.16)	Report on Compliance with the Mandatory Agri-Agra Credit Control Prooflist	Quarterly	15 banking days after end of reference quarter	sdcrb-pfrs@bsp.gov.ph
A-3	Unnumbered	X320.17 (Cir. No. 812 dated 09.23.13, M-060 dated 12.20.13, M-020 dated 04.22.14, Cir. No. 890 dated 11.02.15 and M-002 dated 03.10.16)	Credit Card Business Activity Report	do	do	sdc-ccbar@bsp.gov.ph
B	RB/COB Form 13	X338.3 X339.4 (Cir. No. 487 dated 06.03.05)	Report on Availment of Financial Assistance to Officers and Employees under an Approved Plan	Semestral	15 banking days after end of reference semester	Hard copy to appropriate department of the SES
B	RB/COB Form 18	X144 (CL dated 01.09.01, as amended by M-024 dated 07.31.08, Cir. No. 887 dated 10.07.15)	Biographical Data of Directors/Officers - If submitted in CD form - Notarized first page of each of the directors'/officers' biodata saved in CD and control prooflist - If sent by electronic mail - Notarized first page of Biographical Data or Notarized list of names of Directors/Officers whose Biographical data were submitted thru electronic mail to be faxed to SDC (CL dated 01.09.01)	After election or appointment and as change occurs or if requesting for approval of interlocks	20th banking day from the date of election of the directors/meeting of the board of directors in which the officers are elected or appointed/promoted	Hard copy to appropriate department of the SES
B		X144 (Cir. No. 887 dated 10.07.15)	Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist files	Upon election or appointment/promotion as first time director/officer within a bank or banking group	20th banking day from date of election of the directors/meeting of the board of directors in which the officers are appointed/promoted	Hard copy to appropriate department of the SES

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
B		X144 MAAB dated 09.02.05 (Cir. No. 887 dated 10.07.15)	Certification under oath of the independent directors that he/she is an independent director as defined under Section X141.2 and that all the information thereby supplied are true and correct	Upon election	20th banking day from date of election	Hard copy to appropriate department of the SES
B		X141.9 (Cir. No. 758 dated 05.11.12, as amended by Cir. No. 887 dated 10.07.15)	Certification under oath of director/officer that he/she has all the qualifications and none of the disqualifications	Upon every election/re-election or appointment/promotion	20th banking day from date of election	Hard copy to appropriate department of the SES
		(Cir. No. 513 dated 02.10.06)	Verified statement of directors/officers that he/she has all the aforesaid qualifications and none of the disqualifications			
B	RB/COB Form 19	X156.2	New Schedule of Banking Days/Hours	As Necessary	7th banking day prior to effectivity of change	Original-Appropriate department of the SES
B	SES Form6G	X192.4 (As amended by Cir. Nos. 587 dated 10.26.07 and 486 dated 06.01.05)	Report on Crimes and Losses	As transaction/incident occurs	Not later than ten (10) calendar days from knowledge of crime/incident and complete report not later than twenty (20) calendar days from termination of investigation	SDC and SITD
B	Unnumbered (no prescribed form)	X143.4	Report on Disqualification of Directors/Officers	As disqualification occurs	Within 72 hours from receipt of report by the BOD	Original-Appropriate department of the SES
B	RB/COB Form 23	X178.19 (As amended by Cir. Nos. 463 dated 12.29.04, 745 dated 01.10.12 and 855 dated 10.29.14)	Notice/Application for Write-off Loans, Other Credit Accommodations, advances and Other Assets	As write-off occurs	Within 30 days after every write-off	Original and duplicate-Appropriate department of the SES
B	RB/COB Form 25	X144 (As amended by Cir. Nos. 758 dated 05.11.12 and 887 dated 10.07.15)	List of Members of the Board of Directors and Officers	Annually	20th banking day from the annual election of the board of directors	Hard copy to appropriate department of the SES

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
B	RB/COB Form 26	X334	Transmittal of Board Resolution/Written Approval on Credit Accommodation to DOSRI in compliance with Sec. 36, R.A. 8791, as amended	As transaction occurs	20th banking day from date of approval	do
B	Unnumbered	X328.5 (Cir. No. 560 dated 01.31.07)	Transmittal of Board Resolution/Written Approval On Credit Accommodations to Subsidiaries and/or Affiliates in Compliance with Sec. X328.5	As loan to subsidiaries and/or affiliates is approved	do	Original and duplicate- Appropriate department of the SES
B		X190.6	Annual Report of Management to Stockholders Covering Results of Operation for the Previous Year	Annually	180 days after close of calendar or fiscal year	Original – Appropriate department of the SES
B	Unnumbered	X262.3	Certification of Compliance with Section 55.4 of R.A. No. 8791	Semestral	Within 7 banking days after end of June and December	do
		X409.16	Waiver of the Confidentiality of Information under Sections 2 and 3 of R.A. No. 1405, as amended	As transaction occurs		Appropriate department of the SES
B	Unnumbered	X146.3 (Cir.Nos. 757 dated 05.08.12 and 749 dated 02.27.12 as amended by Cir. Nos. 895 dated 12.14.15 and 917 dated 07.08.16)	Report on Material Related Party Transactions	Quarterly	20 calendar days after the reference quarter	Appropriate department of the SES
			Disclosure Statement on SPV Transactions	Quarterly	15th banking day after end of reference quarter	SDC

<u>Category</u>	<u>Form No.</u>	<u>MOR Ref.</u>	<u>Report Title</u>	<u>Frequency</u>	<u>Submission Deadline</u>	<u>Submission Procedure/ e-mail Address</u>
B	Unnumbered	(M-026 dated 06.11.13)	Report on the Inventory of Bank Network Affidavit	do	20 banking days after the end of the reference quarter	SDCRB-IBN@bsp.gov.ph or cd – SDC
	Unnumbered	X149.8 (Circular No. 848 dated 09.08.14)	Schedule of Bank Deposit Interest Rates ¹	do	do	
	Unnumbered	(M-019 dated 05.03.08, as amended by M-2011-028 dated 05.26.11, M-018 dated 05.07.13, M-020 dated 04.22.14 and Cir. No. 890 dated 11.02.15)	Report on Non-Deliverable Forward Transactions against Philippine Peso Control Prooflist	do	2nd banking day after end of reference date	sdcdndf@bsp.gov.ph cc: Treasury Dept. fx-omo@bsp.gov.ph
	Unnumbered	(M-020 dated 04.22.14 as amended by Cir. No. 890 dated 11.02.15)	Registration Form (e-correspondences)	As changes occur		Sdcrb_rf@bsp.gov.ph
B		Cir. 857 dated 11.21.14	Complaints Report	Quarterly	Not later than one (1) month after the end of every quarter	SDC
DES/IOD Reports: Please refer to Chapter I, Part V, Manual of Regulations on Foreign Exchange Transactions Part V of this Manual						
A-2	Unnumbered	Appendix 57 (Cir. No. 926 dated 09.13.16)	Sworn Certification on Lending to Local Government Units	Semestral	15 banking days after end of reference semester	Hardcopy to the appropriate department of the SES
A-2	Unnumbered	Appendix 57a (Cir. No. 926 dated 09.13.16)	Sworn Certification on Lending to Borrowing Government Entities	Semestral	15 banking days after end of reference semester	Hardcopy to the appropriate department of the SES
	Unnumbered	X262.3	Post Borrowing Report	As transaction occurs	Within 30 calendar days from the date of the full release of loan proceeds	DER

¹ Starting with the 30 September 2014 quarterly report

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

1. Name of bank

2. Address

3. P. O. Box Number

4. Cable address or cable code

5. Board of Directors including Corporate Secretary:

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

b. Number of directors per by-laws;

c. Number of vacancies in the Board;

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

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

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

6. President to Department Heads, including Auditor:

a. Names and titles;

b. Telephone number of each officer (office);

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

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

7. Branches, agencies and extension offices:

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

b. Address;

c. Names and telephone numbers of:

(1) Manager

(2) Cashier

(3) Accountant; and

d. For agencies and extension offices, indicate name of mother branch.
- Manual of Regulations for Banks

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**DOCUMENTS/INFORMATION ON ORGANIZATIONAL
STRUCTURE AND OPERATIONAL POLICIES**
[Appendix to Subsec. X192.3 (2008 - X162.3)]

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

**GUIDELINES FOR CONSOLIDATION OF FINANCIAL STATEMENTS OF BANKS
AND THEIR SUBSIDIARIES ENGAGED IN FINANCIAL ALLIED
UNDERTAKINGS**

[Appendix to Subsec. X192.10 (2008 - X162.10)]

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

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

(Name of Bank)

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

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

President

Date

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

(Name of Bank)

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

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

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08.12.31

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

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

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

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

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

Security Officer

Date

Noted by:

President

Date

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

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

The order of withdrawal form shall be on security/check paper and contain as a minimum the features contained in the following pro-forma order of withdrawal:

FRONT

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

BACK

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

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

Serial No. _____

Original

(Name of Bank)

PROMISSORY NOTE

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

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

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

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

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

Duly Authorized Officer

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS AND CONDITIONS OF A PROMISSORY NOTE

1. Computation of Yield

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

2. No Pretermination

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

3. Liquidated Damages

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

4. Renewal

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

5. Collateral/Delivery

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

6. Substitution of Securities

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

7. Separate Stipulations

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

Serial No. _____

Original

(Name of Bank)

REPURCHASE AGREEMENT

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

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

(Description of Securities)

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

CONFORME:

(Signature of Vendee)

Duly Authorized Officer

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS AND CONDITIONS OF A REPURCHASE AGREEMENT

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

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

Serial No. _____

Original

(Name of Bank)

CERTIFICATE OF ASSIGNMENT WITH RECOURSE

Issue Date: _____, 20 ____.

FOR AND IN CONSIDERATION OF PESOS _____

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

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

to the Assignor, specifically described as follows:

(Description of Debt Securities)

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

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

C O N F O R M E :

(Signature of Assignee)

Duly Authorized Officer

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS & CONDITIONS OF CERTIFICATE OF ASSIGNMENT WITH RECOURSE

1. *No Pretermination*

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

2. *Liquidated Damages*

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

3. *Delivery/Custody of Securities*

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

4. *Separate Stipulations*

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

Serial No. _____

Original

(Name of Bank)

CERTIFICATE OF ASSIGNMENT WITH RECOURSE

Issue Date: _____, 20 ____.

FOR AND IN CONSIDERATION OF PESOS _____

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

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

(Description of Debt Securities)

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

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

C O N F O R M E :

(Signature of Assignee)

Duly Authorized Officer

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS & CONDITIONS OF CERTIFICATE OF ASSIGNMENT WITH RECOURSE

1. *No Pretermination*

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

2. *Liquidated Damages*

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

3. *Delivery/Custody of Securities*

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

4. *Separate Stipulations*

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

Serial No. _____

Original

(Name of Bank)

CERTIFICATE OF PARTICIPATION WITH RECOURSE

Issue Date: _____, 20 _____

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

(Description of Debt Securities)

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

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

C O N F O R M E :

(Signature of Participant)

(Duly Authorized Officer)

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS & CONDITIONS OF CERTIFICATE OF PARTICIPATION WITH RECOURSE

1. *No Pretermination*

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

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

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

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

Serial No. _____

Original

(Name of Bank)

CERTIFICATE OF PARTICIPATION WITH RECOURSE

Issue Date: _____, 20 _____

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

(Description of Debt Securities)

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

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

C O N F O R M E :

(Signature of Participant)

Duly Authorized Officer)

NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)

TERMS & CONDITIONS OF CERTIFICATE OF PARTICIPATION WITH RECOURSE

1. *No Pretermination*

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

2. Liquidated Damages

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

3. *Delivery/Custody of Securities*

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

4. *Separate Stipulations*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

a. Collateral

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

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

b. Financial Ratios

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

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

c. Debt-to-equity

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

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

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

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

- a. Sworn Registration Statement in the form prescribed by the SEC;
- b. Board resolution signed by a majority of its members -
 - 1) authorizing the issue of long-term commercial papers;
 - 2) indicating the aggregate amount to be applied for;
 - 3) stating purpose or usage of proceeds thereof;
 - 4) providing that the registration statement shall be signed by any of the following: the principal executive officer, the principal operating officer, the principal financial officer, or persons performing similar functions; and
 - 5) designating at least two (2) senior officers with a rank of vice-president, or higher of their equivalent, to sign the commercial paper instruments to be issued.
- c. The latest audited financial statements and should the same be as of a date more than three (3) months prior to the filing of the registration statements, an unaudited financial statement as of the end of the immediately preceding month: *Provided, however*, That such unaudited financial statement shall be certified under oath by the accountant and the senior financial officer of the applicant duly authorized for the purpose and substituted with an audited financial statement within 105 days after the end of the applicant's fiscal year;

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

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

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

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

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

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

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

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

4) Intended use of proceeds;

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

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

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

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

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

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

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

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

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

Sec. 5. Action on Application for Registration

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

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

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

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

a. Evidence of indebtedness arising from interbank loan transactions;

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

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

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

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

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

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

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

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

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

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

h. Evidence of indebtedness denominated in foreign currencies; and

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

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

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

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

Sec. 9. Prohibition

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

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

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

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

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

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

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

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

Sec. 12. Basic Features of Registered Commercial Papers

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

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

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

Sec. 13. Minimum Principal Amount.

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

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

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

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

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

Sec. 15. Periodic Reports

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 17. Cease and Desist Order

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

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

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

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

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

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

Sec. 19. Transitory Provision

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

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

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

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

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

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

APPROVED:

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

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

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

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

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

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

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

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

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

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

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

- (a) Ordinary Registration;
 - (1) Sworn Registration Statement in the prescribed form;
 - (2) Board resolution signed by majority of its members (a) authorizing the issue of commercial paper, (b) indicating the aggregate amount to be applied for,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OR

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iv) Intended use of proceeds;

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

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

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

(viii) Encumbered assets;

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

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

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

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

(b) *Special Registration*

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

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

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

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

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

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

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

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

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

Sec. 4. Commercial Papers Exempt *Per Se*

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

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

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

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

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

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

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

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

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

Sec. 5. Other Commercial Papers Exempt from Registration.

Commercial papers issued by any financial intermediary authorized by the BSP to engage in quasi-

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

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

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

Sec. 8. Action on Application for Registration

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

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

Sec. 9. Ordinary Registration

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

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

Sec. 10. Special Registration

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

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

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

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

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

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

Sec. 13. Basic Features of Registered Commercial Papers

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

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

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

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

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

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

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

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

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

Sec. 17. Periodic Reports

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 22. Effectivity. These Rules and Regulations shall take effect on 11 December 1981.
Mandaluyong, Metro Manila, Philippines, 8 December 1981

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

APPROVED:

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

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

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

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

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

Sec. 1. Statement of Policy Objectives

The CFIEP aims to:

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

Sec. 2. Qualified Participants

The Program shall be open to the following:

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

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

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

Sec. 3. Coverage of the Program

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

Sec. 4. CFIEP Task Force

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

Sec. 5. Incentives under the Program

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

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

Sec. 6. Definition of Terms

As used in these Guidelines:

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

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

Sec. 7. Components of the Program

The components of the Program are as follows:

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

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

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

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

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

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

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

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

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

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

Sec. 8. Qualification to the Program

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

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

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

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

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

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

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

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

CFIs investing in undercapitalized CFIs should have a minimum unimpaired capital as defined under Secs. X111 and applicable and existing risk-based capital adequacy framework and a history of sustained profitability for a period of at least five (5) years.

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

Sec. 9. Application Procedures*

a. Purchase of Arrearages under Module I

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

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

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

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

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

approval of application by the Task Force.

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

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

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

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

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

b. LBP Counterpart Capital under Module II

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

c. Merger and Consolidation under Module III

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

Sec. 10. Applicability of Relevant Laws

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

(As amended by Circular Nos. 890 dated 02 November 2015 and 827 dated 28 February 2014)

* Application deadline 31 March 1992

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

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

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

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

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

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

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

amortizations on the mortgages and chattel mortgages constituting the pool.

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

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

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

I. The certificates shall have the following minimum features:

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

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

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

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

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

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

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

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

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

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

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

BASIC GUIDELINES IN SETTING UP OF ALLOWANCE FOR CREDIT LOSSES
(Appendix to Subsec. X178.17)

FIs with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or where practices fell short of expected standards shall, at a minimum, be subject to the following guidelines:

I. Individually Assessed Loans and Other Credit Accommodations¹

1. Loans and other credit accommodations with unpaid principal and/or interest shall be classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments as follows:

For unsecured loans and other credit accommodations:

No. of Days Unpaid/with Missed Payment	Classification	ACL
31 - 90 days	Substandard	10%
91 - 120 days	Substandard	25%
121 - 180 days	Doubtful	50%
181 days and over	Loss	100%

For secured loans and other credit accommodations:

No. of Days Unpaid/with Missed Payment	Classification	ACL
31 - 180 days*	Substandard	10%
181 - 365 days	Substandard	25%
Over 1 year - 5 years	Doubtful	50%
Over 5 years	Loss	100%

* When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to

be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

2. Loans and other credit accommodations that exhibit the characteristics for classified accounts described under Subsec. X178.17 shall be provided with allowance for credit losses as follows:

Classification	ACL
Especially Mentioned	5%
Substandard - Secured	10%
Substandard - Unsecured	25%
Doubtful	50%
Loss	100%

3. Unsecured loans and other credit accommodations classified as “Substandard” in the last two (2) internal credit reviews which have been continuously renewed/extended without reduction in principal and is not in process of collection, shall be downgraded to “Doubtful” classification and provided with a fifty percent (50%) allowance for credit losses;

4. Loans and other credit accommodations under litigation which have been classified as “Pass” prior to the litigation process shall be classified as “Substandard” and provided with twenty percent (25%) allowance for credit losses.

5. Loans and other credit accommodations that were previously classified as “Pass” but were subsequently restructured shall have a minimum classification of EM and provided with a five percent (5%) allowance for credit losses, except for loans which are considered non-risk under existing laws, rules and regulations.

6. Classified loans and other credit accommodations that were subsequently

¹ Other credit accommodations include other credits such as accounts receivables, sales contract receivables, accrued interest receivables and advances

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restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be fully repaid.

II. Collectively Assessed Loans¹ and Other Credit Accommodations

- 1. Current “Pass” loans and other credit accommodations should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions.
- 2. Loans and other credit accommodations with unpaid principal and/ or interest shall be classified and provided with ACL based on the number of days of missed payments as follows:

For unsecured loans and other credit accommodations:

No. of Days Unpaid/with Missed Payment*	Classification	ACL
1 - 30 days	EM	2%
31 - 60 days/ 1 st restructuring	Substandard	25%
61 - 90 days	Doubtful	50%
91 days and over/ 2 nd restructuring	Loss	100%

* PAR for microfinance loans

For secured loans and other credit accommodations²:

No. of Days Unpaid/with Missed Payment	Classification	ACL (%)	
		Other types of collateral	Secured by real estate
31 – 90	Substandard	10	10
91 – 120	Substandard	25	15
121 – 360 days	Doubtful	50	25
361 days – 5 years	Loss	100	50
Over 5 years	Loss		100

Provided, That where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

(As amended by Circular Nos. 903 dated 29 February 2016, 890 dated 02 November 2015, M-2015-035 dated 07 October 2015, M-2015-009 dated 28 January 2015, M-2015-005 dated 20 January 2015, 855 dated 29 October 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-2013-040 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-2011-059 dated 22 November 2011, M-2011- 056 dated 21 October 2011, M-2011-055 dated 17 October 2011, M-2011 043 dated 12 August 2011, M-2011-007 dated 04 February 2011, M-2010-039 dated 03 October 2010, M-2010-007 dated 23 April 2010, M-2009-040 dated 30 October 2009, M-2009-038 dated 08 October 2009, M-2009-037 dated 15 October 2009, M 2009-036 dated 06 October 2009, Circular Nos. 622 dated 16 September 2008, 603 dated 03 March 2008, 520 dated 20 March 2006)

¹ This includes microfinance loans, micro enterprises and small business loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans and other consumption loans, and other loan types which fall below the FI’s materiality threshold for individual assessment.
² As defined under Section X311 of the Manual of Regulations for Banks

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

(Business Name of Creditor)

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

NAME OF BORROWER
ADDRESS

1. LOAN AMOUNT P XXX

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

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

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

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

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

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

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

(Signature of Borrower over Printed Name) Date

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

AMORTIZATION SCHEDULE
(Sample Only)

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

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

(Circular No. 730 dated 20 July 2011)

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

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

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

xxx xxx xxx

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

xxx xxx xxx

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

xxx xxx xxx

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

- (1) the cash price or delivered price of the property or service to be acquired;
- (2) the amounts, if any, to be credited as down payment and/or trade-in;
- (3) the difference between the amounts set forth under clauses (1) and (2);

- (4) the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;
- (5) the total amount to be financed;
- (6) the finance charge expressed in terms of pesos and centavos; and
- (7) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

xxx xxx xxx

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

xxx xxx xxx

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

xxx xxx xxx

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

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

an estoppel as between the parties thereto.

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

Approved, 22 June 1963.

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

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

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

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

ENHANCED INTRADAY LIQUIDITY FACILITY
(Appendix to Sec. X278)

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

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

The revised features of the ILF are described below.

A. Access to ILF

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

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

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

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

B. Timeline

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

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

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

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

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

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

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

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

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

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

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

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

C. Eligible Securities

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

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

D. Valuation of Securities

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

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

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

E. Margins

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

G. DDA Statements/Transaction Details

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

F. Transaction Fee

The BTr shall collect a monthly maintenance fee of One Thousand Pesos (P1,000.00) from each Eligible Participant bank for the use of the CSA-ILF Securities Account. The maintenance fees herein required to be paid by each Eligible Participant bank shall be separate from and exclusive of any other fees being assessed and collected by BTr for membership in the RoSS. For this purpose, the Eligible Participant bank shall issue to the BTr an autodebit instruction to authorize the BTr to debit its DDA with BSP for the above-mentioned monthly maintenance fee. The BTr will inform the Eligible Participant

AVAILABILITY OF SERVICE

The ILF is covered by a Memorandum of Agreement (MOA) dated 25 March 2008 by and among the BSP, the BTr, the Bankers Association of the Philippines (for BAP members) and the Money Market Association of the Philippines (for non-BAP members). Participating banks shall sign individual participation agreements. The services outlined in the MOA shall be available at the BSP and the BTr at a fixed hour on all banking days. Banking days refer to the days banking institutions are open for business Mondays thru Fridays as authorized by the BSP.

PARTICIPATION AGREEMENT

_____ **Date**

Bangko Sentral ng Pilipinas
A. Mabini corner P. Ocampo Sr. Streets,
Manila

Bureau of the Treasury
Palacio del Gobernador
Intramuros, Manila

Bankers Association of the Philippines
11th Floor, Sagittarius Building
H. V. dela Costa Street, Salcedo Village
Makati City

Money Market Association of the Philippines
Penthouse, PDCP Bank Center
Herrera corner L. P. Leviste Streets, Salcedo Village
Makati City

Gentlemen:

Please be advised that we agree to participate in the Agreement for the Establishment of Intraday Liquidity Facility to support the Philippine Payment and Settlement System (the “System”) which is covered by the Memorandum of Agreement dated ____ (the “Agreement”) among yourselves and its subsequent amendments of revisions as may be agreed upon by the parties thereto from time to time.

We agree to be bound by all the terms and conditions of the Agreement and adopt it as an integral part of this Participation Agreement, including the authority of the BSP to execute payment instructions and the authority of the Bureau of the Treasury (BTr) to execute our instructions on transfer to/from, credit and debit to/against our Securities Account. Further, we agree to comply with all our obligations as participating bank/financial institution as provided in the Agreement. Lastly, we agree to keep yourselves free and harmless from any claim or liability arising from, or in connection with, our transactions transmitted through the System in accordance with the provisions of the Agreement.

This participation will become effective upon your conformity hereto and your notification of the same to us, the BSP and the BTr.

Very truly yours,

Participating Bank/Financial Institutions

APPROVED:

Bangko Sentral ng Pilipinas By: _____

Bureau of the Treasury By: _____

Bankers Association of the Philippines By: _____

Money Market Association of the Philippines By: _____

(LETTERHEAD OF THE APPLICANT)

The Treasurer of the Philippines
Palacio del Gobernador
Intramuros, Manila

Sir:

The undersigned hereby makes an application to open a Client Securities Account under the BSP-ILF RoSS Account in the Registry of Scripless Securities (RoSS) operated and maintained by the Bureau of the Treasury (BTr).

The undersigned will pay to BTr an additional monthly fee of P1,000.00 for the Client Securities Account opened payable on the first business day of each month. The BTr will inform the undersigned of any change in fee at least fifteen (15) days prior to implementation.

Please debit/credit our Regular Demand Deposit Account No._____ with the BSP for the payment of said monthly fee.

_____ Manila, Philippines
(Date)

(Name of Applicant)

(Signature of Authorized Signatory)

(Designation)

LETTERHEAD OF THE SELLER

Transaction No. _____
Value Date _____

CONFIRMATION OF SALE OF GOVERNMENT SECURITIES

The _____, does hereby CONFIRM that it has SOLD, TRANSFERRED AND CONVEYED unto _____, pursuant to the Memorandum of Agreement for Intraday Liquidity Facility and the Participation Agreement executed on _____ and _____, respectively, all of its rights, titles and interests over the following described Government Securities, held by the Bureau of the Treasury under the Registry of Scripless Securities System.

ISIN	TERM	ISSUE DATE	MATURITY DATE	FACE AMOUNT
_____ (Code)				_____ (Account Number)
			_____ (Name of GSED)	
			_____ (Signature of Authorized Signatory)	
			_____ (Designation)	

Transaction No. _____
Value Date _____

CONFIRMATION OF PURCHASE OF GOVERNMENT SECURITIES

The _____, does hereby CONFIRM that it has PURCHASED from _____, pursuant to the Memorandum of Agreement for Intraday Liquidity Facility and the Participation Agreement executed on _____ and _____, respectively, all of its rights, titles and interests over the following described Government Securities, held by the Bureau of the Treasury under its Registry of Scripless Securities System.

ISIN	TERM	ISSUE DATE	MATURITY DATE	FACE AMOUNT
_____ (Code)				_____ (Account Number)
			_____ (Name of GSED)	
			_____ (Signature of Authorized Signatory)	
			_____ (Designation)	

LIST OF NON-ALLIED UNDERTAKING
WHERE UBs MAY INVEST IN EQUITIES¹
(Appendix to Subsec. 1381.1)

PSIC CODE MAJOR GROUP	GROUP	DESCRIPTION
I. Agriculture (Major Division 1)		
A. Agricultural crops production (Division 11)		
111		Palay production
112		Corn production
113		Vegetable production, including root and tuber crops
114		Fruits and nuts (excluding coconut) production
115		Coconut production, including copra making in the farm
116		Sugarcane production, including muscovado sugar in the farm
118		Fiber crops production
119		Other agricultural crops production
B. Production of livestock, poultry and other animals (Division 12)		
121		Livestock and livestock products
122		Poultry and poultry products
123		Raising of other animals, including their products
C. Agricultural services (Division 13)		
130		Agricultural services
II. Fishery and Forestry (Major Division 2)		
A. Fishery (Division 14)		
141		Ocean (offshore) and coastal fishing
142		Inland fishing
143		Operation of fish farms
149		Other fishery activities

¹ For purposes of identifying the classification of a certain enterprise or undertaking, the industrial groupings in the 1977 Philippine Standard Industrial Classification (PSIC) list shall be followed.

PSIC CODE	DESCRIPTION
MAJOR GROUP	GROUP
	B. <i>Forestry (Division 15)</i>
159	Other forestry activities (operation of forest tree nurseries; planting, replanting and conservation of forests; gathering of uncultivated forest materials; establishments primarily engaged in providing forestry services on a fee or contract basis)
III. Mining and Quarrying (Major Division 3)	
	A. <i>Metallic ore mining (Division 21)</i>
211	Gold ore mining
212	Other precious metal ore mining
213	Copper ore mining
214	Nickel ore mining
215	Chromite ore mining
216	Iron ore mining
217	Other base metal ore mining
	B. <i>Non-metallic mining and quarrying (Division 22)</i>
221	Coal mining
222	Exploration and production of crude petroleum and natural gas
223	Stone quarrying, clay and sand pits
229	Other non-metallic mining and quarrying
IV. Manufacturing (Major Division 4)	
	A. <i>Manufacture of food (Division 31)</i>
311-312	Food manufacturing
	B. <i>Textile, wearing apparel and leather industries (Division 32)</i>
321	Manufacture of textiles
322	Manufacture of wearing apparel, except footwear
	Manufacture of leather and leather products, leather substitutes, and fur, except footwear & wearing apparel
324	Manufacture of footwear, except rubber, plastic or wood footwear

PSIC CODE	DESCRIPTION
MAJOR GROUP	GROUP
	C. <i>Manufacture of paper and paper products; printing and publishing (Division 34)</i>
341	Manufacture of paper and paper products
342	Printing, publishing and allied industries
	D. <i>Manufacture of chemicals and chemical, petroleum, coal rubber and plastic products (Division 35)</i>
351	Manufacture of industrial chemicals
352	Manufacture of other chemical products
353	Petroleum refineries
354	Manufacture of miscellaneous products of petroleum and coal
355	Manufacture of rubber products
356	Manufacture of plastic products not elsewhere classified
	E. <i>Manufacture of non-metallic mineral products, except products of petroleum and coal (Division 36)</i>
361	Manufacture of pottery, china and earthenware
362	Manufacture of glass and glass products
363	Manufacture of cement
369	Manufacture of other non-metallic mineral products
	F. <i>Basic metal industries (Division 37)</i>
371	Iron and steel basic industries
372	Non-ferrous metal basic industries
	G. <i>Manufacture of fabricated metal products, machinery and equipment (Division 38)</i>
381	Manufacture of fabricated metal products, except machinery and equipment and furniture and fixtures primarily of metal
382	Manufacture of machinery except electrical
383	Manufacture of electrical machinery apparatus, appliances and supplies
384	Manufacture of transport equipment
385	Manufacture of professional and scientific and measuring and controlling equipment not elsewhere classified, and of photographic and optical instruments
386	Manufacture and repair of furniture and fixtures primarily of metal

PSIC CODE	DESCRIPTION
MAJOR GROUP	GROUP
	H. <i>Other manufacturing industries (Division 39)</i>
390	Other manufacturing industries
	V. Electricity, Gas and Water (Major Division 5)
	A. <i>Electricity (Division 41)</i>
411	Generating and distributing electricity
412	Distributing electricity to consumers
	B. <i>Gas and steam (Division 42)</i>
421	Gas manufacture and distribution through systems
422	Steam heat and power plants
	C. <i>Waterworks and supply (Division 43)</i>
430	Waterworks and supply
	VI. Construction (Major Division 6)
501	General building construction
502	General engineering construction
503	Special trade construction
	VII. Wholesale Trade and Retail Trade Repair of MV Motorcycles and Personal and Household Goods (Major Division 7)
	A. <i>Wholesale trade (Division 61)</i>
619	Wholesale trade not elsewhere classified Merchandise brokers, general merchants, importers and exporters
	VIII. Transport, Storage and Communication (Major Division 8)
	A. <i>Transportation services (Division 71)</i>
711	Railway transport
712	Road passenger and freight transport
713	Water transport

PSIC CODE	DESCRIPTION
MAJOR GROUP	GROUP
714	Air transport
719	Services allied to transport
	B. <i>Communication (Division 73)</i>
731	Mail and express services
732	Telephone services
733	Telegraph services
739	Communication services, non-essential commodities
	IX. Financial Intermediation (Major Division 9)
	X. Real Estate, Renting and Business Activities (Major Division 10)
	XI. Public Ad and Defense; Compulsory Social Security (Major Division 11)
	XII. Education (Major Division 12)
	XIII. Health and Social Work (Major Division 13)
	XIV. Other Community, Social, and Personal Service Activities (Major Division 14)
	A. <i>Other social and related community services (Division 95)</i>
951	Research and scientific institutions
	XV. Private Households with Employed Persons (Major Division 15)
	XVI. Extra- Territorial Organizations and Bodies (Major Division 16)
	XVII. Restaurant and Hotels (Major Division 17)
981	Restaurants, cafes and other eating and drinking places
982	Hotel, motels and other lodging places, non-essential commodities

CREDIT PRIORITY CLASSIFICATION
(Appendix to Sec. X395)

Priority I -

- a. Production of agricultural, including forestry and fishery, and industrial goods which (1) possess growth potential in competitive domestic and world markets, (2) contribute most to the development of the economy, (3) provide for the satisfaction of basic wants of the population as a whole, and (4) require resources in addition to their self-financing capabilities.
- b. Marketing export products, primarily those goods that contain the maximum possible domestic processing and labor content.
- c. Marketing in the international market of domestic products which fall under Priority I and imported basic consumer goods by Filipino merchandisers.
- d. Importation and marketing of capital equipment, raw materials and supplies for the production and distribution of Priority I products.
- e. Public utilities which are not overcrowded and are necessary to support the production and distribution of Priority I goods or to satisfy basic wants.
- f. Other services which are not overcrowded and which are necessary for (1) the development of desirable knowledge and skills, (2) the support of the production and distribution of Priority I products, and (3) the promotion of tourism and cultural pursuits.
- g. Construction of (1) infrastructure projects, (2) physical plants necessary for the production and distribution of Priority I products and services, and (3) individual low cost housing for the lower income groups of the population.

Priority II -

- a. Production and distribution of goods and services which do not qualify under the Priority I category.
- b. Real estate loans (construction, acquisition, development and refinancing of real estate) other than those specified under Priority I.
- c. Consumption.
- d. Other non-productive and speculative activities.

ECONOMIC ACTIVITIES FALLING
UNDER PRIORITY I

A. Economic activities eligible for credits
up to eighty percent (80%) of loan value of
credit instrument

- 1. Agriculture, Fisheries and Forestry
 - a. Agricultural
 - (1) Abaca
 - (2) Cassava
 - (3) Cattle and dairy farms
 - (4) Coconut
 - (5) Coffee and cocoa
 - (6) Corn
 - (7) Palay or rice
 - (8) Piggery
 - (9) Poultry
 - (10) Ramie
 - (11) Rubber plantation
 - (12) Other fruits and vegetables
 - b. Fisheries
 - (1) Fishponds and inland fishing
 - (2) Marine fishing
 - c. Forestry
 - (1) Forest nurseries and reforestation project

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2. Mining and quarrying

a. Metal mining

(1) Chromite

(2) Copper

(3) Iron

(4) Lead

(5) Manganese

(6) Mercury and quicksilver

(7) Nickel

(8) Zinc

b. Non-mettalic mining

(1) Asbestos

(2) Sulphur

(3) Coal

(4) Gypsum
3. Manufacturing

a. Basic metal industries

(1) Blast furnaces, steel works and rolling mills

(2) Iron and steel basic industries

(3) Iron and steel foundries

(4) Non-ferrous metal basic industries

b. Chemical and chemical products

(1) Basic chemicals

(2) Drugs

(3) Fertilizer

c. Coconut products and their preparation

(1) Coconut oil, edible

(2) Coconut oil, inedible

(3) Copra meal and cake

d. Electrical machinery, apparatus and appliances

(1) Transmissions and distribution equipment

e. Food manufacturing

(1) Canning and preserving of fish and other sea foods

(a) Fish canning

(2) Canning and preserving of fruits and vegetables

(a) Canning, drying, brining, pickling or otherwise preserving or preparing vegetables

(b) Canning, drying or otherwise preparing and preserving fruits

(3) Slaughtering, preparation and preserving of meat

(4) Miscellaneous food preparation

(a) Prepared feeds for animals and fowls

f. Furniture and fixtures manufacture

(1) Rattan and bamboo furniture

g. Leather and leather products

(1) Tanning and finishing

h. Lumber and wood products

(1) Veneer, plywood and prefabricated products

i. Machinery, equipment, accessories and parts

(1) Agricultural machinery

(2) Engines and turbines

(3) Industrial, construction and mining machinery

j. Non-metallic products

(1) Cement

k. Paper and paper products

(1) Pulp, paper and paperboard

l. Petroleum and coal products

(1) Coke

m. Textile, cordage and twines manufactures

(1) Cordage, rope, twines and nets

- (2) Hemp milling, abaca stripping and baling establishments
- (3) Knitting mills
- (4) Spinning, weaving and finishing of textiles
- n. Transportation equipment and parts
 - (1) Aircrafts and parts
 - (2) Motor vehicles, equipment and parts
 - (3) Motorcycles, bicycles and parts
 - (4) Railroad equipment
 - (5) Ships and boats
- o. Miscellaneous manufacturing industries
 - (1) Laboratory, engineering and medical
- 4. *Construction*
 - a. Contract
 - (1) Building construction
 - (a) Commercial and industrial projects*
- 5. *Public Utilities*
 - a. Ice and ice refrigeration plants
 - b. Operation of wharves, dry docks etc.
 - c. Warehousing
 - d. Water supply and sanitary services
 - (1) Irrigation systems
 - (2) Water supply systems
- 6. *Commerce*
 - a. Export products*
 - b. Importation of capital goods and raw materials*
 - c. Domestic trade (Filipino only) wholesales and retail

B. Economic activities eligible for credits up to sixty percent (60%) of the loan value of the credit instrument **

- 1. *Agriculture, fisheries and forestry*
 - a. Agricultural
 - (1) Citrus
 - (2) Cotton
 - (3) Salt farming
 - (4) Soybean
 - (5) Other root crops
- 2. *Mining and quarrying*
 - a. Metal mining
 - (1) Gold
 - (2) Silver
 - b. Non-metallic mining
 - (1) Asphalt
 - (2) Marble
- 3. *Manufacturing*
 - a. Chemical and chemical products
 - (1) Dyeing and tanning materials
 - (2) Explosives (excluding firecrackers)
 - b. Coconut products and their preparations
 - (1) Dessicated coconut
 - c. Electrical machinery, apparatus and appliances
 - (1) Communication equipment
 - (2) Dry cells and storage batteries
 - d. Food manufacturing
 - (1) Canning and preserving of fruits and vegetables
 - (a) Fruits and vegetables, sauces and seasoning
 - (2) Dairy products
 - (a) Milk processing
 - (3) Miscellaneous food preparations

* To follow rating of economic activities included in the list.
** For updated loans values, see Subsec X269.5

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- (a) Coffee roasting, grinding and/or processing

e. Furniture and fixture manufacture

(1) Wood furniture

f. Lumber and wood products

(1) Cork

(2) Sashes and doors

(3) Sawn and planed lumber

(4) Wooden box

(5) Wood chips

g. Machinery, equipment, accessories and parts

(1) Office and store machines and devices

h. Metal industries

(1) Cutlery, handtools and general products

(2) Fabricated structural and metal products

(3) Tin and aluminum ware

i. Non-metallic products

(1) Glass and glass products

(2) Structural clay products

j. Textile, cordage and twines manufactures

(1) Jute bags and sacks

k. Miscellaneous manufacturing industries

(1) Cottage native handicraft industries

(2) Footwear (other than rubber)

(3) Photographic and optical goods

4. Construction

a. Contract

(1) Building construction

(a) Commercial and industrial projects*

(2) Highway and street construction (including road building)
5. Public utilities

a. Common carriers

(1) Airlines and other air transportation

(2) Motor vehicles

(3) Railroad and railway companies

(4) Steamboats and steamship lines

b. Communication

(1) Telecommunication (cable, mail and express, telegraph, telephone)

c. Electricity, gas and steam

(1) Electric, light, heat and power

d. Water supply and sanitary services

(1) Garbage, sewerage and disposal system

6. Services

a. Business and professional services

(1) Engineering and technical services

b. Educational services

(1) Private vocational and trade schools

(2) Public universities and higher educational institutions

(3) Public vocational and trade schools

c. Medical and other health services

(1) Public health services

d. Recreation services

* To follow rating of economic activities included in the list.

- (1) Theatrical production (i.e., all performing arts)

e. Research and scientific institutions

7. *Financial*

a. Banks

(1) Private development banks

(2) Rural banks/Cooperative banks

8. *Commerce*

a. Export products*

b. Importation of capital goods and raw materials*

c. Domestic trade (Filipino only) wholesale and retail*

9. Other activities

a. Loans for other dollar-earning purposes not elsewhere classified (included in this category are the construction, development and operations of first-class hotels which cater to the needs of the tourist industry).
- C. Economic activities eligible for credits up to sixty percent (60%) of the loan value of the credit instrument**
1. *Agriculture, Fisheries and Forestry*

a. Agricultural

(1) Pineapple

(2) Tobacco, native

b. Fisheries

(1) Fishery services

(2) Pearl fishing and culture, shell gathering and other marine products

c. Forestry

(1) Forest services

(2) Timber tracts

2. *Mining and quarrying*

a. Non-metallic mining

(1) Mineral salt

(2) Silica

3. *Manufacturing*

a. Apparel and other finished products made from fabrics and similar materials

(1) Embroidery shops

(2) Wearing apparel

b. Chemicals and chemical products

(1) Paints, varnishes and lacquers

(2) Soaps and other cleansing preparations

c. Coconut products and their preparations

(1) Copra

d. Electrical machinery, apparatus and appliances

(1) Electric lamp

(2) Household appliances

(3) Radio, television, telephone receiving sets, electronic tubes and components

e. Food manufacturing

(1) Canning and preserving of fish and other sea foods

a. Fish sauce (patis) manufacture

b. Shellfish curing, smoking, salting or pickling

(2) Cocoa and chocolate and sugar confectionery

a. Cocoa and chocolate processing factories

(3) Grain mill products

a. Corn mills

b. Rice mills

c. Tuber flour mills

d. Wheat flour
- * To follow rating of economic activities included in the list.
** For updated loan values, please see Subsec. X269.
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- (4) Miscellaneous food preparations
- (a) Salt manufacture
- (b) Starch and its products
- (c) Vegetable lard and margarine manufacture
- (d) Vermicelli and noodles manufacture
- f. Lumber and wood products
 - (1) Creosoting and other wood treating
- g. Metal industries
 - (1) Fabricated wire products
 - (2) Metal stamping, coating and engraving
- h. Non-metallic products
 - (1) Private vocational and trade schools
 - (2) Public universities and higher educational institutions
 - (3) Public vocational and trade schools
- c. Medical and other health services
 - (1) Public health services
- d. Recreation services
 - (1) Theatrical production (i.e., all performing arts)
- e. Research and scientific institutions
- 7. *Financial*
 - a. Banks
 - (1) Private development banks
 - (2) Rural banks/Cooperative banks
- 8. *Commerce*
 - a. Export products*
 - b. Importation of capital goods and raw materials*

- c. Domestic trade (Filipino only) whosale and retail*
- 9. Other activities
 - a. Loans for other dollar-earning purposes not elsewhere classified (included in this category are the construction, development and operations of first-class hotels which cater to the needs of the tourist industry).

C. Economic activities eligible for credits up to sixty percent (60%) of the loan value of the credit instrument**

- 1. *Agriculture, Fisheries and Forestry*
 - a. Agricultural
 - (1) Pineapple
 - (2) Tobacco, native
 - b. Fisheries
 - (1) Fishery services
 - (2) Pearl fishing and culture, shell gathering and other marine products
 - c. Forestry
 - (1) Forest services
 - (2) Timber tracts
- 2. *Mining and quarrying*
 - a. Non-metallic mining
 - (1) Mineral salt
 - (2) Silica
- 3. *Manufacturing*
 - a. Apparel and other finished products made from fabrics and similar materials
 - (1) Embroidery shops
 - (2) Wearing apparel
 - b. Chemicals and chemical products

* To follow rating of economic activities included in the list.
** For updated loans values, please see Subsec X269

- (1) Paints, varnishes and lacquers
- (2) Soaps and other cleansing preparations
- c. Coconut products and their preparation
 - (1) Copra
- d. Electrical machinery, apparatus and appliances
 - (1) Electric lamp
 - (2) Household appliances
 - (3) Radio, television, telephone receiving sets, electronic tubes and components
- e. Food manufacturing
 - (1) Canning and preserving of fish and other sea foods
 - (a) Fish sauce (patis) manufacture
 - (b) Shellfish curing, smoking, salting or picking
 - (2) Cocoa and chocolate and sugar confectionary
 - (a) Cocoa and chocolate processing factories
 - (3) Grain mill products
 - (a) Corn mills
 - (b) Rice mills
 - (c) Tuber flour mills
 - (d) Wheat flour
 - (4) Miscellaneous food preparations
 - (a) Salt manufacture
 - (b) Starch and its products
 - (c) Vegetable lard and margarine manufacture
 - (d) Vermicelli and noodles manufacture
- f. Lumber and wood products
 - (1) Creosoting and other wood treating
- g. Metal industries
 - (1) Fabricated wire products

- (2) Metal stamping, coating and engraving
- h. Non-metallic products
 - (1) Plastic products
 - (2) Pottery, china, earthenware
 - (3) Concrete aggregates
 - (4) Concrete products
 - (a) Cement products light weight aggregate
 - (b) Pre-mold concrete light aggregate
- i. Paper and paper products
 - (1) Coated and glazed paper products
- j. Printing, publishing and allied industries
 - (1) Book publishing and printing
 - (2) Newspaper and periodical publishing
- k. Tobacco
 - (1) Cigar and cigarette factories (native)
- l. Miscellaneous manufacturing industries
 - (1) Oxygen, acetylene and similar products
 - (2) Silver and gold work without precious stones
 - (3) Musical instruments and parts
 - (a) Blank recording discs
 - (b) Metal stampers
- 4. *Construction*
 - a. *Contract*
 - (1) Building construction
 - (a) Government projects
 - (b) Commercial and industrial projects*
 - (2) Heavy construction (including bridges and irrigation projects)

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- b. Personal

(1) Construction

(2) Reconstruction

5. *Public utilities*

a. Electricity, gas and steam

(1) Gas manufacture and distribution

(2) Steam heat and power

b. Water supply and sanitary services

(1) Drainage system
6. *Services*
- a. Medical and other health services

(1) Private health services
- b. Recreation services
- (1) Motion picture production

7. *Financial*

a. Banks

(1) Commercial banks

(2) Savings and mortgage banks

8. *Commerce*

a. Export products*

b. Importation of capital goods and raw materials*

c. Domestic trade (Filipino only) wholesale and retail*

* To follow rating of economic activities included in the list.

SAMPLE INVESTMENT MANAGEMENT AGREEMENT
(Appendix to Subsec. X411.1)

IMA No. (prenumbered)

INVESTMENT MANAGEMENT AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

This AGREEMENT, made and executed this ____ day of _____ at _____,
Philippines, by and between:

(Hereinafter referred to as the “**PRINCIPAL**”)

and

_____, a banking corporation authorized to
perform trust functions, organized and existing under and by virtue
of the laws of the Philippines, with principal office and place of
business at _____,
Philippines.
(Hereinafter referred to as the “**INVESTMENT MANAGER**”)

WITNESSETH: THAT -

WHEREAS, the **Principal** desires to avail of the services of the **Investment Manager**
relative to the management and investment of **Principal’s** investible funds;

WHEREAS, the **Investment Manager** is willing to render the services required by the
Principal relative to the management and investment of **Principal’s** investible funds, subject
to the terms and conditions hereinafter stipulated;

NOW, THEREFORE, for and in consideration of the foregoing and of the mutual
conditions stipulated hereunder, the parties hereto hereby agree and bind themselves to the
following terms and conditions:

INVESTMENT PORTFOLIO

1. Delivery of the Fund - Upon execution of this Agreement, the **Principal** shall
deliver to the **Investment Manager** the amount of PHILIPPINE PESOS:
_____ (P_____).

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2. Composition - The cash which the **Principal** has delivered to the **Investment Manager** as well as such securities in which said sums are invested, the proceeds, interest, dividends and income or profits realized from the management, investment and reinvestment thereof, shall constitute the managed funds and shall hereafter be designated and referred to as the **Portfolio**. For purposes of this Agreement, the term *securities* shall be deemed to include commercial papers, shares of stock and other financial instruments.

3. Delivery of Additional Funds - At any time hereafter and from time to time at the discretion of the **Principal**, the latter may deliver additional funds to the **Investment Manager** who shall form part of the Portfolio and shall be subject to the same terms and conditions of this Agreement. No formalities other than a letter from the principal and physical delivery to the **Investment Manager** of cash will be required for any addition to the Portfolio.

4. Nature of Agreement - **THIS AGREEMENT IS AN AGENCY AND NOT A TRUST AGREEMENT. AS SUCH, THE CLIENT SHALL AT ALL TIMES RETAIN LEGAL TITLE TO FUNDS AND PROPERTIES SUBJECT OF THIS ARRANGEMENT.**

THIS AGREEMENT IS FOR FINANCIAL RETURN AND FOR THE APPRECIATION OF ASSETS OF THE ACCOUNT. THIS AGREEMENT DOES NOT GUARANTEE A YIELD, RETURN OR INCOME BY THE INVESTMENT MANAGER. AS SUCH, PAST PERFORMANCE OF THE ACCOUNT IS NOT A GUARANTY OF FUTURE PERFORMANCE AND THE INCOME OF INVESTMENTS CAN FALL AS WELL AS RISE DEPENDING ON PREVAILING MARKET CONDITIONS.

IT IS UNDERSTOOD THAT THIS INVESTMENT MANAGEMENT AGREEMENT IS NOT COVERED BY THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC) AND THAT LOSSES, IF ANY, SHALL BE FOR THE ACCOUNT OF THE PRINCIPAL.

POWERS

5. Powers of the Investment Manager - The **Investment Manager** is hereby conferred the following powers:

- a. To invest or reinvest the Portfolio in (1) Evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral ng Pilipinas, and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or loans against such government securities; (2) Loans fully guaranteed by the government as to the payment of principal and interest; (3) Loans fully secured by hold-out on, assignment or pledge of deposits or of deposit substitutes, or mortgage and chattel mortgage bonds; (4) Loans fully secured by real estate and chattels in accordance with Section 78 of R.A. No. 337, as amended, and subject to the requirements of Sections 75, 76 and 77 of R.A. No. 337, as amended; and (5) Such other investments or loans as may be directed or authorized by the **Principal** in a separate written instrument which shall form

part of this Agreement: *Provided*, That said written instrument shall contain the following minimum information: (a) The transaction to be entered into; (b) The amount involved; and (c) The name of the issuer, in case of securities and/or the name of the borrower and nature of security, in the case of loans;

- b. To endorse, sign or execute any and all securities, documents or contracts necessary for or connected with the exercise of the powers hereby conferred or the performance of the acts hereby authorized;
- c. To cause any property of the Portfolio to be issued, held, or registered in the name of the **Principal** or of the **Investment Manager**: *Provided*, That in case of the latter, the instrument shall indicate that the Investment Manager is acting in a representative capacity and that the **Principal**'s name is disclosed thereat;
- d. To open and maintain savings and/or checking accounts as may be considered necessary from time to time in the performance of the agency and the authority herein conferred upon the **Investment Manager**;
- e. To collect and receive matured securities, dividends, profits, interest and all other sums accruing to or due to the Portfolio;
- f. To pay such taxes as may be due in respect of or on account of the Portfolio or in respect of any profit, income or gains derived from the sale or disposition of securities or other properties constituting part of the Portfolio;
- g. To pay out of the Portfolio all costs, charges and expenses incurred in connection with the investments or the administration and management of the Portfolio including the compensation of the **Investment Manager** for its services relative to the Portfolio; and
- h. To perform such other acts or make, execute and deliver all instruments necessary or proper for the exercise of any of the powers conferred herein, or to accomplish any of the purposes hereof.

LIABILITY OF INVESTMENT MANAGER

6. Exemption from Liability - In the absence of fraud, bad faith, or gross or willful negligence on the part of the **Investment Manager** or any person acting in its behalf, the **Investment Manager** shall not be liable for any loss or damage to the Portfolio arising out of or in connection with any act done or performed or caused to be done or performed by the **Investment Manager** pursuant to the terms and conditions herein agreed, to carry out the powers, duties and purposes for which this Agreement is executed.

7. Advice of Counsel - The **Investment Manager** may seek the advice of lawyers. Any action taken or suffered in good faith by the **Investment Manager** as a consequence of

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the opinion of the said lawyers shall be conclusive and binding upon the **Principal**, and the **Investment Manager** shall be fully protected from any liability suffered or caused to be suffered by the **Principal** by virtue hereof.

ACCOUNTING AND REPORTING

8. The **Investment Manager** shall keep and maintain books of accounts and other accounting records as required by law. The **Principal** or the authorized representative of the **Principal** shall have access to and may inspect such books of accounts and all other records related to the Portfolio, including the securities held in custody by the **Investment Manager** for the Portfolio.

9. Reporting Requirements - The **Investment Manager** shall prepare and submit to the **Principal** the following reports within _____: (a) Balance Sheet; (b) Income Statement; (c) Schedule of Earning Assets; (d) Investment Activity Report; and (e) (such other reports as may be required by the **Principal**).

INVESTMENT MANAGER'S FEE

10. Investment Fee - The **Investment Manager**, in addition to the reimbursement of its expenses and disbursements in the administration and management of the Portfolio including counsel fees, shall be entitled to receive as compensation for its services a management fee of _____ (Specify amount or rate).

WITHDRAWALS FROM THE PORTFOLIO

11. Withdrawal of Income/Principal - Subject to availability of funds and the non-diminution of the Portfolio below P1 million, the **Principal** may withdraw the income/principal of the Portfolio or portion thereof upon written instruction or order given to the **Investment Manager**. The **Investment Manager** shall not be required to see as to the application of the income/principal so withdrawn from the Portfolio. Any income of the Portfolio not withdrawn shall be accumulated and added to the principal of the Portfolio for further investment and reinvestment.

12. Non-alienation of Encumbrance of the Portfolio or Income - During the effectivity of this Agreement, the **Principal** shall not assign or encumber the Portfolio or its income or any portion thereof in any manner whatsoever to any person without the prior written consent of the **Investment Manager**.

EFFECTIVITY AND TERMINATION

13. Term - This Agreement shall take effect from the date of signing hereof and shall be in full force and effect until terminated by either party by giving written notice thereof to the other at least _____() days prior to the termination date.
14. Powers upon Liquidation - The powers, duties and discretion conferred upon the **Investment Manager** by virtue of this Agreement shall continue for the purpose of liquidation and return of the Portfolio, after the notice of termination of this Agreement has been served in writing, until final delivery of the Portfolio to the **Principal**.
15. Accounting of Transaction - Within _____() days after the termination of this Agreement, the **Investment Manager** shall submit to the **Principal** an accounting of all transactions effected by it since the last report up to the date of termination. Upon the expiration of the _____() days from the date of submission, the **Investment Manager** shall forever be released and discharged from all liability and accountability to anyone with respect to the Portfolio or to the propriety of its acts and transactions shown in such accounting, except with respect to those objected to in writing by the **Principal** within the _____() day period.
16. Remittance of Net Assets of the Portfolio - Upon termination of the Agreement, the **Investment Manager** shall turn over all assets of the Portfolio which may or may not be in cash to the **Principal** less the payment of the fees provided in this Agreement in carrying out its functions or in the exercise of its powers and authorities.

This Agreement or any specific amendments hereto constitute the entire agreement between the parties, and the **Investment Manager** shall not be bound by any representation, agreement, stipulation or promise, written or otherwise, not contained in this Agreement or incorporated herein by reference, except pertinent laws, circulars or regulations approved by the Government or its agencies. No amendment, novation, modification or supplement of this Agreement shall be valid or binding unless in writing and signed by the parties hereto.

IN WITNESS WHEREOF, the parties have hereunto set their hands on the date and at the place first above set forth.

(PRINCIPAL) (INVESTMENT MANAGER)

By:

SIGNED IN THE PRESENCE OF:

RISK MANAGEMENT GUIDELINES FOR DERIVATIVES
[Appendix to Subsec. X611.1 (2008 - X602.1)]

I. Introduction

This Appendix, together with the Guidelines on Supervision by Risk (*Appendix 72*), Market Risk Management under Sec. X175, Liquidity Risk Management under Sec. X176, and other Bangko Sentral issuances on management of the different risks attendant to banking activities, provides a framework on which a bank can establish its risk management activities. Accordingly, this set of risk management guidelines for derivatives should be read and used in conjunction with all related Bangko Sentral issuances on risk management.

A bank, in using these guidelines to evaluate the propriety and adequacy of its risk management, must consider the following principles:

a. No single risk management system for derivatives is expected to work for all banks considering that the structure and level of derivatives activities will vary from one bank to another. Each bank should apply the principles set in these guidelines in a manner appropriate to its needs and circumstances. The Bangko Sentral shall evaluate the quality of a bank’s risk management system based on the principles and minimum requirements of these guidelines, scaled to the derivatives activities being undertaken.

b. The requirements prescribed in these guidelines are merely minimum standards and therefore, should not be taken as the “be-all” for a bank’s risk management. The board of directors¹ has the responsibility of ensuring that a bank’s risk management system appropriately captures its risk exposures and affords proper management of these.

c. A trust entity within a bank must have a separate risk management system.

However, the trust department may in-source back office functions of its risk management system with the bank proper only upon prior Bangko Sentral approval on the basis that such in-sourcing will not give rise to potential conflict of interest.

II. Risk associated with derivatives

While derivatives primarily help manage existing and anticipated risks, derivatives themselves are exposed to the risks they are designed to manage. Moreover, simple derivatives, when combined with other financial instruments, may result in a structure that exposes a bank to complicated risks. Thus, derivatives can aggravate the risks of banks and of counterparties if derivatives are not clearly understood and properly managed.

A single derivatives product may expose a bank to multiple risks as enumerated under *Appendix 72*. These categories are not mutually exclusive of each other. Hence, derivatives activities must be managed with consideration of all these risks.

III. Risk management process for derivatives

The management of derivatives activities should be integrated into a bank’s overall risk management system using a conceptual framework common to the bank’s other businesses. For example, price risk exposure arising from derivatives transactions should be assessed in a manner comparable to and aggregated with all other price risk exposures. Risk consolidation is particularly important because the various risks contained in derivatives and other market activities can be interconnected and may transcend specific markets.

At a minimum, the risk management

¹ In case of a local branch of a foreign bank, the equivalent management review arrangement (e.g., management committee, regional review committee). In case of a trust entity, the trust committee.

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process for derivatives should be able to:

- a. **Identify** the risks arising from its derivatives activities in whatever capacity it deals with the same. A bank must likewise identify the impact of its derivatives activities on its overall risk profile. To properly identify risks, a bank must understand the derivatives products with which it is transacting and the factors that affect them. Considering that changes in the value of derivatives are highly influenced by changes in market factors, risk identification should be a continuing process and should occur at both a transaction and portfolio level.
- b. **Measure** the risks arising from its derivatives activities. A bank must have measurement models or tools to quantify the risks identified. These measurement tools should be suitable to the nature and volume of a bank’s derivatives activities. As the complexity and volume of the derivatives activity increases, the measurement tools should correspondingly be more sophisticated. The primary criteria for the propriety of the measurement tools are accuracy, timeliness, efficiency and comprehensiveness with which these tools can capture the risks involved and their contribution to the decision-making process of bank management.
- c. **Monitor** the risks arising from its derivatives activities. Derivatives products are very sensitive to market factors, which continually change. Thus, a bank should have a mechanism to monitor the responsiveness of derivatives to market factors to enable it to review and assess its risk positions. In order to effectively monitor the risks, reports must be timely generated in order to aid management in determining whether there is a need to adjust the bank’s derivatives positions.
- d. **Control** the risks arising from its derivatives activities. A bank must establish limits to its derivatives exposure. These limits

should be comprehensive and aligned with a bank’s overall risk tolerance. A bank’s policies and procedures on control should provide for contingencies when limits are breached. A bank must allot lead time and have a mechanism that enables management to act in time to control unacceptable or undesired exposures. A bank must also establish a system that separates functions susceptible to conflicts of interest.

IV. Sound risk management practices for derivatives

Consistent with the criteria for sound risk management practices in Item V of *Appendices 73 and 74*, the Bangko Sentral shall assess the propriety and adequacy of a bank’s risk management system for its derivatives activities in accordance with the following basic principles:

- a. Active and appropriate board¹ and senior management oversight
- A bank’s board of directors must set the general policy or the policy direction relating to the management of a bank’s risks, including those arising from its derivatives activities. This policy should be consistent with the bank’s business strategies, capital strength, management expertise and risk profile. Accordingly, the board of directors must understand the nature and purpose of the bank’s derivatives activities and the role derivatives play in the bank’s overall business strategy. Passive board of directors approval is not acceptable. There must be verifiable evidence of the board of directors approval processes and that senior management exerted effort to explain the nature and purpose of the derivatives activities to the board of directors (e.g., minutes of board of directors meetings documenting presentations and reports to the board of directors and the approval processes).

¹ In case of a local branch of a foreign bank, the equivalent management review arrangement (e.g., management committee, regional review committee). In case of a trust entity, the trust committee.

The board of directors must review and pre-approve new derivatives products as well as significant related policies and procedures. Central to the approval of new products is defining when a product or activity is new in order to ensure that variations on existing products receive the proper review and authorization. Policies should also detail authorized activities (e.g., at what stages approvals should be obtained, from whom approvals should be obtained), those that require one-time approval and those that are considered inappropriate.

The board of directors must be apprised of the bank's derivatives exposures on a timely basis in order to enable the board of directors to act on such exposures accordingly. Consequently, there should be an established reporting methodology to ensure that the board of directors receives, on a continuing basis, detailed information regarding the bank's risk exposures from derivatives, including the impact to the bank's overall risk profile, earnings and capital. These reports should include both normal and stress scenarios.

Pursuant to the general policy or policy direction on risk management set by the board of directors, senior management must adopt adequate policies and procedures for conducting the bank's derivatives activities on both a long-range and day-to-day basis. Policies should clearly delineate responsibility for managing risk, and provide effective internal controls and a comprehensive risk-reporting process. Policies must also keep pace with the changing nature of derivatives products and markets and therefore must be reviewed on an on-going basis. Senior management should ensure that the various components of a bank's risk management process are regularly reviewed and evaluated. Internal evaluations may be supplemented by external auditors or other qualified outside parties.

The quality of oversight provided by the board of directors and senior management to a bank's derivatives activities will be reflected in the overall risk management process, the adequacy of resources (financial, technical expertise, and systems technology) devoted to handle derivatives activities and its use of the monitoring reports. The board of directors and senior management shall be responsible for ensuring that bank personnel comply with prescribed risk management standards and sales and marketing guidelines.

b. Adequate risk management policies and procedures

A bank must establish policies and procedures to guide its personnel in conducting derivatives activities. These risk management policies must be reflective of a bank's current strategy and practice.

A bank should not issue policies and procedures for derivatives in isolation. All aspects of the risk management process for derivatives activities should be integrated into the bank's over-all risk management system to the fullest extent possible using a conceptual framework common to the bank's other activities. Risk management policies should be comprehensive, covering all activities of the bank. The Bangko Sentral will evaluate the degree to which controls covering derivatives activities have been integrated in other issuances of the bank covering aggregate risk-taking activities

For banks that conduct derivatives transactions with subsidiaries and affiliates, there should be policies and procedures that describe the nature, pricing, monitoring, and reporting of acceptable related-party transactions.

All risk management policies and procedures must be written, well communicated to all personnel involved in the derivatives activities and readily available in user-friendly form, whether the

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same is a hard or soft copy thereof. A bank must also put up systems and procedures to ensure an audit trail evidencing the dissemination process for new and amended policies and procedures.

At a minimum, a bank is expected to have:

1. Comprehensive, updated and relevant risk policy manual(s);
2. Operations manual(s) or similar documents that describe the flow of transactions among and between the relevant units and personnel in a bank's treasury (front office, back office and accounting) and risk management unit;
3. Approved product manual(s) that includes product definition, benefits and risks, pricing mechanisms, risk management processes, capital allocation guidelines, tax implications and other operating procedures and controls for the bank's derivatives activities.

c. Appropriate risk measurement methodologies, limits structure, monitoring and management information system.

The process of measuring, monitoring and controlling risk should be carried out independently from individuals conducting derivatives activities. An independent system of reporting exposures to both senior level management and to the board of directors is critical to the effectiveness of the process.

(1) Measurement methodologies

A bank must be able not only to accurately quantify the multiple risk exposures arising from its derivatives activities but also aggregate similar risks across the different activities of the bank to the fullest extent possible. A bank must develop a risk measurement model appropriate to its portfolio. Accordingly, a bank must evaluate the assumptions used, computational requirements, procedures for computing the risk metric, sourcing of inputs used in the measurement process,

including the theoretical reasons for a particular input choice, and how these concepts apply to the bank's portfolio.

The risk measurement system should be structured to enable management to initiate prompt remedial action, facilitate stress-testing, and assess the potential impact of various changes in market factors on earnings and capital. A risk measurement system is considered sound if it is capable of comprehensively capturing risks from: (a) the bank's on and off-balance sheet exposure; (b) all relevant market factors; and (c) normal circumstances and stress events. Sound risk measurement practice includes identifying possible events or changes in market behavior that could have unfavorable effects on the bank and assessing the ability of the bank to withstand these events or changes. The stress testing should include not only quantitative exercises that compute potential gains or losses but also qualitative analyses of actions that management might take under particular scenarios.

A bank's risk measurement system should provide appropriate pricing and valuation procedures to ensure best execution for both proprietary trading and those undertaken for clients and mark-to-market/model (MTM) methodology for derivatives instruments that follows established MTM regulations and Philippine Accounting Standards (PAS 39).

New measurement models whether developed internally or purchased from vendors, should be subject to an initial validation before it is used. Internally developed models require more intensive evaluation where they have not been market-tested by external parties. The validation process should consist of a review of the logic, mathematical or statistical theories, assumptions, internal processes and overall reliability of a bank's measurement models, including the

compatibility of the measurement model with the bank's technology and systems. The validation must be undertaken by a technical expert independent from the unit that developed the model. For example, pricing systems developed by a trader is required to be independently validated by a corresponding technical expert from the bank's risk management unit. If no such personnel from the risk management unit exists, an independent validation may be performed by internal audit provided that internal audit has the necessary expertise. A bank may also avail of the services of an independent outside expert. Thereafter, the frequency and extent to which models are validated depends on changes that affect pricing, risk presentation or the existing control environment. Changes in market conditions that affect pricing and risk conventions, which model performance, should trigger additional validation review.

Risk management policies should clearly address the scope of the validation process, the frequency of validations, documentation requirements, and management responses. At a minimum, policies should require the evaluation of significant underlying algorithms and assumptions before the model is put in regular use, and as market conditions warrant thereafter. Such internal evaluations should be conducted by parties who, where practicable, are independent of the business sector using or developing the model. The evaluation may, if necessary, be conducted or supplemented with reviews by qualified outside parties, such as experts in highly technical models and risk management techniques.

(2) Limits structure

A bank must specify individual limits for all types of risks involved in a bank's derivatives activities. A bank should use a variety of limits to adequately capture the range of risks or to address risks that the

measurement system does not capture. These limits should be integrated into the bank-wide limit structure to ensure consistency with the board of director-approved risk appetite and business strategy.

The limit structure should be realistic taking into consideration the target budget, level of earnings and capital. Limits must be documented and promptly communicated to all relevant personnel. Limits must be reviewed at least annually or more frequently, if circumstances warrant, in order to ensure that limits reflect the bank's past performance and current position.

Limits should be continually analyzed as regards its impact on target income, earnings and capital. These analyses should be submitted/reported to the board of directors. Any excess over the limit must be approved only by authorized personnel and immediately reported to senior management and depending on the seriousness, also to the board of directors. The seriousness of limit exceptions depends upon management's approach towards setting limits and on the actual size of individual and organizational limits relative to the bank's capacity to take risks. A bank with relatively conservative limits may encounter more exceptions to those limits than that with less restrictive limits. There must also be mechanisms for the correction of breach of these limits.

A bank's limit structure should address the following:

- (a) Definition of a credit exposure;
- (b) Maximum credit exposure to an individual counterparty;
- (c) Credit concentrations;
- (d) Maximum nominal exposure:
 - (i) per trader and per transaction; and
 - (ii) position limits.
- (e) Approved credit risk mitigation techniques;
- (f) Appropriate loss exposure triggers:
 - (i) loss alert;

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- (ii) stop loss;
- (iii) value-at-risk; and
- (iv) earnings-at-risk.

(3) Monitoring

Monitoring of risk exposures, market conditions, and trading positions should be done at least daily. Derivatives instruments are highly influenced by movements in market factors. Thus, a bank must have a mechanism that can track and analyze the effect of market movements on its derivatives exposures.

To ensure proper monitoring of risks, a bank is expected to have technology and systems that can (a) track movements in reference variables (underlying) and other market factors affecting the value of the derivatives instruments, such as trigger events; and (b) incorporate observed market movements into the pricing and valuation of derivatives instruments.

While monitoring is undertaken independently from the personnel conducting derivatives activities, bank traders are expected to actively monitor their positions to ensure that they do not breach their limits. Bank traders should not wait until a limit is breached to alert senior management and risk control units. Instead, traders should promptly report unanticipated changes and progressively deteriorating positions, as well as other significant issues arising from their positions, to the risk control function and responsible management.

(4) Management information system

A bank must institute an information system that generates accurate and incisive reports to ensure that management and the board of directors are timely and regularly apprised of the bank's derivatives exposures. A bank is expected to have policies and procedures pertaining to the derivatives reporting specifying, among others, the types of derivatives reports to be generated, the purpose and contents thereof, responsible units that will generate

the reports, frequency and deadlines of reports, recipients/users of reports, and the type of action expected from the users of the report. At a minimum, management reports should contain the following: outstanding derivatives positions, compliance with or status of positions as against limits, analysis of derivatives positions, along with other bank exposures, in relation to the impact to earnings and capital, monitoring of trigger events, and deviations from established policies and procedures and justifications thereof.

The management information system must be able to translate the measured risks from derivatives activities from a technical and quantitative format to one that can easily be read and understood by senior managers and directors, who may not have specialized and technical knowledge of derivatives products. Such a system enables management and the board of directors to judge the changing nature of the bank's risk exposures. The electronic data processing capability must be commensurate to the volume and complexity of the bank's derivatives activities to facilitate the generation of needed reports.

The frequency and content of board of directors and management reporting will ultimately depend upon the nature and significance of derivatives activities. Where applicable, board of directors and management reports should consolidate information across functions and divisions. Board of directors and management reporting should be tailored to the intended audience, providing summary information to senior management and the board of directors and more detailed information to bank traders.

Management reports should be generated by control departments independent of the risk-takers. When risk-takers provide information (e.g.,

valuations or volatilities on thinly traded derivatives contracts) for management reports, senior management should be informed of possible weaknesses in the data, and these positions should be audited frequently.

d. Comprehensive internal controls and independent audits

A sound system of internal controls promotes effective and efficient operations, reliable financial and regulatory reporting, and compliance with relevant laws, regulations and policies of the bank. In determining whether a bank's internal controls meet these objectives, the Bangko Sentral will consider the overall control environment of the bank, particularly, the process of identifying, measuring, analyzing and managing risk, the adequacy of management information systems, and degree of adherence to control activities such as approvals, confirmations and reconciliations. Control of the reconciliation process is particularly important where there are differences in the valuation methodologies or systems used by the front and back offices.

(1) Risk control

A bank should have an independent risk control unit responsible for the design and implementation of the bank's risk management system. A strong risk control function is a key element in fulfilling the oversight responsibilities of board of directors and senior managers. This unit must be independent from business trading units and should report directly to senior management of the bank. The role and structure of risk control function should be commensurate to the nature, complexity and extent of a bank's derivatives activities.

A risk control unit should regularly evaluate risk-taking activities by assessing risk levels and the adequacy of risk management processes. It should also monitor the development and implementation of control policies and risk

measurement systems. It should analyze daily reports produced by the bank's risk measurement model, including an evaluation of the relationship between measures of risk exposure and trading limits. Risk control personnel staff should periodically communicate their observations to senior management and the board of directors.

A bank's control structure shall be considered sound if all the following elements are present:

(a) Formal approval process for new products

A bank should have an effective process to evaluate and review risks involved in products that are either new to the bank or new to the market and of potential interest to the bank. A bank that desires to engage in new products and transactions must first subject these products and transactions to a rigorous review and approval process. This will ensure that all bank personnel involved in the activity have sufficient knowledge of the product or transaction, and that the ensuring risk exposures can be identified, measured and analyzed. The process must be contained in a board of directors-approved policy that is fully documented and must be implemented consistently and with integrity.

Before initialing a new derivatives activity, all relevant personnel should understand the product. Risks arising from the new product should be integrated into the bank's risk measurement and control systems. The new product approval process should include a sign-off by all relevant areas such as risk control, operations, accounting, legal, audit, and senior management and trading operations.

Defining a product or activity as "new" is central to ensuring that variations on existing products receive the proper review and authorization. Factors that should be considered in classifying a product/activity as "new" include: capacity changes (e.g.,

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end-user to dealer), structure variations (e.g., non-amortizing swap versus amortizing interest rate swap), products which require a new pricing methodology, legal or regulatory considerations, or market characteristics (e.g., foreign exchange forwards in major currencies as opposed to emerging market currencies).

A bank should introduce new products in a manner that adequately limits potential losses and permits the testing of internal systems.

(b) Segregation of functions/units subject to conflict of interest

A bank must separate the business unit conducting the derivatives activities from the unit/s tasked with the checking, accounting, reporting and control functions of its derivatives activities.

A bank should have policies and procedures addressing conflicts of interest, particularly among the following functions: proprietary trading, sales or marketing desks/units, personal trading, and asset management.

A bank that conducts derivatives activities with its subsidiaries and/or affiliates must establish policies and procedures to avoid actual, or even the appearance of a conflict of interest. Off-market rates between related parties should generally be forbidden.

A bank should avoid dealing in transactions conducted at off-market rates. A bank should have internal policies defining what constitutes “market rates” and identify the range of deviation from the benchmark rates which could still be considered as “market rates”. The bank’s monitoring system should be able to alert management of any breaches in the rate tolerance levels and the appropriate action that should be taken. A bank must be able to justify any off-market transaction.

(c) Competent and adequate personnel who are properly supervised

The increased complexity of derivatives activities requires highly skilled

staff particularly in the risk-taking, risk control, and operational functions. Management should regularly review the knowledge, skills and number of people needed to engage in the bank’s derivatives activities. The staff must be appropriately balanced among the different areas involved in derivatives activities such that no area is understaffed in terms of number or skill.

Staff turnover can create serious problems, especially if knowledge is concentrated in a few individuals. The impact of staff turnover can be particularly acute in specialized trading markets where bank traders are in high demand and are often recruited in teams.

To mitigate business continuity and succession risk arising from a high staff turnover, a bank should devise a system of building technical expertise across involved personnel through continuous technical training, periodic rotation and cross-training of staff members performing key functions and developing understudies.

The board of directors should ensure that the power and control delegated to these expert personnel are not abused. Therefore, the board of directors must establish appropriate controls over their activities.

(d) Independent control functions or units

The risk control and audit units should possess the authority, independence, and corporate stature to enable them to identify and report their findings unimpeded by bank traders. It is equally important to employ individuals with sufficient experience and technical expertise to be credible to the business line they monitor and senior executives to whom they report.

2. Audit

Audits should be conducted by qualified professionals who are independent of the business line being

audited. Audits should supplement, and not be a substitute for, risk control function.

The scope of audit coverage should be commensurate with the level of risk and volume of derivatives activity. The audit should include an appraisal of the effectiveness and independence of the bank's risk management process; the adequacy of operations, compliance, accounting and reporting systems; propriety of risk measurement models; and the effectiveness of internal controls. Auditors should test compliance with the bank's policies, including limits.

The level of auditor expertise should be consistent with the level and complexity of activities and degree of risk assumed. A bank may choose to out-source audit coverage to ensure that the professionals performing the work possess sufficient knowledge and experience.

Procedures should be in place to ensure that auditors are informed of significant

changes in product lines, risk management methods, risk limits, operating systems, and internal controls so that the auditors can update their scope and procedures accordingly. Auditors should periodically review and analyze performance and risk management reports to ensure that areas showing significant changes are given appropriate attention.

The audit function must have the support of management and the board of directors in order to be effective. Management should respond promptly to audit findings by investigating identified system and internal control weaknesses and implementing corrective action. Thereafter, management should periodically monitor newly implemented systems and controls to ensure they are working appropriately. The board of directors, or designated committee, should receive reports tracking management's actions to address identified deficiencies.

(As amended by Circular No. 594 dated 08 January 2008, as amended by Circular No. 903 dated 29 February 2016)

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SALES AND MARKETING GUIDELINES FOR DERIVATIVES
(Appendix to Sec. X661)

(Deleted by Circular No. 891 dated 09 November 2015)

SAMPLE RISK DISCLOSURE STATEMENT FOR DERIVATIVES ACTIVITIES
(Appendix to Sec. X661)

(Deleted by Circular No. 891 dated 09 November 2015)

**GENERAL GOVERNANCE PRINCIPLES AND STANDARDS ON
RELATIONSHIPS BETWEEN BANKS AND THEIR RELATED
NON-GOVERNMENTAL ORGANIZATIONS (NGOs)/FOUNDATIONS**
(Appendix to Subsec. X326.1)

Section 1. General Principles and Standards

To reinforce the observance of corporate governance principles and guidelines, the following principles and standards shall govern business relationships between banks and their related NGOs/Foundations engaged in retail microfinance operations:

General Principles:

1. Microfinance programs/operations of banks shall be supervised and administered separately from the microfinance programs/operations of related NGOs/foundations;
2. All transactions between banks and their related NGOs/foundations shall be in the ordinary course of business and upon terms not less favorable to the bank than those offered to other parties; and
3. Bank board of directors and management must at all times adhere to the three pillars of corporate governance, namely: fairness, accountability and transparency in all of its dealings with related NGOs/foundations.

Standards

1. Microfinance programs/operations of banks and their related NGOs/foundations should have separate organizational structure, manual of operations, management information system, etc.;
2. The board of directors should formulate policies that shall govern the dealings of the bank with its related NGO/foundation, e.g. prohibiting and/or limiting activities and transactions that could result in conflict of interests and providing

preferential treatment to the related NGO/foundation to the disadvantage of the bank. Also, the board must ensure that senior management implements the aforementioned policies by requiring the submission of periodic reports covering transactions with related NGO/foundation;

3. Formal agreements/contracts should govern the business relationships of banks and their related NGO/foundations covering both their overall/general relationship and specific transactions such as: (i) the purchase by bank of NGO/foundation's loan portfolio, (ii) the collection of loan payments (from NGO/foundation's borrowers) by the bank and (iii) the payment for trainings/seminars given by the NGO/foundation;

Terms and conditions of the formal agreements/contracts shall include, among other things, the following:

- Purchase of loan receivables of NGO/foundation
 - a. Criteria in selecting loan accounts;
 - b. Purchase price including premiums, if any;
 - c. Bank recourse in case of non-payment by borrowers;
- Collection of loan payments from borrowers of NGO/foundation
 - a. Compensation for utilizing bank resources, e.g. employees, transportation and equipment, etc.;
 - b. Mode of payment by the NGO/foundation;
- Conduct of microfinance trainings/seminars by BGO/foundation

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a. Lecturers shall have adequate background and/or experience in microfinance operations;

b. Training syllabus which include subjects on client selection, credit and cash flows analyses, delinquency management, etc.

4. Any loan, other credit accommodation or guarantee in any form whatsoever granted to a related NGO/foundation is subject to existing rules on DOSRI loans.

However such loan, other credit accommodation or guarantee shall be excluded in determining compliance with the Individual Ceiling on DOSRI loans: *Provided*, That such loan, other credit accommodation or guarantee is secured by the deposit of clients of the borrowing NGO/foundation which are maintained with the lending bank: *Provided further*, That all of the following conditions are met:

a. Existing regulations on the opening of deposit accounts and other deposit transactions shall apply except when specifically stated otherwise;

b. Depositors shall issue waivers of confidentiality of their deposits and enter hold-out agreements with the lending bank;

c. Interest rates on such deposits shall not exceed to that of similar type of deposit accounts;

d. Collected but undeposited capital build-up funds from clients shall be recorded in a temporary liability account in the books of related NGOs/foundations and shall be deposited with the related bank not later than fifteen (15) calendar days from date of collection;

e. Total loans, other credit accommodations and guarantees granted to the related NGO/foundation shall not exceed, at any time, the total deposits owned by its clients; and

f. That the NGO/foundation shall consider as payments to the clients' obligations any deposits used by the lending bank to settle any unpaid obligation(s) of the NGO/foundation.

5. Bank directors and management are reminded to perform their duties and responsibilities in accordance with the standards of corporate governance. Under Subsec. X141.3, duties and responsibilities of bank directors include, among others, the following:

a. To conduct fair business transactions with the bank;

b. To act honestly and in good faith, with loyalty and in the best interest of the institution;

c. To devote time and attention necessary to properly discharge their duties and responsibilities;

d. To act judiciously; and

e. To observe confidentiality.

Section 2. Requirements

In this connection, banks engaged in retail microfinance operations are required to:

1. To include in the biographical data of directors and officers their involvement, in any capacity, in the microfinance operations of related microfinance NGOs/foundations;

2. Require the approval of the board of directors of all related party transactions and that the same be covered by notarized agreements. It is also understood that all loan transactions with related NGOs/foundations shall comply with the existing requirements on DOSRI loans; and

3. Submit a copy of the said agreement/contract to the appropriate BSP department/group for review and evaluation.

(M-2011-033 dated 15 June 2011)

CLEARING PROCEDURES
[Appendix to Sec. X205 (2008 - X603)]

(Deleted by Circular No. 681 dated 08 February 2010)

**CLEARING OPERATIONS BETWEEN REGIONAL CLEARING CENTER
AND THE MANILA CLEARING CENTER
(Tarlac, Tarlac Used as Sample)
[Appendix to Subsec. X205 (2008 - X603)]**

(Deleted by Circular No. 681 dated 08 February 2010)

**PROCEDURES ON COLLECTION OF FINES/PENALTIES FROM BANKS AND/OR
DIRECTORS/OFFICERS OF BANKS**
[Appendix to Subsecs. X902.1 (2008 - X609.1) and X902.2 (2008 - X609.2)]

For uniform implementation of the regulations on collection of fines/penalties from banks and/or directors/officers of banks, the following procedures shall be observed:

1. Upon approval of the fines/penalties by the Governor/ Monetary Board, the Department/Office concerned shall send the Statement of Account (SOA)/billing letter to the bank with an advice that the penalty should be paid in full within fifteen (15) calendar days from receipt of SOA/billing letter. For entities which maintain demand deposit account (DDA) with BSP, the amount of the penalty/ies shall be automatically debited from the bank's DDA with the BSP after the lapse of the fifteen (15)-calendar day period. The bank shall likewise be advised that penalty or portion thereof which remained unpaid after the lapse of said fifteen (15)-day period shall be subject to additional charge of six percent (6%) per annum reckoned from the banking day immediately following the end of the fifteen (15)-day period up to the day of actual payment.

2. On the banking day immediately following the end of said fifteen (15)-day period, unpaid penalties shall be automatically debited, without additional charge, against the bank's DDA with the BSP by the Comptrollership Sub-sector (CoSS) based on the amount booked by the Department/Office concerned after first confirming with the CoSS the sufficiency of the bank's DDA balance to cover the amount of the penalty.

3. If, based on its confirmation with the CoSS, the Department/Office concerned

received information that the bank's DDA balance is insufficient to cover the amount of the penalty, it shall accordingly advise and request the bank to immediately fund its DDA.

4. As soon as it is funded, the bank's DDA shall be debited by the CoSS for the amount of the penalty, plus the six percent (6%) additional charge for late payment of the penalty reckoned from the banking day immediately following the end of the fifteen (15)-day period up to the day of actual payment, based on the amount booked by the Department/Office concerned.

5. Payment by TBs, RBs or Coop banks of penalty, plus the additional charge, if any, by check or demand draft shall be made directly to the BSP Cash Department or to BSP Regional Cash Units in accordance with the provisions of Subsec. X902.4.

6. In the case of penalty/ies imposed on bank directors/officers, said directors/officers shall be advised by the Department/Office concerned to pay within fifteen (15) calendar days from receipt of the SOA/billing letter directly to the BSP in the form of cash or check and in accordance with the provisions of Subsec. X902.4. Penalty or portion thereof which remained unpaid after the lapse of said fifteen (15)-day period shall also be subject to additional charge of six percent (6%) per annum reckoned from the banking day immediately following the end of the fifteen (15)-day period up to the day of actual payment.

(As amended by Circular No. 662 dated 09 September 2009)

PRESCRIBED FORMAT
MEMORANDUM OF UNDERSTANDING
[Appendix to Subsec. X111.3 (2008 - X106.3)]

_____ (Name of Bank) and the Bangko Sentral ng Pilipinas (BSP) wish to protect the interest of the depositors, creditors, shareholders and the public in general and toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable banking laws, rules and regulations.

In consideration of the above premise, the BSP, through its authorized deputies, and the Bank, by and through its duly elected Board of Directors (Board), do hereby agree that the Bank shall at all times operate in compliance with the articles of this Memorandum of Understanding.

ACTION PLAN

Within thirty (30) days, the Board shall adopt and implement a capital restoration plan detailing the Board’s perception of what needs to be done to improve the Bank’s capital position, specifying how the Board will implement the plan and setting forth a timetable for the implementation of the plan.

Upon completion of the plan, the Bank shall submit the plan to the appropriate supervising and examining department of the BSP for review. The Board shall establish appropriate procedures for the implementation of the plan.

In the event the BSP recommends changes to the action plan, the Board shall immediately incorporate those changes into the plan.

The plan shall be implemented pursuant to the time frames set forth within the plan unless events dictate modifications to the plan are required. Where the Board considers modifications appropriate, those modifications shall be submitted to the BSP for approval.

CAPITAL PROGRAM

The Bank shall achieve by _____ (date) and thereafter maintain the following capital levels:

- a. At least equal to ten percent (10%) of its risk assets;
- b. At least equal to the following amounts (in million pesos):

	Existing Requirements	Compliance Period		
		12/24/98	12/31/99	12/31/2000
Expanded KBs	3,500	4,500	4,950	5,400
Non-Expanded KBs	1,625	2,000	2,400	2,800

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	Existing Requirements	12/24/98	Compliance 12/31/99	Period 12/31/2000
Thrift Banks				
Within Metro Manila	200	250	325	400
Outside Metro Manila	40	40	52	64
Rural Banks				
Within Metro Manila	20	20	26	32
Cities of Cebu & Davao	10	10	13	16
1st/2nd/3rd class cities & 1st class municipalities	5	5	6.5	8
4th/5th/6th class cities & 2nd/ 3rd/4th class municipalities	3	3	3.9	4.8
5th/6th class municipalities	2	2	2.6	3.2

Within thirty (30) days, the Board shall develop a three (3)-year capital build-up program. The program shall include, as may be necessary:

- (a) Specific plans for the maintenance of adequate capital that should not be less than the requirements stated above;
- (b) Projections for growth and capital requirements based upon a detailed analysis of the Bank’s assets, liabilities, earnings, fixed assets and off-balance sheet activities;
- (c) Projections of sources and timing of additional capital to meet the Bank’s current and future needs;
- (d) The primary source(s) from which the Bank will strengthen its capital structure to meet the Bank’s needs; and
- (e) Contingency plans that identify alternative methods should the primary source(s) be not available.

COMPLIANCE/PROGRESS REPORTS

The Compliance Officer shall be responsible for monitoring and coordinating the Bank’s adherence to the provisions of this Memorandum of Understanding. The Compliance Officer shall submit a written progress report to the Board on a (Monthly/Quarterly) basis setting forth in detail:

- a. Actions taken to comply with each article of this Memorandum; and
- b. The results of those actions

The Board shall submit (monthly/quarterly) progress reports to the appropriate supervising and examining department of the BSP containing the abovementioned details.

FORMAL AGREEMENT

Although the Board has by this Memorandum of Understanding consented to submit certain proposed actions and programs for the review and approval of the BSP, the Board has the ultimate responsibility for proper and sound management of the Bank.

It is expressly and clearly understood that if, at any time, BSP deems it appropriate in fulfilling the responsibilities placed upon it by laws of the Republic of the Philippines to

undertake any action affecting the Bank, nothing in this Memorandum of Understanding shall in any way inhibit, estop, bar, or otherwise prevent it from so doing.

Any time requirements specified in this Memorandum of Understanding shall begin from the effective date of this Memorandum. Such time requirements may be extended by the BSP for good cause upon written application of the Board.

This Memorandum of Understanding shall be effective upon execution by the parties hereto, and its provisions shall continue in full force and effect until such time as they shall be amended by mutual consent of the parties to this Memorandum or excepted, waived, terminated by BSP.

IN TESTIMONY WHEREOF, the undersigned has hereunto set his hand this_____ day of _____ at the City of _____, Philippines.

BANGKO SENTRAL NG PILIPINAS

Authorized Deputy

Deputy Governor-SES

BANK

President

Chairman of the Board

SIGNED IN THE PRESENCE OF:

(Witness)

(Witness)

IMPLEMENTING GUIDELINES FOR BANKS PARTICIPATING DIRECTLY
IN THE CLEARING OPERATIONS¹ OF THE
PHILIPPINE CLEARING HOUSE CORPORATION
(Appendix to Items "b" of Sections 2205 and 3205)

Sec. 1 Definitions of Terms

- a. *Clearing Day* – shall refer to a day when the PCHC processes the exchange of checks and other cash items of participating member banks.
- b. *Value or Settlement Date* – Settlement of both inward and outward items shall be value dated on the day the checks are originally presented to PCHC or Regional Clearing Center (RCC), net of AM returns. For this purpose, the value or settlement date referred to herein shall be defined uniformly as the date of original presentation of the Checks and Other Cash Items (COCI), to PCHC or RCC for the Integrated Greater Manila local exchanges (Integrated GM LX) and regional local exchanges (RLX).
- Unless otherwise modified in subsequent Circulars, value or settlement date for clearing items shall be as stated in the following schedule:

Session	Value/Settlement Date
Returned Items AM Returns Integrated Greater Manila local exchanges (Integrated GM LX) and regional local excnages (RLX)	On date of original presentation of COCI to PCHC or Regional Clearing Center (RCC)

Session	Value/Settlement Date
Integrated GM Outward to Region Integrated GM Inward from Region Region to Region PM Returns (for returned COCIs due to technical reasons only)	On the date the COCIs are received and processed at PCHC On date of return
Outward Items Integrated GM LX and RLX Integrated GM Outward to Region Integrated GM Inward from Region Region to Region	On date of original presentation of COCI to PCHC or RCC, net of AM returns On the date the COCIs are received and processed at PCHC
COCI not coursed through PCHC	On the date the COCI is cleared by the drawee bank

- Sec. 2 Ceiling on Overdraft Due to Clearing Losses.
- A ceiling shall be set on the amount of overdraft a bank may incur due to failure to cover clearing losses through interbank borrowings and/or repurchase agreements with BSP. The ceiling is defined as the sum of clean Overdraft Credit Line (OCL) equivalent to fifteen percent (15%) of rediscounting line with the BSP, and the collateralized OCL that will be extended by

¹ The revised clearing and settlement process shall become effective as follows:

Clearing Exchanges	From	To
1. Integrated Greater Manila Local Exchanges (Integrated GM LX)	01 January 2011	24 January 2011
2. Regional Local Exchanges (RLX)	01 January 2011	01 July 2011

Provided, That for RLX, the extended deferral from 24 January 2011 to 01 July 2011 shall refer only to the provision on the mandatory return of checks drawn against insufficient funds or credit, checks drawn against closed accounts and/or checks with stop payment orders, (i.e., not later than 7:30 AM of the next clearing day following the original presentation to PCHC or RCC), subject to the condition that checks returned due to insufficiency of funds or credit shall no longer be allowed to be covered or funded after the day they were presented to PCHC or RCC.

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BSP. A bank not meeting the following criteria:

- i. CAMELS composite rating of at least “3”
- ii. CAR of at least ten percent (10%); or
- iii. No chronic reserve deficiencies for the immediately preceding one (1) year, Or other measures as may be defined by the BSP for this purpose, should apply for collateralized OCL in an amount equivalent to at least five percent (5%) of their demand deposit liabilities as of end of month, two (2) months prior to the date of application with the Department of Loans and Credit (DLC); otherwise, its outward clearing items shall be subject to second day value dating. Other banks may also apply for collateralized OCL in any amount.

Sec. 3. Application for Collateralized OCL

- a. Banks shall file their application for collateralized OCL with the DLC supported by the documents indicated below:
 - (1) A duly notarized secretary’s certificate together with a resolution of the board of directors of the bank authorizing the bank to apply for the loan line and designating the officers authorized to negotiate, sign and execute all accessory documents for the loan line;
 - (2) Notarized Surety Agreement executed by the controlling stockholders (owning more than fifty percent (50%) of the voting stock) and every person or group of persons whose stockholdings are sufficient to elect at least one director obligating themselves jointly and severally with the bank to pay promptly on maturity or when due the BSP, its successor or assigns, all promissory notes covering availment against the loan line, if any; and
 - (3) Collateral documents to cover the loan line.
- b. The OCL line shall be secured by first class collateral that refer to the assets and securities which have relatively stable

and clearly definable value and/or greater liquidity and free from lien and encumbrances, to the extent of their applicable loan values, as follows:

Acceptable Collateral	Loan Value	
	With Surety Agreement	Without Surety Agreement
(1) Governemt securities-based on the current market value of the securities	80%	80%
(2) Unencumbered real estate properties in the name of the bank <ul style="list-style-type: none">i. <i>initial rate</i> - based on the appraised value (AV) of the land and insured improvementsii. <i>Final rate</i> - based on the AV of the land and insured improvements determined by a licensed and independent appraiser acceptable to the BSP in accordance with BSP's terms of reference	40%	30%
	70%	60%
(3) Mortgage credits <ul style="list-style-type: none">i. <i>Initial rate</i> - based on the AV of the property securing the loan evidenced by negotiable instruments or the outstanding balance of such loanii. <i>Final rate</i> - based on the AV of the property securing the loan evidenced by negotiable instruments as determined by a licensed and independent appraiser acceptable to the BSP in accordance with the BSP's terms of reference or the outstanding balance of such loans	40% of AV or 50% of the outstanding balance whichever is lower	30% of AV or 40% of the outstanding balance whichever is lower
	70% of AV or 80% of the outstanding balance whichever is lower	60% of AV or 70% of the outstanding balance whichever is lower
(4) Hold-out on foreign currency deposits with the BSP - based on current (buying) exchange rate	80%	80%
(5) Investment grade commercial papers	80%	80%

- c. The DLC shall possess the application for OCL and any subsequent amendments to the approved OCL. Upon approval, the DLC shall require the bank to submit the following:

(1) Duly signed and notarized OCL Agreement between the bank and the BSP; and

(2) PCHC certification that the bank participate in the PCHC clearing process in accordance with the MOA per BSP Circular Letter dated 11 September 2001.

It shall also inform the Payments and Settlements Office (PSO) and Supervision and Examination Sector (SES) of the amount of the bank’s approved OCL and any changes that may occur thereafter.

d. The amount of the approved OCL shall be reviewed and if necessary, amended annually or as circumstances warrant by the DLC. A nominal processing fee of ten thousand (P10,000.00) shall be collected annually or upon amendment of the OCL.

e. The bank shall be allowed the flexibility of changing or substituting collateral, specially matured government securities. The DLC shall process any request for amendment to the collateral offerings.

f. The loan value of the collaterals securing the OCL shall be correspondingly reduced under any of the following circumstances:

(1) There are collections received on the mortgage credits;

(2) The mortgage credits become past due;

(3) The property mortgage was sold; and

(4) The collateral assets fall short of the definition of first class collateral.

g. The bank shall duly inform DLC of any collections on mortgaged credits or sale of assets mortgaged and ensure that adequate records on collections and sales made by the branches are maintained in its head office.

Sec. 4 Availments Against the Approved Clean/Collateralized OCL

a. Provided the overdraft does not exceed the ceiling as defined in Section 2 hereof, the bank may avail of the clean/collateralized OCL. The availment shall be granted the next banking day after taking into account the amount of AM returns, for value the previous banking day.

b. The availment shall bear interest at one-tenth of one percent (1/10 of 1%) per day or the ninety-one (91)-day Treasury Bill rate of the last auction immediately preceding the availments, plus three percentage points whichever is higher.

c. The availment shall be fully debited to the demand deposit account of the bank with BSP on the next banking day without need of demand.

d. The availment shall be for a maximum period of five (5) consecutive clearing days or five (5) clearing days within any thirty (30)-day rolling calendar period, after which the OCL shall be suspended.

Sec. 5 Procedures for Unwinding and Exclusion

Should the overdraft exceed the ceiling as defined in Section 2 hereof, no availment of the clean/collateralized OCL shall be allowed.

a. In the case of end-of-day overdraft, the PSO shall advise the PCHC of the amount available for settlement of the drawee bank’s inward clearing items net clearing loss, beyond which amount inward clearing items will be unwound in accordance with the PCHC Clearing House Rules and Regulations.

b. In the case of final overdraft, i.e., after AM returns, where unwinding is no longer possible, the bank shall be excluded for next clearing. The PSO shall advise the PCHC of such exclusion upon prior Monetary Board Approval.

Sec. 6 Conversion/Suspension of Clean/Collateralized OCL

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a. Banks found to be abusing their clean/collateralized OCL privilege shall be subject to suspension of the OCL. The following shall constitute an abuse of the OCL privilege and shall automatically result in the suspension of the OCL.

i. Availment of OCL for five (5) consecutive clearing days; or

ii. Availment of OCL for five (5) times within any thirty (30) – day rolling calendar period.

The suspension of the OCL may be lifted upon the request by the bank concerned

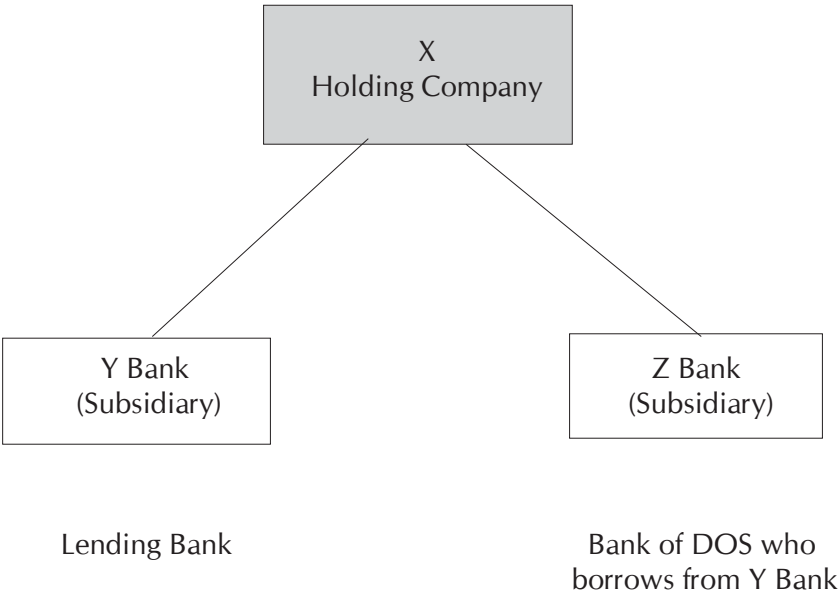
subject to the approval by the Monetary Board.

The collateralized OCL may be converted into an emergency loan provided the bank complies with the guidelines governing the grant of emergency loans under subsec. X272.2 or may be subject to foreclosure of collateral.

(As amended by Circular Nos. 705 dated 29 December 2010, 681 dated 08 February 2010, 516 dated 06 March 2006 and CL dated 04 August 2000)

ILLUSTRATIONS WHEN A DIRECTOR, OFFICER AND STOCKHOLDER (DOS)
SHALL WAIVE THE SECRECY OF DEPOSITS
(Appendix to Subsec. X338.1b)

- A. When the loan is obtained from a bank that is a subsidiary of a holding company of which both the borrower's bank and the lending bank are subsidiaries.

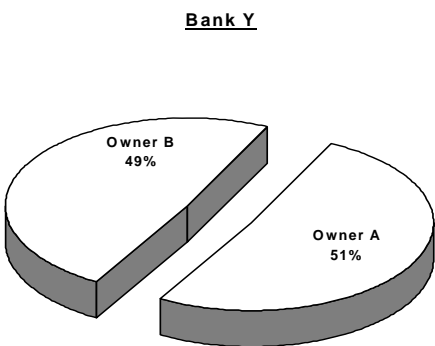


Thus, if Mr. A, who is a director of Z Bank borrows from Y Bank, he should waive the secrecy of deposits of whatever nature in all banks in the Philippines since both Y Bank and Z bank are subsidiaries of X Holding Company.

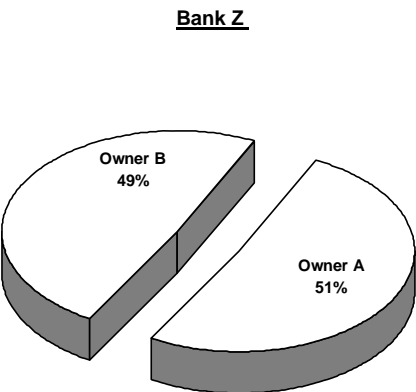
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- B. When the loan is from a bank in which a controlling proportion of the shares is owned by the same interest that owns a controlling proportion of the shares of his bank.

Lending bank’s Equity Structure



Borrower’s bank Equity Structure



In illustration above, the controlling shares in both banks belong to the “same interest”, Owner A.

**CLASSIFICATION, ACCOUNTING PROCEDURES, VALUATION AND
SALES AND TRANSFERS OF INVESTMENTS IN DEBT SECURITIES
AND MARKETABLE EQUITY SECURITIES**
(Appendix to Subsec. X388.5)

Section 1. Statement of Policy. It is the policy of the BSP to promote full transparency of the financial statements of banks and other supervised institutions in order to strengthen market discipline, encourage sound risk management practices, and stimulate the domestic capital market. Towards these ends, the BSP desires to align local financial accounting standards with international accounting standards as prescribed by the International Accounting Standards Board (IASB) to the greatest extent possible.

Sec. 2. Scope. This Appendix covers accounting for investments in debt and equity securities except:

- a. those that are part of hedging relationship;
- b. those that are hybrid financial instruments;
- c. those financial liabilities that are held for trading;
- d. those financial assets and financial liabilities which, upon initial recognition, are designated by the FIs as at fair value through profit or loss; and
- e. those that are classified as loans and receivables.

It also does not include accounting for derivatives and non-derivative financial instruments other than debt and equity securities. The foregoing exceptions and exclusions shall be covered by separate regulations.

Sec. 3. Investments in Debt and Equity Securities. Depending on the intent, investments in debt and equity securities shall be classified into one (1) of four (4) categories and accounted for as follows:¹

a. Held to Maturity (HTM) Securities - These are debt securities with fixed or determinable payments and fixed maturity that an FI has the positive intention and ability to hold to maturity other than:

(1) those that meet the definition of *Securities at Fair Value Through Profit or Loss*; and

(2) those that the FI designates as Available-for-Sale Securities .

An FI shall not classify any debt security as HTM if the FI has, during the current financial year or during the two (2) preceding financial years, sold or reclassified more than an insignificant amount of HTM investments before maturity (more than insignificant in relation to the total amount of HTM investments) other than sales or reclassifications that:

(a) are so close to maturity or the security's call date (i.e., less than three (3) months before maturity) that changes in the market rate of interest would not have a significant effect on the security's fair value;

(b) occur after the FI has substantially collected all [i.e., at least eighty-five percent (85%)] of the security's original principal through scheduled payments or prepayments; or

(c) are attributable to an isolated event that is beyond the FI's control, is non-recurring and could not have been reasonably anticipated by the FI.

For this purpose, the phrase "*more than an insignificant amount*" refers to sales or reclassification of one percent (1%) or more of the outstanding balance of the HTM portfolio: *Provided, however,* That sales or reclassifications of less than one percent (1%) shall be evaluated on case-to-case basis.

¹ Reclassification allowed until 30 November 2005 as per MAB dated 23 November 2005

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Sales or reclassifications before maturity that do not meet any of the conditions prescribed in this Appendix shall require the entire HTM portfolio to be reclassified to Available-for-Sale. Further, the FI shall be prohibited from using the HTM account during the reporting year of the date of sales or reclassifications and for the succeeding two (2) full financial years. Failure to reclassify the HTM portfolio to Available-for-Sale on the date of sales or reclassifications, shall subject the FI and concerned officers to penalties and sanctions provided under Item "c" of X388.5. This provision shall be applied prospectively, i.e., on prohibited sales or reclassifications occurring on 13 March 2005 (effectivity date of Cir. 476 dated 16 February 2005) and thereafter.

Securities held in compliance with BSP regulations, e.g., securities held as liquidity reserves and for the faithful performance of trust duties, may be classified either as HTM, Securities Held-for-Trading (HFT) or Available-for-Sale: *Provided*, That the provision of Item (4) of paragraph 2 of Section 3.a.1 shall not apply to sales or reclassifications of the said securities booked under HTM.

a.1. Positive intention and ability to hold investments in HTM securities to maturity – An FI does not have a positive intention to hold to maturity an HTM security if:

(a) the FI intends to hold the security for an undefined period;

(b) the FI stands ready to sell the security (other than if a situation arises that is non-recurring and could not have been reasonably anticipated by the FI) in response to changes in market interest rates or risks, liquidity needs, changes in the availability of and the yield on alternative investments, changes in financing sources and terms or changes in foreign currency risk; or

(c) the issuer has a right to settle the security at an amount significantly below its amortized cost.

Sales before maturity could satisfy the condition of HTM classification and therefore need not raise a question about the FI's intention to hold other HTM securities to maturity if they are attributable to any of the following:

(i) A significant deterioration in the issuer's creditworthiness; for example, a sale following a downgrade in a credit rating by an external rating agency would not necessarily raise a question about the FI's intention to hold other investments to maturity if the downgrade provides evidence of a significant deterioration in the issuer's creditworthiness judged by reference to the credit rating at initial recognition. Similarly, if an FI uses internal ratings for assessing exposures, changes in those internal ratings may help to identify issuers for which there has been a significant deterioration in creditworthiness, provided the FI's approach to assigning internal ratings and changes in those ratings give a consistent, reliable and objective measure of the credit quality of the issuers. If there is evidence that an instrument is impaired, the deterioration in creditworthiness is often regarded as significant;

(ii) A change in tax law that eliminates or significantly reduces the tax-exempt status of interest on the HTM security (but not a change in tax law that revises the marginal tax rates applicable to interest income);

(iii) A major business combination or major disposition (such as sale of a segment) that necessitates the sale or transfer of HTM securities to maintain the FI's existing interest rate risk position or credit risk policy: *Provided*, That the sale or transfer of HTM security shall be done only once and within a period of six (6) months from the date of the business combination or major disposition: *Provided, further*, That prior BSP approval is required for sales or transfers occurring

after the prescribed six (6)-month time frame. In this case, FIs shall submit to the appropriate department of the SES, a plan stating the reason for the extension and the proposed schedule for the disposition of the HTM security;

(iv) A change in statutory or regulatory requirements significantly modifying either what constitutes a permissible investment or the maximum level of particular types of investments, thereby causing an FI to dispose of an HTM security;

(v) A significant increase in the industry's regulatory capital requirements that causes the FI to downsize by selling HTM securities; or

(vi) A significant increase in the risk weights of HTM securities used for regulatory risk-based capital purposes.

An FI does not have a demonstrated ability to hold to maturity an investment in HTM security if:

(aa) it does not have the financial resources available to continue to finance the investment until maturity; or

(bb) it is subject to an existing legal or other constraint that could frustrate its intention to hold the security to maturity.

Sales before maturity due to events that are non-recurring and could not have been reasonably anticipated by the FI such as a run on a bank, likewise satisfy the condition of HTM classification and therefore need not raise a question about the FI's intention and ability to hold other HTM investments to maturity.

An FI assesses its intention and ability to hold its investment in HTM securities to maturity not only when those securities are initially recognized, but also at each time that the FI prepares its financial statements.

a.2. HTM securities shall be measured upon initial recognition at their fair value plus transaction costs that are directly attributable to the acquisition of the securities.

For this purpose, *transactions costs* include fees and commissions paid to

agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

After initial recognition, an FI shall measure HTM securities at their amortized cost using the effective interest method.

For this purpose, the *effective interest method* is a method of calculating the amortized cost of a security (or group of securities) and of allocating the interest income over the relevant period using the effective interest rate. The *effective interest rate* shall refer to the rate that exactly discounts the estimated future cash receipts through the expected life of the security or when appropriate, a shorter period to the net carrying amount of the security. When calculating the effective interest rate, an FI shall estimate cash flows considering all contractual terms of the security (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid to the other party to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar securities can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a security (or group of securities), the FI shall use the contractual cash flows over the full contractual terms of the security.

A gain or loss arising from the change in the fair value of the HTM security shall be recognized in profit or loss when the security is derecognized or impaired, and through the amortization process.

An FI shall assess at each time it prepares its financial statements whether

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there is any objective evidence that an HTM security is impaired.

If there is objective evidence that an impairment loss on HTM securities has been incurred, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the security's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the security shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

As a practical expedient, a creditor may measure impairment of HTM securities on the basis of an instrument's fair value using an observable market price.

An FI first assesses whether objective evidence of impairment exists individually for HTM securities that are individually significant, and individually or collectively for HTM securities that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed HTM security, whether significant or not, it includes the asset in a group of HTM securities with similar credit risk characteristics and collectively assesses them for impairment. HTM securities that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the security that exceeds

what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

b. Securities at Fair Value through Profit or Loss – These consist initially of HFT securities. HFT are debt and equity securities that are:

(1) acquired principally for the purpose of selling or repurchasing them in the near term; or

(2) part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

For this purpose, an FI shall adopt its own definition of short-term which shall be within a twelve (12)-month period. Said definition which shall be included in its manual of operations, shall be applied and used consistently.

b.1 HFT securities shall be measured upon initial recognition at their fair value. Transaction costs incurred at the acquisition of HFT securities shall be recognized directly in profit or loss. After initial recognition, an FI shall measure HFT securities at their fair values without any deduction for transaction costs that it may incur on sale or other disposal. A gain or loss arising from a change in the fair value of HFT securities shall be recognized in profit or loss under the account "Trading Gain/(Loss)".

c. Available-for-Sale Securities. These are debt or equity securities that are designated as Available-for-Sale or are not classified/designated as (a) HTM, (b) Securities at Fair Value through Profit or Loss, or (d) Investment in Non-Marketable Equity Securities (INMES).

c.1 Available-for-Sale securities shall be measured upon initial recognition at their fair value plus transaction costs that are directly attributable to the acquisition of the securities. After initial recognition,

an FI shall measure Available-for-Sale securities at their fair values, without any deduction for transaction costs it may incur on sale or other disposal. A gain or loss arising from a change in the fair value of an Available-for-Sale security shall be recognized directly in equity under the account "Net Unrealized Gains/(Losses) on Securities Available-for-Sale" and reflected in the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the security is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss. Dividends on an Available-for-Sale equity security are recognized in profit or loss when the FI's right to receive payment is established.

For the purpose of recognizing foreign exchange gains and losses on a monetary Available-for-Sale security that is denominated in a foreign currency, it shall be treated as if it were carried at amortized cost in the foreign currency. Accordingly, for such an Available-for-Sale security, exchange differences resulting from changes in amortized cost are recognized in profit or loss and other changes in carrying amount are recognized directly in equity. For Available-for-Sale securities that are not monetary items (for example, equity instruments), the gain or loss that is recognized directly in equity includes any related foreign exchange component.

An FI shall assess at each time it prepares its financial statements whether there is any objective evidence that an Available-for-Sale security is impaired.

When a decline in the fair value of an Available-for-Sale security has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity shall be

removed from equity and recognized in profit or loss even though the security has not been derecognized.

The amount of the cumulative loss that is removed from equity and recognized in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that security previously recognized in profit or loss.

Impairment losses recognized in profit or loss for an investment in an equity instrument classified as Available-for-Sale shall not be reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as Available-for-Sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

c.2.Underwriting Accounts (UA) shall be a sub-account under Available-for-Sale. These are debt and equity securities purchased which have remained unsold/locked-in from underwriting ventures on a firm basis. UA account is applicable only to UBs and IHs.

d. INMES - These are equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

INMES shall be measured upon initial recognition at its fair value plus transaction costs that are directly attributable to the acquisition of the security. After initial recognition, an FI shall measure INMES at cost. A gain or loss arising from the change in fair value of the INMES shall be recognized in profit or loss when the security is derecognized or impaired.

An FI shall assess each time it prepares its financial statements whether there is any

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objective evidence that an INMES is impaired.

If there is objective evidence that an impairment loss has been incurred on an INMES, the amount of impairment loss is measured as the difference between the carrying amount of the security and the estimated future cash flows discounted at the current market rate of return for a similar financial instrument. Such impairment loss shall not be reversed.

For Securities at Fair Value through Profit or Loss and Available-for-Sale, an FI is required to book the mark-to-market valuation on a daily basis. However, an FI may opt to book the mark-to-market valuation every end of the month: *Provided*, That an adequate mechanism is in place to determine the daily fair values of securities.

An FI shall recognize an investment in debt or equity security on its balance sheet when, and only when, the FI becomes a party to the contractual provisions of the financial instrument. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable using trade date accounting or settlement date accounting. The method used is applied consistently for all purchases and sale of financial assets that belong to the same category.

Sec. 4. Reclassifications¹

a. An FI shall not reclassify a security into or out of the Fair Value through Profit Loss category while it is held.

b. If, as a result of a change in intention or ability, it is no longer appropriate to classify a debt security as HTM, it shall be reclassified as Available-for-Sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be accounted for in accordance with Section 3.c.1.

c. Whenever sales or reclassifications of more than an insignificant amount of

HTM investments do not meet any of the conditions in Section 3.a, any remaining HTM investments shall be reclassified as Available-for-Sale. On such reclassification, the difference between the carrying amount and fair value shall be accounted for in accordance with Section 3.c.1.

d. If a reliable measure becomes available for an INMES, it shall be reclassified as Available-for-Sale and remeasured at fair value, and the difference between its carrying amount and the fair value shall be accounted for in accordance with Section 3.c.1.

e. If, as a result of a change in intention or ability, or because the two (2) preceding financial years' referred to in Section 3.a have passed, it becomes appropriate to carry the debt security at amortized cost (i.e., HTM) rather than at fair value (i.e, Available- for-Sale), the fair value carrying amount of the security on that date becomes its new amortized cost. Any previous gain or loss on that debt security that has been recognized directly in equity in accordance with Section 3.c.1 shall be amortized to profit or loss over the remaining life of the HTM using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the security using the effective interest method, similar to the amortization of a premium and a discount. If the security is subsequently impaired, any gain or loss that has been recognized directly in equity is recognized in profit or loss in accordance with Section 3.c.1.

f. If, in the rare circumstance that a reliable measure of fair value is no longer available, it becomes appropriate to carry the equity security at cost (i.e., INMES) rather than at fair value (i.e., Available-for-Sale), the fair value carrying amount of the security on that date becomes its new cost. Any previous gain or loss on that equity security that has been recognized directly in equity

¹ The guidelines governing the reclassification of financial assets between categories in accordance with the provisions of the October 2008 amendments to PAS39 and PFRS7 are shown in Annex A.

in accordance with Section 3.c.1 shall remain in equity until the security is sold or otherwise disposed of, when it shall be recognized in profit or loss. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized directly in equity is recognized in profit or loss in accordance with Section 3.c.1; and

g. The following securities booked under the HTM category, shall be exempted from the “tainting” provision for prudential reporting purposes which prohibits banks from using the HTM category and requires reclassification of the entire HTM portfolio to the Available-for-Sale category during the reporting year and for the succeeding two (2) full financial years whenever a bank sells or reclassifies more than an insignificant amount of HTM investments before maturity, other than for reasons specified in Items “a(a)” to “a(c)” of Section 3 of this *Appendix: Provided*, That securities rejected under Items “i” and “ii”, shall continue to be booked under the HTM category:

i. Securities offered and accepted in tender offers pursuant to liability management transactions of the Republic of the Philippines: *Provided*, That banks maintain appropriate documentation on such transactions;

ii. Securities offered and accepted in debt exchange offerings of GOCCs which carry the guarantee of the Philippine National Government; and

iii. Foreign currency denominated NG/BSP bonds/debt securities, outstanding as of 10 February 2007, which were reclassified from the HTM category in view of the increased risk-weights of said securities under *Appendix 63b* within thirty (30) calendar days after 10 February 2007. The subject securities once reclassified shall be accounted for in accordance with the measurement requirements of their new category (i.e., Available-for-Sale securities).

Sec. 5. Impairment. A debt or equity security is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of event that occurred after the initial recognition of the security (a “loss event”) and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, no matter how likely, are not recognized. Objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

a. significant financial difficulty of the issuer or obligor;

b. a breach of contract, such as a default or delinquency in interest or principal payments;

c. the FI, for economic or legal reasons relating to the issuer’s financial difficulty, granting to the issuer a concession that the FI would not otherwise consider;

d. it becoming probable that the issuer will enter bankruptcy or other financial reorganization;

e. the disappearance of an active market for that security because of financial difficulties; or

f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including:

(1) adverse change in the payment status of issuers in the portfolio; or

(2) national or local economic conditions that correlate with defaults on the securities in the portfolio.

The disappearance of an active market because an FI’s held securities are no longer publicly traded is not evidence of impairment. A downgrade of an issuer’s credit rating is not, of itself, evidence of impairment, although it may be evidence of impairment when considered with other

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available information. A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk free interest rate).

In addition to the types of events enumerated in Items “a” to “f” in this Section, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be

recovered. A significant or prolonged decline in the fair value of an investment in an equity security below its cost is also objective evidence of impairment.

Sec. 6. Operations Manual. The FI shall maintain an operations manual for booking and valuation of HTM, Securities at Fair Value through Profit or Loss, Available-for-Sale and INMES.

These guidelines shall no longer be applicable when an FI adopts PFRS 9 under *Appendix 97*.

(As amended by Circular Nos. 738 dated 11 October 2011, 733 dated 05 August 2011, 708 dated 10 January 2011, 670 dated 18 November 2009, 628 dated 31 October 2008, 626 dated 23 October 2008, 558 dated 22 January 2007, 546 dated 21 September 2006 and 509 dated 01 February 2006)

RECLASSIFICATION OF FINANCIAL ASSETS BETWEEN CATEGORIES

The following guidelines govern the reclassification of investments in debt and equity securities between categories:

Section I. Conditions for Reclassifications

FIs shall be allowed to reclassify their investments in debt and equity securities from the Held for Trading (HFT) or Available for Sale (AFS) categories to the Held to Maturity (HTM) or Unquoted Debt Securities Classified as Loans (UDSCL) categories, subject to the following conditions:

(1) The reclassification shall be done in accordance with the provisions of the October 2008 amendments to the International Accounting Standards (IAS) 39: *Financial Instruments: Recognition* and Measurements and International Financial Reporting Standards (IFRS) 7: *Financial Instruments: Disclosures*;

(a) Only non-derivative financial assets may be reclassified from HFT to AFS, HTM or UDSCL. This shall however exclude those that are Designated at Fair Value through Profit or Loss (DFVPL).

(b) A financial asset may be reclassified out of HFT into AFS/HTM/UDSCL only in rare circumstances and if there is a change in intention (i.e., the financial asset is no longer held for the purpose of selling or repurchasing it in the near term). The financial assets shall be reclassified at their fair values on the effective date of reclassification all at the same time. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of a financial asset on the effective date of reclassification becomes its new cost or amortized cost, as applicable.

For this purpose, FIs may reclassify all or a portion of its financial assets for HFT to AFS/HTM/UDSCL as of the same date which shall be any day from 01 July 2008 to 14 November 2008. For example, an FI may choose to reclassify all financial assets booked under HFT to AFS/HTM/UDSCL as of 01 July 2008 using their fair values as of 01 July 2008. Another FI may choose to reclassify all financial assets booked under HFT to AFS/HTM/UDSCL as of 14 November 2008 using their fair values as of 14 November 2008. Thereafter, FIs shall not be allowed to "retrospectively" reclassify HFT to AFS/HTM/UDSCL. Any reclassification on or after 15 November 2008 shall take effect only from the date when the reclassification is made.

(c) A financial asset booked under HFT that would have also met the definition on UDSCL if the financial asset had not been required to be classified as HFT at initial recognition, may be reclassified from HFT to UDSCL if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

(d) The financial assets shall be reclassified at their fair values on the effective date of reclassification, not necessarily all at the same time. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of a financial asset on the effective date of reclassification becomes its new cost or amortized cost, as applicable.

For this purpose, FIs may reclassify said financial assets from HFT to UDSCL as of any date from 01 July 2008 to 14 November 2008. Thereafter, FIs shall not be allowed to retrospectively reclassify HFT to UDSCL. Any reclassification on or

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after 15 November 2008 shall take effect only from the date when the reclassification is made.

(e) The financial asset reclassified in accordance with *Items "(b)", "(c)" or "(d)"* above shall thereafter be treated in accordance with the guidelines provided in *Appendix 20: Provided, however, That* if an FI subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate.

(f) FIs that shall reclassify based on the provision of this Annex shall comply with the disclosure requirements under the Amendments to IAS 39 and IFRS 7 in preparing their audited financial statements.

(2) Financial assets that are reclassified from HFT/AFS to HTM/UDSCL shall thereafter be treated in accordance with the guidelines provided under *Appendix 33*;

(3) Reclassification from the AFS to the HTM category shall only be allowed if there was a change in intention for holding the debt instrument, and the financial institution has the ability to hold it until maturity; and

(4) FIs may reclassify from HFT/AFS to AFS/HTM/UDSCL effective 01 July 2008: *Provided, That* any reclassification made in periods beginning on or after 15 November 2008 shall take effect from the date when the reclassification is made.

Sec. II. Alternative accounting treatment for prudential reporting purposes. The following may be adopted for purposes of prudential reports:

(1) A financial asset booked under AFS may be reclassified from AFS to HTM/UDSCL if the FI has the intention and ability

to hold the financial assets for the foreseeable future or until the maturity using the fair value carrying amount of the financial assets as of the effective date of reclassification.

For this purpose, FIs may reclassify said financial assets from AFS to HTM/UDSCL as of any day from 01 July 2008 to 14 November 2008. Thereafter, FIs shall not be allowed to retrospectively reclassify AFS to HTM/UDSCL. Any reclassification on or after 15 November 2008 shall take effect only from the date when the reclassification is made.

(2) Financial assets that are booked under AFS category because of the tainting of the HTM portfolio may be reclassified to HTM or UDSCL using the fair value carrying amount of the financial assets as of the effective date of reclassification.

For this purpose, FIs may reclassify said financial assets from AFS to HTM/UDSCL as of any day from 01 July 2008 to 14 November 2008.

(3) Hybrid financial assets (other than CLNs) may be included among the financial assets that may be reclassified out of the HFT and into the AFS/HTM/UDSCL in accordance with *Items "(1)(b)" and "(1)(c)"* in Sec. I by, first, bifurcating the embedded derivative from the host instrument and booking the derivatives under Derivatives with Positive/Negative Fair Value; and second, reclassifying the host contract to AFS/HTM/UDSCL.

(4) CLNs and other similar instruments that are linked to ROPs, on the other hand, may be included among the financial assets that may be reclassified (i) out of the HFT into AFS/HTM/UDSCL in accordance with *Items "(1)(b)" and "(1)(c)"*; or (ii) from AFS to UDSCL or HTM in accordance with *Item "(1)(d)"* all in Sec. I and *Item "1"* above, without bifurcating the embedded derivatives from the host instrument: *Provided, That* this shall only apply for CLNs that are outstanding as of the effective

date of reclassification, which shall not be on or later than 15 November 2008.

Sec. III. Applicability to Trust Institutions

The guidelines shall likewise apply to trust institutions except for the following accounts:

- (a) UIT Funds; and
- (b) Pre-need, escrow and other accounts whose investments are regulated by or require approval from other regulatory agencies: *Provided*, That prior to the reclassification, the approval/consent and reflect the change in client's investment profile in the revised Investment Policy Statement as provided

in *Appendix 83: Provided, further*, That in the case of managed retirement funds/ employee benefit trust accounts, such reclassification shall be aligned with the liquidity requirements resulting from the latest actuarial valuation of the fund/account.

Sec. IV. Reportorial Requirements. FIs that reclassify financial assets out of the HFT/ AFS categories shall submit a report on Reclassification of Financial Assets between Categories to the Supervisory Data Center, Supervision and Examination Sector on or before 30 November 2008.

(Circular No. 626 dated 23 October 2008 as amended by Circular No. 628 dated 31 October 2008)

ESTABLISHING THE MARKET BENCHMARKS/REFERENCE PRICES AND
COMPUTATION METHOD USED TO MARK-TO MARKET DEBT
AND MARKETABLE EQUITY SECURITIES
(Appendix to Subsec. X388.5)

General Principle

As a general rule, to the extent a credible market pricing mechanism as determined by the Bangko Sentral exists for a given security, that market price shall be the basis of marking-to-market. However, in the absence of a market price, a calculated price shall be used as prescribed herein.

Marking-to-Market Guidelines

To ensure consistency, the following shall be used as bases in marking-to-market debt and equity securities:

Type of Security	Market Price Basis
A. Equity Securities Listed in the Stock Exchange	
1. Traded in the Philippines	Same day closing price as quoted at the Philippine Stock Exchange. In case of halt trading/suspension or holidays, use the last available closing price.
2. Traded Abroad	Latest available closing price from the exchange where the securities are traded.
B. Foreign Currency-Denominated Debt Securities Quoted in Major Information Systems (e.g., Bloomberg, Reuters)	
1. US Treasuries	Price as of end of day, Manila time.
2. US Agency papers (e.g., Fannie Maes, Freddie Macs, Ginnie Maes, Municipal papers	Latest available price for the day, Manila time. In the absence of a price, use average quotes of at least three (3) regular brokers/market makers.*
3. Brady Bonds	Same as B.2.
4. For all US\$-denominated government and corporate securitites	Same as B.2.
5. Other foreign-currency securities	Same as B.2.

* Based on done rates if available. If done rates are not available, use the mid rate between bid and offer. If no mid-rates are available use the bid rate.

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C. Foreign Currency Denominated Debt Securities Traded in a Local Registered Exchange or Market

The basis for marking-to-market foreign currency-denominated debt securities traded in a local registered exchange or market shall be the same as those used in Peso-Denominated Government Securities in Section D below.

D. Peso-Denominated Government Securities

The benchmark or reference prices shall be based on the weighted average of done or executed deals in a trading market registered with the SEC. In the absence of done deals, the simple average of all firm bids per benchmark tenor shall be used in calculating the benchmark; *Provided*, That the simple average of all firm offer per benchmark tenor shall likewise be included as soon as permissible under securities laws and regulations.

The benchmark or reference rate shall be computed and published in accordance with prescribed guidelines on the computation of reference rates by a Calculation Agent which is recognized by the Bankers Association of the Philippines (BAP); *Provided*, That both the Calculation Agent and its method of computation are acceptable to the Bangko Sentral.

To ensure the integrity of the benchmark or reference prices, the Calculation Agent shall perform the following:

1. Monitor the quality of the contributed source rates for the benchmark;
2. Monitor the data contributors and replace participants, upon consultation with the BAP, that fail to meet commitments to the benchmark;
3. Monitor the activities of the

participants to ensure compliance with their commitments and for possible market manipulation and enforce sanctions on errant participants and immediately inform BAP and the Bangko Sentral thereon; and

4. Review and upgrade the benchmark setting methodology upon consultation with BAP on a continuing basis, including documentation and publications thereof.

Accordingly, all data on done and firm bids/offers must be credible and verifiable and preferably sourced from trade executions and reporting systems that are part of a regulated and organized market duly licensed by the SEC where the data contributors are bound to uphold the principles of transparency, fair trading and best execution.

E. Peso-Denominated Private Debt Securities

The basis for marking-to-market peso-denominated debt securities traded in an organized market shall be the same as those used in Peso-Denominated Government Securities in Section D above.

For private debt securities which are not traded in an organized market, the mark-to-market value shall be based on the corresponding government security benchmark plus risk premium. The corresponding government security benchmark shall be determined according to Section D above. In determining the risk premium, the credit risk rating of the securities involved given by a Bangko Sentral-recognized credit risk rating agency shall be established and taken into account whenever available. In the absence of such credit risk rating, alternative analyses may be used: *Provided*, That, these are well-justified by sound risk analysis principles.

Other Guidelines

The basis for the market valuation of non-benchmark securities shall be the same as those used in Peso-Denominated Government Securities in Section D above. In the absence of both done and bid rates, interpolated yields derived from the benchmark or reference rates in accordance with the BSP-approved guidelines for computation of reference rates in Section D above shall be used.

Penalties and Sanctions

FIs and the concerned officers found to have violated the provisions of these regulations shall be subject to the penalties prescribed under Subsec. X388.5: *Provided*, That non-compliance with the above guidelines may be a basis for a finding of unsafe and unsound banking practice.

(As amended by Circular No. 813 dated 27 September 2013 and M-2007-006 dated 28 February 2007)

GUIDELINES ON THE USE OF SCRIPLESS (RoSS) SECURITIES
AS SECURITY DEPOSIT FOR THE FAITHFUL PERFORMANCE OF TRUST DUTIES
(Appendix to Sec. X405 and X415)

Definition of Terms and Acronyms

Scripless securities and RoSS securities
- refers to uncertificated securities issued by the Bureau of Treasury (BTr) that are under the BTr’s Registry of Scripless Securities

Trust institution - refers to a bank that is authorized to engage in trust business

BTr - Bureau of Treasury

RoSS - Registry of Scripless Securities

BSP - Bangko Sentral ng Pilipinas

BSP-SES - Supervision and Examination Sector of BSP

SRSO - Supervisory Reports and Studies Office of BSP-SES

BSP-Comptrollership - Accounting Department of BSP

GSED - Government Securities Eligible Dealer of the BTr

DDA - refers to the regular demand deposit account of a bank with BSP-Comptrollership

MOR - Manual of Regulations for Banks

Appropriate supervising and examining department or responsible SED - refers to the Department of Commercial Banks I in the case of EKBs; or the Department of Commercial Banks II in the case of non-EKBs and branches of foreign banks; or the Department of Thrift Banks and Non-Bank

Financial Institutions in the case of thrift banks, supervised by BSP.

A. Basic Requirements

1. The BSP-SES shall file with BTr an application to open a RoSS Principal Securities Account where RoSS securities of trust institutions used as security deposit for trust duties shall be held. BSP-SES shall use *Annex 1* for this purpose.
2. Using *Annex 1-A*, BSP-SES shall also apply for a Client Securities Account (sub-account) for each trust institution under its RoSS Principal Securities Account to enable BSP-SES to keep track of the security deposit. BTr shall maintain Client Securities Accounts for ₱1,000 each month per account.
3. A trust institution which has a DDA with BSP-Comptrollership shall act as its own settlement bank.
A trust institution which does not have a DDA with the BSP-Comptrollership shall designate a settlement bank which will act as conduit for transferring securities for trust duties to the BSP-SES account and for paying interest, interest coupons and redemption proceeds. The trust institution shall inform the appropriate SED of the BSP of the designation of a settlement bank.
4. Each trust institution shall accomplish an *Autodebit/Autocredit Authorization* for its client securities account under the BSP-SES RoSS account. The document will authorize the BTr and the BSP to credit the DDA of the trust institution with BSP-Accounting for coupons/interest payments on securities in the BSP-SES RoSS accounts and to debit the DDA for the monthly fees payable to BTr for maintaining its client securities accounts with BSP-SES. It will also

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authorize the BTR and BSP to credit the deposit account of BSP-SES with BSP-Comptrollership for the redemption proceeds of securities that mature while in the BSP-SES RoSS account.

A trust institution with a DDA with BSP-Comptrollership shall use *Annex 2-A* while a trust institution with a settlement arrangement shall use *Annex 2-B*.

5. BSP-SES shall open a deposit account with BSP-Comptrollership where the redemption value of securities shall be credited, in the event such securities mature while lodged in the RoSS account of BSP-SES.

6. SRSO shall be responsible for keeping track of the deposit and withdrawal of securities held under the BSP-SES Principal Securities Account and the Client Securities Accounts of the trust institutions. SRSO shall instruct BTr to transfer securities out of the BSP-SES account and the corresponding client securities accounts of trust institutions only after receiving authorization from the Director (or in his absence, the designated alternate officer) of the appropriate SED of SES.

SRSO shall also be responsible for keeping track of the BSP-SES deposit account with the BSP-Comptrollership representing credits for the redemption value of security deposit of trust institutions that have matured while in the RoSS account of BSP-SES. SRSO shall maintain sub-accounts for each trust institution for the purpose. SRSO shall instruct BSP-Comptrollership to transfer balances out of the deposit account and the corresponding sub-account of the trust institution only after receiving authorization from the Director (or in his absence, the designated alternate officer) of the appropriate SED of SES.

7. BSP-SES shall subscribe to the *Telerate* electronic trading system which is linked to BTr's RoSS and cause the installation of a *Telerate* terminal at SRSO.

Trust institutions may be required to reimburse BSP-SES for whatever expenses that may be incurred in connection with the subscription.

8. Every trust institution must ensure that it has adequate security deposit for trust duties pursuant to the provisions of Subsecs. X405.1, X405.2, X405.3 and X405.4 of the MOR.

9. BTr shall provide BSP-SES with the end-of-day transaction report whenever a transaction in any client securities account is made. BTr shall also provide BSP-SES a monthly report of balances of each client securities account.

10. Every quarter, the responsible SED of BSP-SES shall determine, based on the *Report of Trust and Other Fiduciary Business and Investment Management Activities* (CBP 7-16-35TR) submitted by the trust institution, whether or not the trust institution's security deposit for trust duties is sufficient pursuant to the provision of the MOR mentioned above. In case of deficiency, the department shall recommend the imposition of sanctions and/or any other appropriate action to higher authorities.

B. Procedures for Assigning RoSS Securities as Security Deposit for Trust Duties

1. The trust institution shall advise the appropriate BSP-SES department that it will transfer RoSS securities to BSP-SES. The advise should be received by the BSP-SES at least two (2) banking days before the date of transfer using the prescribed form (*Annex 3*) and checking Box "b" of said form. (Box "a" shall be checked by a new trust institution that is making an initial security deposit pursuant to Subsec. X404.2 of the MOR.) The advice should be sent by cc mail or by fax to be followed by an official letter duly signed by an authorized trust officer.

2. The trust institution shall electronically instruct BTr to transfer

securities from its own RoSS accounts to the BSP-SES RoSS and its corresponding Client Securities Account on the specified date. In the case of a trust institution with a settlement arrangement, the instruction shall be coursed through the settlement bank and the securities shall come from the RoSS account of the same bank.

3. BTr shall effect the transfer upon verification of RoSS balances. At the end of the day, BTr shall transmit a transaction report to SRSO containing the transfer.

4. SRSO shall provide the appropriate BSP-SES department a copy of the report.

5. The BSP-SES department concerned shall check from the report whether BTr effected the transfer indicated in the advice (*Annex 3*) sent earlier by the trust institution.

C. Procedures for Replacing RoSS Securities

1. The trust institution shall advise the appropriate SED of BSP-SES that it will replace existing RoSS securities assigned as security deposit. The advise should be received by the BSP-SES at least two (2) banking days before the date of replacement using the prescribed form (*Annex 3*). The trust institution shall check Box “c” of the form and indicate the details of the securities to be withdrawn. The advice should be sent by cc mail or by fax to be followed by an official letter duly signed by an authorized trust officer.

2. The responsible BSP-SES department shall verify whether the securities to be replaced are in the RoSS account of BSP-SES and the sub-account of the trust institution and whether the book value of the securities to be deposited is equal to or greater than those to be withdrawn. The department concerned shall immediately communicate with the trust institution in case of a discrepancy.

3. The trust institution shall electronically instruct BTr to transfer

securities from its own RoSS account to the BSP-SES RoSS accounts and its corresponding Client Securities Account on the specified date. In the case of a trust institution with a settlement arrangement, the instruction shall be coursed through the settlement bank and the securities shall come from the RoSS account of the same bank.

4. BTr shall effect the transfer upon verification of RoSS balances. At the end of the day, BTr shall transmit a transaction report to SRSO containing the transfer.

5. SRSO shall immediately provide the appropriate BSP-SES department a copy of the report.

6. The BSP-SES department concerned shall immediately check from the report whether the securities transferred to the BSP-SES account are the same securities described in the advice (*Annex 3*) sent earlier. If in order, the Director (or in his absence, the designated alternate officer) of the department concerned shall authorize SRSO to instruct BTr to transfer the securities specified to be withdrawn from the BSP-SES account to the trust institution’s (or the settlement bank’s) RoSS account. The Department concerned shall use *Annex 5* and check Boxes “a” and “d”. Should there be any discrepancy, the department shall inform the trust institution immediately. The authority to allow the withdrawal should be transmitted to SRSO not later than the day after the replacement securities were transferred to the BSP-SES account.

The BSP-SES department concerned shall also advise the trust institution that it has approved the replacement of security deposit by using *Annex 6* and checking Boxes “a” and “d” and the appropriate box under “d” depending on whether or not the trust institution has a settlement arrangement.

7. On the same day, SRSO shall instruct BTr to transfer the securities

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specified to be withdrawn from the BSP-SES account to the RoSS account of the trust institution (or its settlement bank).

8. BTr shall effect the transfer/withdrawal. At the end of the day, BTr shall send a report to SRSO containing the transfer/withdrawal.

9. SRSO shall provide the appropriate BSP-SES department a copy of the report.

10. The responsible BSP-SES department shall check from the report whether BTr effected the transfer/withdrawal.

D. Procedures for Withdrawing RoSS Securities

1. The trust institution shall advise the appropriate BSP-SES department that it will withdraw existing RoSS securities assigned as security deposit. The advice should be received by the BSP-SES at least two (2) banking days before the date of withdrawal using the prescribed form (*Annex 4*) and indicating therein details of the securities to be withdrawn. The advice should be sent by cc mail or by fax to be followed by an official letter duly signed by an authorized trust officer.

2. The responsible BSP-SES department shall verify whether the securities to be withdrawn are in the RoSS account of BSP-SES and the Client Securities Account of the trust institution. The department shall also determine whether the amount of remaining security deposit will still be adequate in spite of the proposed withdrawal. If in order, the Director (or in his absence, the designated alternate officer) of the department concerned shall authorize SRSO to instruct BTr to transfer the securities specified to be withdrawn from the BSP-SES account to the trust institution's own RoSS account (or its settlement bank). The Department concerned shall use *Annex 5* and check Boxes "b" and "d". Should there be any discrepancy, the department shall inform the trust institution immediately. The authority to allow the withdrawal should be

transmitted to SRSO not later than the date of the withdrawal indicated in the advice (*Annex 4*) sent earlier by the trust institution.

The BSP-SES department concerned shall also advise the trust institution that it has approved the withdrawal of security deposit by using *Annex 6* and checking Boxes "b" and "d" and the appropriate box under "d" depending on whether or not the trust institution has a settlement arrangement.

3. On the same date, SRSO shall instruct BTr to transfer the securities specified to be withdrawn from the BSP-SES account to the RoSS account of the trust institution (or its settlement bank).

4. BTr shall effect the transfer/withdrawal. At the end of the day, BTr shall send to SRSO a report which contains the transfer/withdrawal.

5. SRSO shall provide the appropriate BSP-SES department a copy of the report.

6. The BSP-SES department concerned shall check from the report whether BTr effected the withdrawal stated in the advice (*Annex 4*) sent earlier by the trust institution.

E. Procedures for Crediting Interest Coupon Payments

On coupon or interest payment date, BTr shall instruct BSP-Comptrollership to credit the DDA of trust institutions or their designated settlement banks for coupon/interest payment of securities held under the RoSS account of BSP-SES.

F. Procedures for Crediting and Withdrawing the Redemption Value of Matured Securities That are in the BSP-SES RoSS Account

1. On maturity date, BTr shall instruct BSP-Comptrollership to credit the deposit account of BSP-SES with BSP-Comptrollership for the redemption value of securities that mature while held as security deposit in the RoSS account of BSP-SES.

2. BTr shall send to SRSO a copy of the credit advice.

3. SRSO shall immediately provide the appropriate BSP-SES department a copy of the credit advice.

4. The responsible BSP-SES department shall immediately inform the trust institution concerned of the cash credit and shall inquire whether the trust institution intends to transfer securities to the RoSS account of the BSP-SES to replace the matured securities.

5. The trust institution shall advise the appropriate BSP-SES department that it will transfer RoSS securities to BSP-SES in place of the cash credited to the deposit account of BSP-SES with BSP-Comptrollership for matured securities. The trust institution shall check Box “d” of the prescribed form (*Annex 3*). The concerned department shall determine if the book value of the securities to be transferred is equal to or greater than the cash credit.

6. The trust institution shall electronically instruct BTr to transfer securities from its own RoSS accounts to the BSP-SES RoSS account and its corresponding Client Securities Account on the specified date. In the case of a trust institution with a settlement arrangement, the instruction shall be coursed through the settlement bank and the securities shall come from the RoSS account of the same bank.

7. BTr shall effect the transfer upon verification of RoSS balances. At the end of the day, BTr shall send a report to SRSO containing the transfer.

8. SRSO shall provide the appropriate BSP-SES department a copy of the report.

9. The BSP-SES department concerned shall immediately check from the report whether the securities transferred to the BSP-SES account are the same securities described in the advice (*Annex 3*) sent earlier by the trust institution. If in order, the Director (or in his absence, the designated alternate officer) of the Department shall direct the SRSO to instruct BSP-Accounting Department to debit the BSP-SES deposit account and transfer the funds to the DDA of the trust institution (or its designated settlement bank). The Department concerned shall use *Annex 5* and check Boxes “c” and “e”.

The BSP-SES department concerned shall also advise the trust institution that it has approved the replacement of matured securities by using *Annex 6* and checking Boxes “c” and “e” and the appropriate box under “e” depending on whether or not the trust institution has a settlement arrangement.

10. SRSO shall direct BSP-Accounting to debit the BSP-SES deposit account and credit the same amount to the DDA of the trust institution (or its designated settlement bank) using *Annex 7*.

11. BSP-Accounting shall effect the transaction and send a copy of the debit advice to SRSO and a copy of the credit advice to the trust institution (or the designated settlement bank).

12. SRSO shall send a copy of the debit advice to the SES department concerned.

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Annex 1

SUPERVISION AND EXAMINATION SECTOR

(Date)

Treasurer of the Philippines
Bureau of Treasury
Palacio del Gobernador
Intramuros, Manila

Attention: Registry of Scripless Securities (RoSS)

Dear _____:

The Supervision and Examination Sector of the Bangko Sentral ng Pilipinas (BSP-SES) hereby makes an application to open a Principal Securities Account in the Registry of Scripless Securities (RoSS) for the purpose of holding the security deposit for the faithful performance of trust duties of institutions engaged in trust business pursuant to Section 65 of R.A. No. 337, as amended.

We understand that the Bureau of Treasury shall maintain the Principal Securities Account of BSP-SES for free.

Very truly yours,

Deputy Governor

SUPERVISION AND EXAMINATION SECTOR

(Date)

Treasurer of the Philippines
Bureau of Treasury
Palacio del Gobernador
Intramuros, Manila

Attention: Registry of Scripless Securities (RoSS)

Dear Ms. _____

In connection with the Principal Securities Account of BSP-SES in the Registry of Scripless Securities (RoSS), please open Client Securities Account for the following trust institutions so we can keep track of their security deposit for the faithful performance of trust duties. Please note that the settlement bank of the institution, if it is required, is also indicated.

Name of Trust Institution	Name of Settlement Bank, where required
1. _____	_____
2. _____	_____
3. _____	_____

We understand that the Bureau of Treasury will maintain the Client Securities Account for P1,000 per month per account.

Very truly yours,

Authorized Signatory

To be used by a trust institution with own demand deposit account with BSP-Comptrollership

Letterhead of Trust Institution

AUTODEBIT/AUTOCREDIT AUTHORIZATION

The _____ (name of bank) hereby authorizes the Bureau of Treasury (BTr) and the Bangko Sentral ng Pilipinas (BSP) to debit/credit our demand deposit account with BSP-Comptrollership for coupons/interest payment of our securities in the BSP-SES RoSS accounts; and to settle the payment of monthly maintenance fees to BTr of our client securities account under the BSP-SES RoSS account. We also authorize the BTr and the BSP to credit the Account of BSP-SES with BSP-Comptrollership for the redemption proceeds of our securities in the event such securities mature while in the RoSS account of BSP-SES.

This authorization will take effect on _____ (indicate date) .

(Authorized Signatory)

To be used by a trust institution with settlement arrangement with a bank

Letterhead of Trust Institution

AUTO DEBIT/AUTOCREDIT AUTHORIZATION

The _____ (name of settlement bank) _____ for the account of _____ (name of trust institution) _____ hereby authorizes the Bureau of Treasury (BTr) and the Bangko Sentral ng Pilipinas (BSP) to debit/credit our demand deposit account with BSP-Comptrollership for coupons/interest payment of securities of the trust institution in the BSP-SES RoSS accounts; for maturing securities of the trust institution held in our RoSS Principal Securities Account with BTr; and to settle the payment of monthly maintenance fees to BTr of our client securities account under the BSP-SES RoSS account.

The _____ (name of trust institution) _____ also authorizes the BTr and the BSP to credit the Account of BSP-SES with BSP-Comptrollership for the redemption proceeds of our securities in the event such securities mature while in the RoSS account of BSP-SES.

This authorization will take effect on _____ (indicate date) _____ .

(Authorized Signatory of Settlement Bank)

(Authorized Signatory of Trust Institution)

Letterhead of Trust Institution

Date:

The Director
SED I/SED II/SED III/SED IV
Bangko Sentral ng Pilipinas
A. Mabini St., Manila

Dear Sir:

We are transferring on (indicate date of transfer) the following securities to your Principal Securities Account and our Client Securities Account (sub-account) as our security deposit for the faithful performance of trust duties pursuant to Section 65 of R.A. No. 337, as amended.

<u>Type</u>	<u>ISIN</u>	<u>Purchase Date</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Remaining Tenor ^{a/}</u>	<u>Face Amount</u>	<u>Purchase Price</u>
-------------	-------------	----------------------	-------------------	-----------------	--------------------------------------	--------------------	-----------------------

We are transferring the above securities:

- a. ☐ As our initial deposit
- b. ☐ As an additional security deposit
- c. ☐ To replace the following securities which we deposited on (date) .

<u>Type</u>	<u>ISIN</u>	<u>Purchase Date</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Remaining Tenor ^{a/}</u>	<u>Face Amount</u>	<u>Purchase Price</u>
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- d. ☐ To replace matured securities the redemption value of which P is credited to the deposit account of BSP-SES with BSP-Comptrollership.

Very truly yours,

Name and Designation of Authorized Signatory

^{a/} Reckoned from actual date of transfer/withdrawal.

Letterhead of Trust Institution

Date:

The Director
SED I/SED II/SED III/SED IV/SED V
Bangko Sentral ng Pilipinas
A. Mabini St., Manila

Dear Sir:

We wish to withdraw on (indicate date of transfer) the following securities used as security deposit for the faithful performance of trust duties from the Principal Securities Account and from our corresponding Client Securities Account (sub-account).

<u>Type</u>	<u>ISIN</u>	<u>Purchase Date</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Remaining Tenor ^{a/}</u>	<u>Face Amount</u>	<u>Purchase Price</u>
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Very truly yours,

Name and Designation of Authorized Signatory

^{a/} Reckoned from actual date of transfer/withdrawal.

MEMORANDUM
SED I/SED II/SED III/ SED IV

F o r : The Director
Supervisory Reports and Studies Office

From : The Director

Subject : Scripless Securities Used As Deposit for Trust Duties

Date :

In connection with the request of (indicate name of trust institution) dated _____ to:

- a. ☐ Replace outstanding RoSS securities
- b. ☐ Withdraw RoSS securities
- c. ☐ Replace cash credit of matured securities with outstanding RoSS securities
you are hereby authorized to:
- d. ☐ Instruct the Bureau of Treasury to transfer the following securities out of the BSP-SES RoSS accounts to the RoSS Principal Securities Account of (indicate name of trust institution or, where applicable, the name of its settlement bank)

<u>Type</u>	<u>ISIN</u>	<u>Purchase Date</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Remaining Tenor ^{a/}</u>	<u>Face Amount</u>	<u>Purchase Price</u>
-------------	-------------	----------------------	-------------------	-----------------	--------------------------------------	--------------------	-----------------------

- e. ☐ Instruct BSP-Comptrollership to debit the BSP-SES deposit account in the amount of P _____ and to transfer said amount to the demand deposit account of (indicate name of trust institution or, where applicable, the name of its designated settlement bank).

Authorized Signatory

^{a/} Reckoned from actual date of transfer/withdrawal.

SED I/SED II/SED III/SED IV

(Date)

(Name of Trust Institution)

(Address)

Subject: Scripless Securities Used As Deposit for Trust Duties

Dear Mr. _____:

We are pleased to inform you that we have approved your request dated _____ to:

- a. ☐ Replace outstanding RoSS securities
- b. ☐ Withdraw RoSS securities
- c. ☐ Replace cash credit of matured securities with outstanding RoSS securities.

Accordingly, we have authorized the Supervisory Reports and Studies Office to:

- d. ☐ Instruct the Bureau of Treasury to transfer the following securities out of the BSP-SES RoSS accounts to -
 - ☐ the RoSS Principal Securities Account
 - ☐ your settlement bank's RoSS Principal Securities Account, the securities described in your request.
- e. ☐ Instruct BSP-Comptrollership to debit the BSP-SES deposit account in the amount of P_____ and to credit said amount to -
 - ☐ your demand deposit account with BSP-Comptrollership
 - ☐ your settlement bank's demand deposit account with BSP-Comptrollership

Very truly yours,

Authorized Signatory

GUIDELINES ON THE USE OF SCRIPLESS SECURITIES
AS SECURITY DEPOSIT FOR THE FAITHFUL PERFORMANCE OF PERA
ADMINISTRATOR
(Appendix to Subsec. X405.1)

Definition of Terms and Acronyms

BSP - Bangko Sentral ng Pilipinas

BSP-FAD- Financial Accounting Department of the BSP

BSP-SES - Supervision and Examination Sector of the BSP

DDA - refers to the regular demand deposit account of a bank with BSP-FAD

DSSA - Daily Statement of Securities Account

Financial Institution (FI) - refers to a bank, non-bank financial institution, or trust entity supervised by the BSP that is accredited to be a PERA Administrator

MORB/MORNBFI - Manual of Regulations for Banks/ Manual of Regulations for Non-Bank Financial Institutions

Off-site Supervising Department - refers to the department of the BSP-SES responsible for off-site supervision of FIs

Scripless Securities - refers to uncertificated securities issued by the Bureau of the Treasury (BTr) that are under the BTr’s Registry of Scripless Securities (RoSS)

Trust Specialist Group (TSG) - refers to the technical unit of the BSP-SES responsible for supervision of trust entities

A. Basic Requirements

1. The BSP-SES shall file with the BTr an application to open a BSP-PERA RoSS principal securities account where the

securities for the faithful performance of PERA Administrator shall be held. The BSP-SES shall use Annex 1 for this purpose.

2. The BSP-SES through its TSG shall request with the BTr the creation of a PERA Administrator securities account under the BSP-PERA RoSS principal securities account using Annex 1-A. The BTr shall maintain each PERA Administrator securities account for P1,000.00 or any amount per month as may be determined by the BTr.

3. An FI must have a DDA with BSP-FAD. In case when an FI does not have a DDA with BSP-FAD, it shall designate a settlement bank and shall inform the appropriate BSP-SES off-site supervising department of its designated settlement bank.

4. Each FI shall accomplish an autodebit/autocredit authorization for its PERA Administrator securities account under the BSP-PERA RoSS principal securities account. The document shall authorize the BTr and the BSP to credit the DDA of the FI or the designated settlement bank with BSP-FAD for coupons/interest payments and maturity proceeds of securities and to debit the same DDA for the monthly fees payable to the BTr for maintenance of the PERA Administrator securities account.

An FI with a DDA with BSP-FAD shall use Annex 2-A while an FI with a settlement arrangement shall use Annex 2-B.

5. The BSP-SES off-site supervising department shall be responsible for monitoring deposit and withdrawal of securities in the PERA Administrator securities account.

6. Every FI shall ensure that it has adequate security for the faithful performance of PERA Administrator

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pursuant to the provisions of the Personal Equity and Retirement Account (PERA) Act of 2008 and its implementing rules and regulations.

7. The BTr shall provide TSG a monthly statement of securities account as well as a DSSA whenever a transaction in any PERA Administrator securities account is made.

8. The responsible BSP-SES off-site supervising department shall determine on a quarterly basis the compliance with the security for the faithful performance of PERA Administrator based on the reportorial submission of the FI. In case of deficiency, the responsible BSP-SES off-site supervising department shall recommend, as warranted, the imposition of sanctions and/or any other appropriate action to higher BSP authorities.

B. Procedures for Assigning Initial/ Additional RoSS Securities as Security for the Faithful Performance of PERA Administrator

1. The FI shall notify the appropriate BSP-SES off-site supervising department that it will transfer RoSS securities to its PERA Administrator securities account at least two (2) banking days before the date of transfer using the prescribed form (Annex 3) and checking Box "A" or "B", as appropriate, and indicating details therein. The notice, which may initially be sent through electronic mail or fax, shall be forwarded as an official letter duly signed by authorized officer/s and shall be accompanied by the following:

a. Computation of compliance with the security for the faithful performance of PERA Administrator. The FI shall provide detailed calculation on specific and relevant dates whenever there is a transfer of RoSS securities to and from its PERA Administrator securities account using Annexes 4 and 4-a to affirm the continuing compliance with the security requirement; and

b. Notarized certification signed by the chief executive officer of the FI using Annex 5 attesting:

i. The accuracy and completeness of submitted reports and corresponding schedules; and

ii. The effective interest rate method is being used in the amortization of relevant premium/discount of securities in compliance with the Philippine accounting standards.

This notarized certification shall likewise be submitted to the appropriate BSP-SES off-site supervising department every quarter to attest the continuing compliance of the FI to the security requirement.

2. The FI shall instruct the BTr to transfer RoSS securities to its PERA Administrator securities account on specified date.

3. The BTr shall effect the transfer upon verification of RoSS balances. At the end of the day, the BTr shall transmit a DSSA to TSG containing the transfer.

4. The TSG shall provide the appropriate BSP-SES off-site supervising department a copy of the DSSA.

5. The responsible BSP-SES off-site supervising department shall verify from the DSSA the transfer of securities indicated in the advice (Annex 3) sent earlier by the FI.

6. The above procedures shall also be observed in transferring additional securities to replace maturing/matured RoSS securities.

C. Procedures for Withdrawing RoSS Securities

1. The FI shall notify the appropriate BSP-SES off-site supervising department that it will withdraw existing RoSS securities assigned as security for faithful performance of PERA Administrator at least two (2) banking days before the date of withdrawal using the prescribed form (Annex 6) and indicating the details of the securities to be

withdrawn. The notice shall be accompanied by a computation of compliance with security requirement and certification required under B.1.

2. The responsible BSP-SES off-site supervising department shall verify if the securities to be withdrawn are in the PERA Administrator securities account and the value of outstanding securities remains compliant with the security requirement after the withdrawal. The department concerned shall immediately inform the FI for any discrepancy/deficiency. If in order, the department concerned shall authorize TSG to instruct the BTr to transfer the securities to be withdrawn to the RoSS account of the FI. The BSP-SES off-site supervising department shall use Annex 7 and check boxes “B” and “C”. The authority to allow the withdrawal should be transmitted to TSG one (1) banking day before the date of withdrawal indicated in the advice (Annex 6) sent earlier by the FI.

The BSP-SES off-site supervising department shall also advise the FI that it has approved the withdrawal of security using Annex 8 and checking boxes “B” and “C”.

3. The TSG shall instruct the BTr within the same day to transfer the securities specified to be withdrawn from the PERA Administrator securities account to the RoSS account of the FI using Annex 9. The BTr shall acknowledge receipt of the confirmation of transfer of government securities (sans consideration).

4. The BTr shall effect the transfer/withdrawal and shall send a DSSA to TSG containing the transfer/withdrawal.

5. The TSG shall provide the appropriate BSP-SES off-site supervising department a copy of the DSSA.

6. The responsible BSP-SES off-site supervising department shall verify from the DSSA the transfer of securities indicated in the advice (Annex 6) sent earlier by the FI.

7. The above procedures shall also be observed in withdrawing and replacing existing and/or maturing/matured RoSS securities.

D. Procedures for Replacing RoSS Securities

1. The FI shall notify the appropriate BSP-SES off-site supervising department that it will replace existing and/or maturing/matured RoSS securities assigned as security for the faithful performance of PERA Administrator at least two (2) banking days before the date of replacement using the prescribed form (Annex 3). The FI shall check box “C” of the form and indicate the details of the securities to be replaced. The notice shall be accompanied by a computation of compliance with security requirement and certification required under B.1.

2. The responsible BSP-SES off-site supervising department shall verify if the securities to be replaced are in the PERA Administrator securities and the value of the outstanding securities remains compliant with the security requirement after the replacement. The department concerned shall immediately inform the FI for any discrepancy/deficiency.

3. The procedures for assigning additional RoSS securities specified in sections B.2 to B.5 of this Appendix shall herein apply.

4. The BSP-SES off-site supervising department shall use Annex 7 and check boxes “A” and “C”. Should there be any discrepancy/deficiency, the BSP-SES off-site supervising department shall immediately inform the FI. The authority to allow the replacement shall be transmitted to TSG not later than the day when the replacement securities were transferred to the PERA Administrator securities account.

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The BSP-SES off-site supervising department shall also advise the FI that it has approved the replacement of security by using Annex 8 and checking boxes “A” and “B”.

5. The procedures for withdrawing RoSS securities specified in sections C.3 to C.6 of this Appendix shall herein apply.

E. Procedures for Crediting Interest and Maturity Proceeds of Securities

1. On coupon or interest payment date, the BTr shall instruct BSP-FAD to credit the DDA of the FI or its designated settlement bank for coupon/interest payment of securities held in the PERA Administrator securities account.

2. On maturity date, the BTr shall instruct BSP-FAD to credit the DDA of the

FI or its designated settlement bank for maturity proceeds of securities held in PERA Administrator securities account.

3. The appropriate BSP-SES off-site supervising department shall determine if the value of the outstanding securities remains compliant with the security requirement after the maturity of securities. The department concerned shall immediately inform the FI for any discrepancy/deficiency.

4. When the value of security falls below the required level, the FI shall instruct the BTr to transfer securities from the FI’s own RoSS account to its PERA Administrator securities account under the BSP-PERA RoSS principal securities account. The procedures specified in sections B.1 to B.5 of this Appendix shall herein apply.

(Circular No. 879 dated 22 May 2015)

SUPERVISION AND EXAMINATION SECTOR

_____(Date)_____

Treasurer of the Philippines
Bureau of the Treasury
Cabildo Street corner
A. Soriano Avenue and
Sto. Tomas Street,
Intramuros, Manila

Attention: Registry of Scripless Securities (RoSS)

Dear _____:

The Supervision and Examination Sector of the Bangko Sentral ng Pilipinas hereby makes an application to open a Principal Securities Account in the Registry of Scripless Securities (RoSS) to hold government securities earmarked in favor of the BSP as security for the faithful performance by PERA Administrators of their duties set forth in the Personal Equity and Retirement Account (PERA) Act of 2008 (BSP-PERA).

We understand that the Bureau of the Treasury shall maintain the Principal Securities Account of BSP-PERA for free.

Very truly yours,

Deputy Governor

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Annex 1-A

SUPERVISION AND EXAMINATION SECTOR

(Date)

Treasurer of the Philippines
Bureau of the Treasury
Cabildo Street corner
A. Soriano Avenue and
Sto. Tomas Street,
Intramuros, Manila

Attention: Registry of Scripless Securities (RoSS)

Dear Ms. _____:

In connection with the BSP-PERA Principal Secuirities Account of the Bangko Sentral ng Pilipinas-Supervision and Examination Sector in the Registry of Scripless Securities (RoSS), please open PERA Administrator Securities Account for the following trust entities/banks so we can MONITOR the security for the faithful performance of their duties set forth in the Personal Equity and Retirement Account (PERA) Act of 2008.

Please note that the settlement bank of the ENTITY, if it is required, is also indicated.

Name of Trust Entity/Bank	Name of Settlement Bank, where required
1. _____	_____
2. _____	_____
3. _____	_____

We understand that the Bureau of the Treasury will maintain the PERA Administrator Securities Account for (AMOUNT) per month per account.

Very truly yours,

Authorized Signatory

To be used by an FI with own demand deposit account for BSP-FAD

Letterhead of Financial Institution

AUTODEBIT/AUTOCREDIT AUTHORIZATION

The (Name of Financial Institution) hereby authorizes the Bureau of the Treasury (BTr) and the Bangko Sentral ng Pilipinas (BSP) to debit/credit our demand deposit account (DDA) with BSP-Financial Accounting Department for coupons/interest payment of our securities held in our RoSS accounts; and to settle the payment of monthly maintenance fees to the BTr in our PERA Administrator Securities Account. We also authorize the BTr and the BSP to credit our DDA with BSP-Financial Accounting Department for the redemption proceeds of our securities in the event such securities mature while in our RoSS account.

This authorization will take effect on (indicate date) .

(Authorized Signatory)

To be used by an FI with settlement arrangement with a bank

Letterhead of Financial Institution

AUTO DEBIT/AUTOCREDIT AUTHORIZATION

The (Name of Settlement Bank) for the account of (Name of Financial Institution) hereby authorizes the Bureau of the Treasury (BTr) and the Bangko Sentral ng Pilipinas (BSP) to debit/credit our demand deposit account (DDA) with BSP-Financial Accounting Department for coupons/interest payment of securities of (Name of Financial Institution) in its designated RoSS account; for maturing securities of the (Name of Financial Institution) held in its designated RoSS account with the BTr; and to settle the payment of monthly maintenance fees to the BTr of our PERA Administrator Securities Account.

The (Name of Financial Institution) also authorizes the BTr and the BSP to credit the account of the settlement bank with BSP-Financial Accounting Department for the redemption proceeds of our securities in the event such securities mature while in our RoSS account.

This authorization will take effect on (indicate date) .

(Authorized Signatory of
Settlement Bank)

(Authorized Signatory of
Financial Institution)

Letterhead of Financial Institution

Date:

The Director
Name of Off-site Supervising Department
Bangko Sentral ng Pilipinas
A. Mabini St., Manila

Dear Sir:

We are transferring on (indicate date of transfer) the following securities to our PERA Administrator Securities Account as our security for the faithful performance of PERA Administrator pursuant to Republic Act No. 9505 also known as the Personal Equity and Retirement Account (PERA) Act of 2008 and its implementing rules and regulations.

Type	ISIN	Purchase Date	Issue Date	Due Date	Remaining Tenor ¹ /	Face Amount	Purchase Price
------	------	------------------	------------	----------	-----------------------------------	----------------	-------------------

We are transferring the above securities:

- a. ☐ As our initial security
b. ☐ As an additional security
c. ☐ To replace the following security/ies which we earmarked on (date).

Type	ISIN	Purchase Date	Issue Date	Due Date	Remaining Tenor ¹	Face Amount	Purchase Price
------	------	------------------	------------	----------	---------------------------------	----------------	-------------------

- d. ☐ To replace matured securities the redemption value of which P is credited to deposit account or that of our settlement bank with BSP-Financial Accounting Department.

Very truly yours,

Name and Designation of Authorized Signatory

¹ Reckoned from actual date of transfer/withdrawal.

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Annex 4

Name of Financial Institution
Computation of Security for the Faithful Performance
of PERA Administrator
As of (date)

FOR THE QUARTER ENDED (Date)				
	1st Month	2nd Month	3rd Month	Average
A. COMPUTATION OF AVERAGE BALANCES				
1 Securitied Held by the PERA Administrator	P _____ -	P _____ -	P _____ -	P _____ -
B. SECURITY REQUIREMENT				
	<u>Book Value</u>			
1 Security Requirement (1% of A.1 (Ave.) above	_____ -			
As of (<u>Transaction date</u>) ¹				
2 Inventory of Outstanding Securities held by the PERA Administrator (Beginning Balance) (Face Value P ____ million)	-			
3 Add (Subtract) Securities earmarked (matured/replaced) (Face Value P ____ million)	-			
4 Outstanding Securities held by the PERA Administrator (Ending Balance) (Face Value P ____ million)	P _____ -			
5 EXCESS (DEFICIENCY)	P _____ -			

¹ For multiple transaction dates, the FI shall provide separate calculation of Annex 4-A for each specific and relevant dates.

Name of Financial Institution												
SECURITIES FOR THE FAITHFUL PERFORMANCE OF PERA ADMINISTRATOR												
UNDER REGISTRY OF SCRIPLESS SECURITIES (RoSS)												
As of (Transaction Date)												
	A	B	C	D	E	F	G	H	J	K	L	M
						E-C		F-G	A-B		J-K	A-L
ISIN	SECURITY/IES (At Face Value)	SECURITY/IES (At Acquisition Cost)	PURCHASE DATE	ISSUE DATE	MATURITY DATE	Original No. of days	REMAINING TENOR TO DATE	NO. OF DAYS DISCOUNT/ (PREMIUM) EARNED	AMOUNT OF DISCOUNT/ (PREMIUM)	AMOUNT OF AMORTIZED DISCOUNT/ (PREMIUM)	REMAINING AMOUNT OF DISCOUNT (PREMIUM)	Book Value
--	--	--	--	--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--	--	--	--	--
<hr/>												
1 Outstanding Gov't Securities (Beginning Balance)												
<hr/>												
2 Add: Securities on (date)												
--	--	--	--	--	--	--	--	--	--	--	--	--
Subtotal	--	--										
<hr/>												
3 Less: Measured/Replaced Securities on (date)												
--	--	--	--	--	--	--	--	--	--	--	--	--
Subtotal	--	--										
<hr/>												
4 Outstanding Gov't Securities (Ending Balance)												
	--	--										
<hr/>												

(NAME OF FINANCIAL INSTITUTION)

CERTIFICATION
(DATE)

Pursuant to the requirements of Appendix 34a of the Manual of Regulations for Banks,
I hereby certify the following:

- 1. The computation of security for the faithful performance of PERA Administrator and relevant
schedule of inventory of outstanding securities under RoSS are true and accurate; and
- 2. The effective interest rate method is being used in the amortization of relevant premium/
discount of securities in compliance with the Philippine accounting standards.

Authorized Officer/Signatory

Letterhead of Financial Institution

Date:

The Director
Name of Off-site Supervising Department
Bangko Sentral ng Pilipinas
A. Mabini St., Manila

Dear Sir:

We hereby advise you of our decision to withdraw on (indicate date of transfer) the following securities used as security for the faithful performance of PERA Administrator from our PERA Administrator Securities Account.

<u>Type</u>	<u>ISIN</u>	<u>Purchase Date</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Remaining Tenor¹</u>	<u>Face Amount</u>	<u>Purchase Price</u>
-------------	-------------	--------------------------	-------------------	-----------------	--	------------------------	---------------------------

Very truly yours,

Name and Designation of Authorized Signatory

¹ Reckoned from actual date of transfer/withdrawal.

MEMORANDUM

Name of Off-site Supervising Department

F o r : **The Head**
Trust Specialist Group

From : The Authorized Officer

Subject : Scripless Securities for the Faithful Performance of PERA Administrator

Date :

In connection with the request of (indicate name of Financial Institution) dated _____ to:

- a. ☐ Replace outstanding RoSS securities
- b. ☐ Withdraw RoSS securities

You are hereby authorized to:

- c. ☐ Instruct the Bureau of the Treasury to transfer the following securities to the RoSS Account of (Name of Financial Institution).

Type	ISIN	Purchase Date	Issue Date	Due Date	Remaining Tenor ¹	Face Amount	Purchase Price
------	------	------------------	------------	----------	---------------------------------	----------------	-------------------

Authorized Signatory

¹ Reckoned from actual date of transfer/withdrawal.

NAME OF OFF-SITE SUPERVISING DEPARTMENT

(Date)

(Name of Financial Institution)

(Address)

Subject: Scripless Securities for the Faithful Performance of PERA Administrator

Dear _____:

We are pleased to inform you that we have approved your request dated _____ to:

- a. ☐ Replace outstanding RoSS securities
- b. ☐ Withdraw RoSS securities

Accordingly, we have authorized the Trust Specialist Group to:

- d. ☐ Instruct the Bureau of the Treasury to transfer the following securities to your RoSS accounts

Very truly yours,

Authorized Signatory

TRUST SPECIALIST GROUP

Transaction No. _____
Value Date _____ 201x

The Director
Liability Management Service
The Bureau of the Treasury
Cabildo Street corner A. Soriano Avenue
and Sto. Tomas Street, Intramuros, Manila

Attention: Registry of Scripless Securities (RoSS)

Subject: RoSS Securities of PERA Administrator

CONFIRMATION OF TRANSFER OF GOVERNMENT
SECURITIES (GS) SANS CONSIDERATION

The Bangko Sentral ng Pilipinas - Supervision and Examination Sector, BSP-PERA, does hereby **CONFIRM** that it has **TRANSFERRED SANS CONSIDERATION** unto (Name of Financial Institution) the following described government security held by the Bureau of the Treasury under the Registry of Scripless Securities (RoSS) System.

Type/ISIN	Issue Date	Due Date	Face Amount	Purchase Price

(NAME OF AUTHORIZED SIGNATORY)
Designation

REGISTRY OF SCRIPLESS SECURITIES

This is to acknowledge receipt of the Confirmation of Transfer of Government Securities (Sans Consideration) of Bangko Sentral ng Pilipinas - Supervision and Examination Sector, BSP-PERA.

RoSS
Bureau of the Treasury

PROFORMA PAYMENT FORM
[Appendix to Subsec. X902.2 (2008 - X609.2)]

BANGKO SENTRAL NG PILIPINAS
Manila

(Name of Department/Office)

FOR -

The Director
Cash Department

Please issue OFFICIAL RECEIPT to _____ (name of payor) as payment of
_____ (nature of payment) and effect the following accounting entries:

Account Code	Account Title/Description Accountee Type/Code/Name	DR/CR	Amount
			P

Total Debit _____
Total Credit P _____

Approved by: _____
(Name of BSP Official/Position)

Date: _____

Received by: _____
Date: _____

Official Receipt No: _____
Date: _____

(As amended by Circular No. 662 dated 09 September 2009)

SUGGESTED GESTATION/GRACE PERIODS FOR
AGRICULTURE AND FISHERIES PROJECTS
(Appendix to Sec. X349)

PROJECT	GESTATION (Years)	SUGGESTED MAXIMUM GRACE PERIOD (Years)
A. Crops		
Abaca	4-6	5
Blackpepper	3-4	4
Cacao	4-6	5
Calamansi	4-6	6
Cashew	5	5
Coconut	7-8	7
Coffee	3-4	4
Durian	5-7	7
Lanzones	6-8	7
Mango	5-7	7
Mangosteen	6-8	7
Pomelo	5-7	7
Rambutan	6-7	5
Rubber	5-7	7
Palm Oil	4-6	7
Pili	6-8	7
Jackfruit /	5-7	7
Others ^a		
B. Livestock		will depend on the cash flow or type of project, up to a maximum of seven (7) years
C. Poultry		
D. Fisheries		

Note: Cash Flows/Cost and Return Analysis for these projects are available at the Agribusiness and Marketing Assistance Service, Department of Agriculture.

^{a/} Others - other crops/projects as may be determined by the Department of Agriculture through the Agricultural Credit Policy Council which may include industrial tree crops planted in private lands and used for intercropping purposes.

BASIC GUIDELINES IN ESTABLISHING DOMESTIC BANKS
(Appendix to Section X102)

A. THE APPLICATION PROCESS

PRE-APPROVAL

1. The application for authority to establish a bank shall be submitted to the Office of Supervisory Policy Development (OSPD) in two (2) copies.

2. The required papers/documents and other information in support of the
- application are, as follows:

a. Agreement to organize a bank.

b. For each individual Filipino/non-Filipino incorporators, subscribers, proposed directors and principal officers:

Requirements	Incorporators	Subscribers	Directors	Principal Officers
1. Biographical data	✓	✓	✓	✓
2. Evidence of citizenship	✓	✓	✓	✓
3. Evidence of financial capacity as of a date not earlier than ninety (90) days prior to the filing of application such as credit reports, bank deposits, investments, real estate owned, etc., accompanied by waiver of rights under R. A. No. 1405, as amended, for covered items	✓	✓		
4. Certified photocopies of Income Tax Returns (ITRs) for the last two (2) calendar years	✓	✓		
5. Clearances from the National Bureau of Investigation (NBI) and Bureau of Internal Revenue (BIR) as well as equivalent clearances from home country for non-Filipinos	✓	✓	✓	✓

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c. For corporate subscribers:

Requirements	Domestic		Foreign ¹	
	Bank	Non-bank	Bank ²	Non-bank
1. Board resolution authorizing the corporation to invest in such bank; and designating the person who will represent the corporation in connection therewith	✓	✓	✓	✓
2. Latest articles of incorporation and by-laws	✓	✓	✓	✓
3. Corporate background providing the following:		✓	✓	✓
a. date and place of incorporation;				
b. list of domestic and foreign branches, agencies, other offices, subsidiaries and affiliates and their location and line of business;				
c. range of products/services offered to their clients;				
d. Conglomerate structure/map where the corporate subscriber belongs; and				
e. Financial and commercial relationship with the Philippine government, local banks, business entities and residents, past and present				
4. Latest General Information Sheet filed with the Securities and Exchange Commission (SEC)	✓	✓		
5. List of all stockholders, including the corporation's ultimate beneficial owners, indicating the citizenship and the number, amount and percentage of the voting and non-voting shares held by them	✓	✓	✓	✓
6. Annual report with audited financial statements for the last two (2) years prior to the filing of application	✓	✓	✓	✓
7. Certified photocopies of ITRs for the last two (2) calendar/fiscal years	✓	✓		
8. BIR clearance	✓	✓		
9. Certification from the Board of Directors that it is compliant with the applicable conditions set forth in Sec. X376 and its subsections for the equity investment to the proposed bank	✓			
10. List of directors and principal officers including their citizenships	✓	✓	✓	✓

¹ For foreign corporate subscribers, Items "1", "2" and "11" should be duly consularized by the Philippine Consulate Officer or authorized officer of the Philippine Representative Office in the country of origin
² For Foreign bank subscriber other than those entering via R.A. No. 7721, as amended by R.A. No. 10641

Requirements	Domestic		Foreign ¹	
	Bank	Non-bank	Bank ²	Non-bank
11. Certification from home country supervisory authority that it has no objection to the investment in a bank in the Philippines, and it will provide the Bangko Sentral with relevant supervisory information on the foreign bank subscriber to the extent allowed under existing laws			✓	

- d. Corporate plan describing in meaningful details its business model, corporate strategy and economic justification for establishing the bank.
- e. Feasibility study to show viable business together with projected monthly financial statements for the first twelve (12) months of operations, using realistic assumptions consistent with the proposed business model and corporate strategy.
- f. Notarized Certification executed by each of the subscribers that the amount committed to pay the proposed paid-up capitalization in the bank was not derived from borrowings, unlawful activity or any money laundering activity.
3. The application shall be processed on a first-come, first-served basis: *Provided*, That all the required documents are complete and properly accomplished. The application fee shall be paid upon acceptance of application.
4. Prescribed application form, together with other forms, is available at the Bangko Sentral website³.

EVALUATION

Capital Requirements/Stockholdings

1. Banks to be established shall comply with the required minimum capital prescribed under Subsec. X111.1.
2. At least twenty-five percent (25%) of the total authorized capital stock shall be subscribed by the subscribers of the proposed bank, and at least twenty-five

- percent (25%) of such subscription shall be paid-up: *Provided*, That in no case shall the paid-up capital be less than the minimum required capital stated in Item "1" above.
3. The stockholdings in any bank shall be subject to the limits on stockholdings in a single bank and several banks as prescribed under Subsecs. X126.1 and 1127.1, respectively.
- Incorporators, Subscribers, Directors and Officers*
1. The incorporators, subscribers and proposed directors and officers must be persons of integrity and of good credit standing in the business community. The subscribers must have adequate financial strength to pay their proposed subscriptions in the bank.
2. The incorporators, subscribers and proposed directors and officers must not have been convicted of any crime involving moral turpitude, and unless otherwise allowed under the provisions of existing laws are not officers or employees of a government agency, instrumentality, department or office charged with the supervision of, or the granting of loans to banks.
3. A bank may be organized with not less than five (5) nor more than fifteen (15) incorporators.
4. The number and nationality of the members of the board of directors of the

¹ For foreign corporate subscribers, Items "1", "2" and "11" should be duly consularized by the Philippine Consulate Officer or authorized officer of the Philippine Representative Office in the country of origin

² For Foreign bank subscriber other than those entering via R.A. No. 7721, as amended by R.A. No. 10641

³ <http://www.bsp.gov.ph/downloads/Regulations/guidelines/guidelines%20for%20banks.pdf>

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bank shall be subject to the limits prescribed under Subsec. X141.1.

5. No appointive or elective public official, whether full-time or part-time shall at the same time serve as officer of a bank except in cases where such service is incident to financial assistance provided by the government or a government-owned or -controlled corporation (GOCC) to the bank or in cases allowed under existing laws.

6. The proposed directors and officers of the bank shall be subject to qualifications and other requirements under Secs. X141 and X142.

7. The disqualifications of directors and officers prescribed under Sec. X143 shall also apply.

POST APPROVAL

1. Within thirty (30) days from receipt of advice of approval by the Monetary Board of their application for authority to establish the bank, the organizers shall:

a. Submit the proposed articles of incorporation, by-laws and treasurer’s sworn statement in four (4) copies;

b. Deposit with any KB (for KBs and TBs) and any bank (for RBs) the initial paid-up capital of the proposed bank;

c. Pay the applicable license fee at the Bangko Sentral Cash Department, net of the previously paid application fee; and

d. Proof of inward remittance of capital, in the case of foreign subscribers.

2. Within sixty (60) days after the articles of incorporation and by-laws had been passed upon by the Office of the General Counsel and the corresponding certificates of authority to register had been issued, the organizers shall effect the filing of said documents with the SEC.

3. Within one year from receipt of advice of approval by the Monetary Board of their application for authority to establish the bank, the organizers shall:

a. Complete the establishment of the bank premises, with the minimum security measures under Subsec. X181.5 and the requirements under Batas Pambansa Blg. 344¹ and Republic Act No. 9994²;

b. Effect and complete the recruitment and hiring of officers and employees of the bank;

c. Attend the briefing on Bangko Sentral reportorial requirements conducted by the appropriate department of the Bangko Sentral together with the relevant officers of the bank;

d. Submit the following documentary requirements at least thirty (30) days before the scheduled start of operations:

(1) Proof of registration of articles of incorporation and by-laws with the SEC;

(2) Notarized Certification signed by all the directors stating that –

i. All the conditions of the approval to establish the proposed bank have been complied with;

ii. The manual of operations embodying the policies and operating procedures of each department/unit/office, covering all risk areas of the proposed bank have been prepared;

iii. The necessary bond policy on custodial officers and insurance policy on bank properties required to be insured have been obtained;

iv. All pre-operating requirements under existing laws and regulations, which include among others, (a) use of business name, (b) posting of schedule of banking days and hours, notice to depositors on clearing cut-off time, and disclosure statement on loan/ credit transaction, (c) Batas Pambansa Blg. 344 and Republic Act No. 9994; (d) minimum security measures; and (e) publication of consumer assistance management system have been complied with; and

v. No person who is the spouse or relative within the second degree of consanguinity

¹ An Act to Enhance the Mobility of Disabled Persons by Requiring Certain Buildings, Institutions, Establishments and Public Utilities to Install Facilities and Other Devices
² An Act Granting Additional Benefits and Privileges to Senior Citizens

or affinity will be appointed to any officership positions across the following functional categories in the bank: (a) decision making and senior management function, (b) treasury function, (c) recordkeeping and financial reporting function, (d) safekeeping of assets, (e) risk management function, (f) compliance function, and (g) internal audit function.

(3) Proof of compliance with all the pre-operating requirements under existing rules and regulations;

(4) List of principal and junior officers and their respective designations and salaries;

(5) Chart of organization;

(6) Contract of lease on bank's premises, if the same are to be leased;

(7) List of stockholders stating the number and percentage of voting stocks owned by them as well as their citizenships;

(8) Certification from the Philippine Deposit Insurance Corporation (PDIC) stating that the organizers have undergone a briefing on all of its requirements;

(9) Alien Employment Permit issued by the Department of Labor and Employment for foreign directors and officers; and

(10) Other documents/papers which may be required.

B. OPENING OF THE BANK FOR BUSINESS AFTER THE CERTIFICATE OF AUTHORITY TO OPERATE HAS BEEN ISSUED

C. START OF OPERATIONS

Within five (5) banking days after the start of operation, the bank shall-

1. Inform the Bangko Sentral of the first day of operation and the banking days and hours; and

2. Submit a statement of condition as of the first day of operation.

D. REVOCATION OF AUTHORITY TO ESTABLISH A BANK

The authority to establish a bank shall be automatically revoked if the bank is not organized and opened for business within one year after receipt by the organizers of the notice of approval by the Monetary Board of their application.

(As amended by Circular Nos. 930 dated 18 November 2016, 902 dated 15 February 2016 and 774 dated 16 November 2012)

RULES AND REGULATIONS FOR COOPERATIVE BANKS
(Appendix to Section X102)

Pursuant to Monetary Board Resolution No. 192 dated 11 February 2010, following are the revised rules and regulations governing the organization, membership, establishment, administration, activities, supervision and regulation of Cooperative Banks to implement the provisions of Chapter XII of Republic Act No. 9520 otherwise known as the Philippine Cooperative Code of 2008, which amends Republic Act No. 6938 otherwise known as the Cooperative Code of the Philippines.

Sec. 1 Statement of Policy. The Bangko Sentral is committed to developing a sound and vibrant cooperative banking sector to support the growth of rural economies and communities. Toward this end, these rules and regulations recognize the unique nature and character of Coop Banks while at the same time ensure that they are operating within a level playing field with other types of banks and thereby comply with banking laws, rules and regulations.

Sec. 2 Definition of Cooperative Banks
A Coop Bank is one organized for the primary purpose of providing a wide range of financial services to cooperatives and their members. It shall be organized only by cooperative organizations that are duly established and registered under the Philippine Cooperative Code of 2008 (R.A. No. 9520).

A *cooperative organization* is a duly registered association of persons with a common bond of interest, who have voluntarily joined together to achieve their social, economic and cultural needs and aspirations by making equitable contributions to the capital required patronizing their products and services and accepting a fair share of the risks and

benefits of the undertaking in accordance with universally-accepted cooperative principles.

For purposes of these regulations, a Cooperative Bank shall, likewise, be considered a cooperative that should be registered with the Cooperative Development Authority (CDA), subject to the requirements and requisite authorization of the Bangko Sentral.

Sec. 3 Registration, Application Procedures and Pre-Operating Requirements for Coop Banks

1. A prospective Coop Bank shall file its application for licensing as a bank with the Bangko Sentral, and upon approval, shall be registered with the CDA;
2. Duly registered cooperatives applying for authority to establish a Coop Bank shall submit the following documents to the appropriate department of the SES;
 - a. Certificate of registration or re-registration with the CDA;
 - b. Board resolution authorizing the investment of the cooperative to the Coop Bank;
 - c. Board resolution appointing/ designating the authorized representative of the cooperative to the Coop Bank. The authorized representative must either be the chairman, president or secretary of the cooperative;
 - d. Latest AFS of the cooperatives;
 - e. Articles of Cooperation, Treasurer’s Sworn Statement and By-Laws of the proposed Coop Bank in six (6) copies;
 - f. Certificate of Good Standing of each cooperative from the CDA;
 - g. Bio-data, accomplished in the prescribed form under oath and in triplicate, by each of the authorized representatives of

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the cooperative members, and proposed members of the board of directors and officers of the Coop Bank;

h. NBI/BIR clearances of the authorized representatives of the cooperative members and proposed members of the board of directors and officers of the Coop Bank;

i. Latest statement of assets and liabilities of authorized representatives which must be not earlier than ninety (90) days from date of application;

j. Projected monthly financial statements for the first three (3) years of operations which must be supported by the following:

1. reasonable assumptions;

2. plantilla of organization including the estimated salaries and allowances of the officers and employees, as well as the members of the board of directors;

3. schedule of proposed banking premises, furniture, fixtures and equipment indicating their estimated cost; and

4. such other information as may be necessary.

k. Detailed plan of operations which should include the following minimum information:

1. marketing plan describing how the bank expects to generate viable and sustainable business;

2. description of how the bank will be organized and controlled internally to ensure that an appropriate system of corporate governance will be in place; and

3. adequate operational policies and procedures, internal control procedures and management expertise to operate the proposed bank in a safe and sound manner.

l. Economic justification. The economic justification for establishing the bank should provide information on the economic profile of the proposed area of operation, i.e., whether it is industrial, agricultural, etc., number of existing business establishments, population, expected

competition and such other relevant information.

3. A Coop Bank established under R.A. No. 9520 shall comply with the pre-operating requirements specified in Section 11, *Appendix 38*.

a. Within eight (8) months from receipt of advice of approval of the Monetary Board of its application, the proposed Coop Bank shall:

1. Complete the construction and furnishing of the bank building which shall be equipped with facilities, furniture, forms and stationery, and vault of reinforced concrete with a steel two (2)-hour fire resistant door and equipped with time delay device, in accordance with the specifications of the Bangko Sentral;

2. Effect and complete the training/seminar of directors, officers and employees of the Coop Bank; and

3. Inaugurate and open the Coop Bank for business.

b. At least thirty (30) days prior to the start of operations, the Coop Bank shall submit the following requirements

1. Certification of compliance with the conditions of approval of the applications duly signed by the cooperators;

2. Proof of registration of Articles of Cooperation, Treasurer's Sworn Statement and By-Laws of the Bank;

3. Certificate of deposits of the bank's paid-in capital;

4. Request for ocular inspection of the bank premises at least thirty (30) days before the scheduled date of operations;

5. Certificates of training/seminar of officers and employees;

6. Certificates of attendance of the special seminar for members of the board of directors conducted or accredited by the Bangko Sentral;

7. List of principal and junior officers and their respective designations and salaries;

- 8. Bio-data sheets, NBI/BIR clearances, ITRs for the last two (2) years of directors/officers who have not had the previous approval of the Monetary Board, for evaluation of their qualifications prior to their appointment;
- 9. Chart of organization. The chart should show the names of departments/units/offices with their respective functions and responsibilities, and the designations of positions in each department/unit/office with their respective duties and responsibilities. The internal organization should provide for a management structure with clear accountability, a board of directors with ability to provide independent check on management and independent audit and compliance functions, and should follow the “four eyes” principle, i.e., segregation of various functions, cross checking, dual control of assets, double signatures;
- 10. Manual of Operations embodying the policies and operating procedures of each department/unit/office covering such areas as signing/delegated authorities;
- 11. Two (2) sets of specimens of principal bank accounting and other forms;
- 12. Blueprint of floor layout of bank premises;
- 13. Contract of lease on bank’s premises, if the same are to be leased;
- 14. Insurance coverage of bank properties;
- 15. Fidelity bonds of accountable officers;
- 16. Excerpts of the minutes of the organizational meetings confirming all organizational and pre-opening transactions relative to activities undertaken to prepare the bank to operate (such as appointment of officers, contract of lease, etc.);
- 17. An alphabetical list of stockholders with the number and percentage of voting stocks owned by them;
- 18. A separate list containing the names of persons who own voting stocks in banks

- and who are related to each other within the 3rd degree of consanguinity or affinity, with proper indication of the combined percentage of voting stocks held by them in the particular bank, as well as corporations which are wholly-owned or a majority of the stock of which is owned by any of such persons, including their wholly or majority-owned subsidiaries;
- 19. Certification by the president or officer of equivalent rank that no person who is the spouse or relative within the 2nd degree of consanguinity or affinity of any person holding the position of chairman, president, executive vice president or any position of equivalent rank, general manager, treasurer, chief cashier or chief accountant will be appointed to any of said positions in the bank;
 - 20. Appointment of an officer of the proposed bank who shall have undergone orientation on the reportorial requirements with the Bangko Sentral and a certification by the manager that he is fully aware of said reportorial requirements and the respective deadlines for submission to the Bangko Sentral;
 - 21. A certification by the PDIC that the organizers had already been briefed on all of its requirements for newly established banks; and
 - 22. Other documents/papers which may be required.
- Sec. 4 Capital Requirements.** Coop Banks that will be established under R.A. No. 9520 shall comply with the minimum paid in capital provided in Subsec. X111.1.
- No cooperative member shall own or control more than forty percent (40%) of the total capital contributions of a Coop Bank. This limitation shall also apply to cooperatives purchasing government-held preferred shares of Coop Banks which are converted into common shares.
- Coop Banks shall issue par value shares only.

Sec. 5 Members of the Board of Directors, Officers, Quorum and Voting Rights

- 1. The definition, qualifications, responsibilities and duties of the Board of Directors and Officers that are generally applicable to all banks under Secs. X141 to X143 shall also apply to Coop Banks.
- 2. Coop Banks shall, likewise, comply with the following regulations on the minimum qualification requirements of the members of its Board of Directors and Officers:
 - a. At least one (1) member of the Board of Directors of a Coop Bank shall have a one (1) year experience in banking; and
 - b. The manager of a Coop Bank must have actual banking experience (at least manager or assistant manager)
- 3. The quorum requirement for general assembly meetings, whether special or regular, shall be one-half plus one of the number of voting shares of all the members in good standing.

The quorum requirement for amendments of articles of cooperation and by-laws shall be three-fourths (3/4) of the number of voting shares of all the members with voting rights, present and constituting a quorum.
- 4. The voting rights of members shall be proportionate to the number of their paid-up shares. Existing Coop Banks shall amend their Articles of Cooperation to conform to this provision within a period of one (1) year from 06 March 2010.
- 5. In the meetings of the board of directors, whether special or regular, the quorum requirement shall be one-half plus one of all the members of the board of directors. Each director shall only have one vote.

Sec. 6 Membership in a Coop Bank
Membership in a Coop Bank shall either be regular or associate. Regular membership

- shall be limited to cooperative organizations which are holders of common shares of bank. Such common shares shall not be withdrawable but may be sold or transferred to qualified member cooperative organizations.
- Associate members are those that subscribe and hold preferred shares of the bank, the features of which shall be defined in the Articles of Cooperation. Associate members may include, but shall not be limited to, individual members of the bank’s member-primary cooperatives.
- In the case of Samahang Nayon (SN) and Municipal Katipunan ng mga Samahang Nayon (MKS_N) which held common shares of Coop Banks prior to the effectivity of R.A. No. 9520, they shall apply for conversion to full-fledged cooperatives in order to maintain their status as regular members of cooperative banks.
- Coop Banks shall inform their members SN and MKSN that they have to convert to full-fledged cooperatives within a period of one (1) year from 22 March 2009. If the SN or MKSN fails to do so, the Coop Bank concerned shall convert the common shares held by such associations to preferred shares. The conversion to full-fledged cooperatives and conversion of common shares to preferred shares shall both be reported to the Bangko Sentral within six (6) months from 06 March 2010.
- Sec. 7 Establishment of Coop Banks**
- 1. At least five (5) cooperatives may form a Coop Bank: *Provided*, That majority of the Coop Bank’s voting shares of stock shall be held by member-cooperatives located in the said province where the head office is located. The said majority requirement shall be maintained on an ongoing basis, except in meritorious cases as may be allowed by the Monetary Board.
 - 2. Only one (1) Coop Bank may be established in each province. However, an

additional Coop Bank may be established in the same province: *Provided*, That the additional Coop Bank may be located in a city or municipality other than the city or municipality where the first Coop Bank is located. The establishment of another Coop Bank will be authorized depending on the economic conditions of the province as may be determined by the Bangko Sentral.

The Articles of Cooperation and By-Laws of any Coop Bank, or any amendment thereto, shall be registered with the CDA only when accompanied by a certificate of authority issued by the Monetary Board, under its official seal.

Sec. 8 Establishment of Branches and Other Offices

The establishment of branches/extension offices/other banking offices by Coop Banks shall be governed by the provisions of Sec. X151 and its Subsections, as applicable.

Sec. 9 Powers, Functions and Allied Undertakings of Coop Banks

1. A Coop Bank shall primarily provide financial, banking and credit services to cooperatives and their members, although it may provide the same services to non-members or the general public.

2. The powers and functions of a Coop Bank shall be subject to such rules and regulations as may be promulgated by the Bangko Sentral. In addition to the powers granted to Coop banks under existing laws, any Coop Bank may perform any or all of the banking services offered by other types of banks, subject to prior approval of the Bangko Sentral.

Consistent with existing rules and regulations applicable to banks other than universal banks on limits on investments in the equities of financial allied undertakings under Sec. X378, a Coop Bank with existing investments in insurance companies,

including insurance cooperatives, shall not increase but may reduce and once reduced, shall not increase such equity holdings: *Provided*, That the entire equity holding shall be divested within a period of five (5) years from 06 March 2010.

Sec. 10 Privileges, Incentives and Assistance for Coop Banks. The Coop Banks shall be given the same privileges and incentives granted to RBs, TBs, KBs and UBs to rediscount notes with the Bangko Sentral, the Land Bank of the Philippines, and other government banks.

The foreclosure of mortgages covering loans granted by Coop Banks and execution of judgment thereon involving real properties levied upon by a sheriff shall be exempt from the publications in newspaper now required by law where the total amount of loan, excluding interest due and unpaid, does not exceed P250,000 or such amount as the Bangko Sentral may prescribed as may be warranted by prevailing economic conditions and by the nature and character of the Coop Banks. It shall be sufficient publication in such cases if the notices of foreclosure and execution of judgment are posted in conspicuous areas in the bank's premises, municipal hall, the municipal public market, the barangay hall and the barangay public market, if any, where the property mortgaged is situated during the period of sixty (60) days immediately preceding the public auction or execution of judgment and shall be attached to the records of the case.

Sec. 11 Applicability of Banking Laws With respect to the operations and governance of Coop Banks, the provisions of the banking laws, rules and regulations shall prevail, notwithstanding Section 71 of R.A. No. 8791, otherwise known as the General Banking Act of 2000.

(Circular No. 682 dated 15 February 2010, as amended by Circular Nos. 932 dated 16 December 2016, 917 dated 08 July 2016 and 774 dated 16 November 2012)

INSTRUCTIONS FOR DIRECTORS AND OFFICERS
OF PROPOSED COOPERATIVE BANKS

The term *officers* shall include the president, senior vice-president, vice president, manager, secretary, cashier, and others mentioned as officers of the bank, or those whose duties as such are defined in the by-laws, or are generally known to be the officers of the bank (or any of its branches and offices other than the head office) either thru announcement, representation, publication or any kind of communication made by the bank.

The term *directors* shall include: (1) directors who are named as such in the Articles of Cooperation; (2) directors duly elected in subsequent meetings of authorized representative of each cooperative-member, and (3) those elected to fill vacancies in the board of directors.

The following are the qualifications and disqualifications of directors and officers of Coop Banks:

1. Qualifications for directors. A director must have the following minimum qualifications:

- (a) He shall be at least twenty-five (25) years of age at the time of his election or appointment;
- (b) He shall be at least a college graduate or have at least five (5) years experience in business;
- (c) He must have attended a special seminar for board of directors conducted or accredited by the Bangko Sentral within a period of six (6) months from the date of his election; and
- (d) He must be fit and proper for the position of a director of the Coop Bank. In determining whether a person is fit and proper for the position of a director, the following matters must be considered:
 - integrity/probity;
 - competence;
 - education;

- diligence; and
- experience/training.

At least one (1) of the members of the board of directors must, in addition to the above-mentioned minimum qualifications, have at least one (1) year experience in banking.

The foregoing qualifications for directors shall be in addition to those already required or prescribed under existing laws.

2. Persons disqualified to become directors. Without prejudice to specific provisions of law prescribing disqualifications for directors, the following persons are disqualified from becoming directors:

(a) Permanently disqualified

Directors/officers/employees permanently disqualified by the Monetary Board from holding a director position:

- (1) Persons who have been convicted by final judgment of the court for offenses involving dishonesty or breach of trust such as estafa, embezzlement, extortion, forgery, malversation, swindling and theft;
- (2) Persons who have been convicted by final judgment of the court for violation of banking laws;
- (3) Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract; or
- (4) Directors, officers or employees of closed banks/QBs/trust entities who were responsible for such institution's closure as determined by the Monetary Board.

(b) Temporarily disqualified

Directors/officers/employees disqualified by the Monetary Board from holding a director position for a specific/ indefinite period of time. Included are:

- (1) Persons who refuse to fully disclose the extent of their business interest to the appropriate department of the SES when

required pursuant to a provision of law or of a circular, memorandum or 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, or any twelve (12) month period during said incumbency. This disqualification applies for purposes of the succeeding election;

(3) Persons who are delinquent in the payment of their obligations as defined hereunder:

(a) Delinquency in the payment of obligations means that an obligation of a person with a bank/QB/trust entity where he/she is a director or officer, or at least two (2) obligations with other banks/Fl, under different credit lines or loan contracts, are past due pursuant to Sec. X306 and Sec. 4306Q;

(b) Obligations shall include all borrowings from a bank/QB obtained by:

(i) A director or officer for his own account or as the representative or agent of others or where he/she acts as a guarantor, endorser, or surety for loans from such Fls;

(ii) The spouse or child under the parental authority of the director or officer;

(iii) Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director or officer;

(iv) A partnership of which a director or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and

(v) A corporation, association or firm wholly-owned or majority of the capital of which is owned by any or a group of persons mentioned in the foregoing Items "i", "ii" and "iv";

This disqualification shall be in effect as long as the delinquency persists.

(4) Persons convicted for offenses involving dishonesty, breach of trust or violation of banking laws but whose conviction has not yet become final and executory;

(5) Directors and officers of closed banks/QBs/trust entities pending their clearance by the Monetary Board;

(6) Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board on recommendation by the appropriate department of the SES of such directors' election/re-election;

(7) Directors who failed to attend the special seminar for board of directors required under Item "3" of Subsec. X141.2 or Subsec. 4141Q.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;

(9) Those under preventive suspension; or

(10) Persons with derogatory records with the NBI, court, police, Interpol and monetary authority (central bank) of other countries (for foreign directors and officers) involving violation of any law, rule or regulation of the government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duties of a bank/QB/trust entity director/officer. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity.

3. Qualification for officers

(a) He shall be at least twenty-one (21)

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years of age;

(b) He shall be at least a college graduate, or have at least five (5) years experience in banking or trust operations or related activities or in a field related to his position and responsibilities, or have undergone training in banking acceptable to the appropriate department of the SES; and

(c) He must be fit and proper for the position he is being proposed/appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered:

- integrity/probity;
- competence;
- education;
- diligence; and
- experience/training.

Any one of the president, chief operating officer or general manager of a national Coop Bank must, in addition to the abovementioned minimum qualifications, have at least two (2) years actual banking experience in a senior management capacity (head or assistant head) while the manager of a local Coop Bank must have actual banking experience (at least manager or assistant manager).

The foregoing qualifications for officers shall be in addition to those already required or prescribed under existing laws.

4. Persons disqualified to become officers. The grounds for disqualification for directors shall likewise apply to officers, except that stated in Items "2.b.2" and "2.b.7".

(a) Except as may be authorized by the Monetary Board or the Governor, the spouse or a relative within the second degree of consanguinity or affinity of any person holding the position of chairman, president, executive vice president or any position of equivalent rank, general manager, treasurer, chief cashier or chief accountant is disqualified from holding or being elected or appointed to any of said positions in the same bank; and the spouse

or relative within the second degree of consanguinity or affinity of any person holding the position of manager, cashier, or accountant of a branch or office of a bank is disqualified from holding or being appointed to any of said positions in the same branch or office.

(b) Any officer or employee of the CDA or any appointive or elective public official, except a barangay official;

(c) Except as may otherwise be allowed under C.A. No. 108, otherwise known as "The Anti-Dummy Law", as amended, foreigners cannot be officers or employees of a Coop Bank.

The foregoing disqualifications for officers shall be in addition to those already required or prescribed under existing laws.

5. Government officers and employees.

Any officer or employee of the CDA shall be disqualified to be elected or appointed to any position in a cooperative; and (2) elective officials of the government, except barangay officials, shall be ineligible to become officers and directors of cooperatives.

However, any government employee may, in the discharge of his duties as member in the cooperative, be allowed by the head office concerned to use official time for attendance at the general assembly, board and committee meetings of cooperatives as well as cooperative seminars, conferences, workshops, technical meetings, and training courses locally or aboard: *Provided*, That the operations of the office concerned are not adversely affected.

Unless otherwise provided, officers elected or appointed without possessing the qualifications or possessing any of the disqualifications as enumerated herein, shall vacate their respective positions immediately.

SETTLEMENT OF INTERBANK TRANSACTIONS VIS-À-VIS COVERING
RESERVE REQUIREMENT/DEFICIENCY OF BANKS’ DEMAND DEPOSIT
ACCOUNT WITH THE BANGKO SENTRAL
(Appendix to Subsec. X203)

Start Time	Agency Involved	Activities	Cut-off Time
Current Day			
9:00 AM	PCHC	Regular check clearing processing window	4:30 PM
9:00 AM	BSP-PSO	Start of PhilPaSS business hours	
		Beginning balances generated for PhilPaSS-DDA Regular window for same day interbank transactions Posting/Settlement of other DDA transactions (i.e. BTr and other Bangko Sentral departments) <ul style="list-style-type: none">• ATM transactions• Bangko Sentral ECWS transactions• Cash deposits with Bangko Sentral Head Office and Regional Offices/EFTIS• OFW remittances (under negotiation)• BTr-GS sale/purchase via DvP/PCHC-EPCS• PDS Settlement Highway for GS-eDvP• PDS Settlement Highway for USD sale/purchase (peso lag) via PvP• Interbank borrowings/Lending• E-Rediscounting	11:00 AM 12:00 noon 2:00 PM 3:00 PM 4:00 PM - do - 5:45 PM - do - - do -
10:00 AM	BSP-TD	Bangko Sentral Monetary Operations: <ul style="list-style-type: none">• TDF (bid submission at 9:30 AM)• Outright GS purchase and sale• OLF• ODF	10:30 AM 5:00 PM 5:15 PM 5:30 PM
10:00 AM	BSP-PSO	PhilPaSS settlement cut-off of Bangko Sentral TDF, Outright GS purchase and sale/OLF/ODF	5:45 PM
2:00 PM	BSP-TD	Bangko Sentral Monetary Operations - Overnight RRP (Bid submission at 1:30 PM)	2:30 PM
2:00 PM	BSP-PSO	PhilPaSS settlement cut-off of Bangko Sentral Overnight RRP	5:45 PM
4:30 PM	BSP-PSO	Posting of PCHC ECCS results	4:45 PM
4:45 PM	BSP-PSO	Interbank window for end-of-day liquidity/reserve position	5:45 PM
6:00 PM	BSP-PSO	PhilPaSS close of business	
6:00 PM	BSP-PSO	Release of final copy of PhilPaSS DDA balance via MT950 (end-of-day DDA balance before AM returns clearing) Release of notice to PCHC of the amount available for settlement of the bank’s clearing losses, if greater than DDA	6:30 PM
6:00 PM	PCHC	Receipt of Bangko Sentral notice of the amount available for settlement of the bank’s clearing losses, if greater than DDA	6:30 PM
Next Day (T + 1)			
2:00 AM	PCHC	Returned COCI receiving window	7:30 AM
7:30 AM	BSP-PSO	Posting/settlement of PCHC AM returns	
7:45 AM	BSP-PSO	Interbank window for losses in AM returns (back value T + 0)	7:45 AM

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Start Time	Agency Involved	Activities	Cut-off Time
Next Day (T + 1)			
8:00 AM	BSP-TD	Overnight Bangko Sentral-OLF window for losses in AM returns (back value T + 0) Bangko Sentral Monetary Operations on an extended end of day basis (back value T + 0) <ul style="list-style-type: none">• Overnight RRP (bid submission at 8:00 AM)• OLF• ODF	8:45 AM 8:45 AM 8:30 AM 8:30 AM
8:00 AM	BSP-PSO	PhilPaSS settlement cut-off Bangko Sentral Overnight RRP, OLF, ODF	9:00 AM
9:00 AM	BSP-PSO	DDA balances (T + 0) available on demand via <i>PhilPaSS</i> Participant Browser (PPB) Release of notice to PCHC of bank’s suspension in clearing	8:45 AM
9:00 AM	PCHC	Receipt of Bangko Sentral notice of bank’s suspension in clearing operations, if any	

List of Acronyms

- ATM - Automated Teller Machine
BTr - Bureau of the Treasury
DDA - Demand Deposit Account
DVP - Delivery versus Payment
ECCS - Electronic Cheque Clearing System
ECWS - Electronic Cash Withdrawal System
eDvP - Enhanced Delivery versus Payment
EPCS - Electronic Peso Clearing System
GS - Government Securities
ODF - Overnight Deposit Facility
OLF - Overnight Lending Facility
PDS - Philippine Dealing System
PvP - Payment versus Payment
RRP - Reverse Repurchase Agreement
TDF - Term Deposit Facility

(As amended by Circular Nos. 913 dated 02 June 2016, 705 dated 29 December 2010 and 681 dated 08 February 2010)

¹ The revised clearing and settlement process shall become effective as follows:

Clearing Exchanges	From	To
1.Integrated Greater Manila Local Exchanges (Integrated GM LX)	01 January 2011	24 January 2011
2.Regional Local Exchanges (RLX)	01 January 2011	01 July 2011

Provided, That for RLX, the extended deferral from 24 January 2011 to 01 July 2011 shall refer only to the provision on the mandatory return of checks drawn against insufficient funds or credit, checks drawn against closed accounts and/or checks with stop payment orders, (i.e., not later than 7:30 AM of the next clearing day following the original presentation to PCHC or RCC), subject to the condition that checks returned due to insufficiency of funds or credit shall no longer be allowed to be covered or funded after the day they were presented to PCHC or RCC

GUIDELINES GOVERNING THE REDISCOUNTING
OF HOUSING LOAN PAPERS OF QUALIFIED BANKS
UNDER HUDCC PROGRAM
(Appendix to Sec. X276)

Section 1. Statement of Policy. The Bangko Sentral, consistent with its primary objective of maintaining price stability under its charter (R.A. No. 7653), shall comply with its mandate under Section 11(c) of R.A. No. 7835 (Comprehensive and Integrated Shelter Financing Act) by providing short-term rediscounting facility to qualified banking institutions providing financing for socialized and low-cost housing.

Sec. 2 Criteria for Eligibility

- a. Eligible Banks
KBs, TBs and RBs/Coop Banks which are qualified to rediscount with the DLC, under existing rules and regulations, and with unused rediscounting ceiling at the time of application for rediscounting can avail themselves of this rediscounting facility.
- b. Eligible Housing Loan Paper
Housing loan papers for rediscounting under this facility shall satisfy the following requirements:
- (1) *Loan purpose and amount.* The loan shall be used for the construction of a house/acquisition of a house and lot. The amount of the loan shall not exceed ₱180,000.00 for socialized housing and ₱375,000.00 for economic housing, as prescribed under existing guidelines of the HUDCC for the implementation of various government housing programs, or in such other amounts which HUDCC may prescribe in the future for said housing loans.
- (2) *Loan limit.* The amount of the loan shall not exceed the amount of amortization covering principal payments due within one (1) year from date of rediscount, subject to

the terms and conditions discussed in Section 3.

(3) *Security.* The subject property shall be covered by a duly registered Real Estate Mortgage (REM) in favor of the rediscounting bank.

Sec. 3 Terms and Conditions of Rediscounting Availments

- a. Maximum Loan Value
Banks can obtain additional availments annually representing amortizations for the current year against the mortgaged property. However, total cumulative availments for a mortgaged property shall not exceed eighty percent (80%) of the collateral value.
- b. Interest Rate
The loan availment shall be assessed an interest rate equivalent to the prevailing rediscount rate at the date of rediscount: *Provided*, That the banks’ spread shall not exceed three percent (3%) per annum.
- c. Maturity
Rediscounting availments shall be due on demand but not beyond 360 days from date of rediscount.

Sec. 4 Sanctions. Non-remittance or delayed remittance within the allowable period of the corresponding loan value of collections on rediscounted notes shall be considered as sufficient ground for suspension of banks’ rediscounting privilege as follows:

First offense	-one (1) month suspension
Second offense	-two (2) months suspension
Third offense	-three (3) months suspension
Fourth offense	-permanent suspension

**MINIMUM CRITERIA FOR ACCREDITATION OF PARTICIPATING
FINANCIAL INSTITUTIONS IN GOVERNMENT BANKS
WHOLESALE LENDING PROGRAM**
(Appendix to Subsec. X303.8)

I. Accreditation Criteria

For accreditation purposes, PFIs shall initially be evaluated/appraised on the basis of the following pre-qualifying criteria:

1. The PFI shall submit a certification on the following:

a. Compliance with the prescribed minimum capital to risk assets ratio of ten percent (10%), minimum capitalization, legal and liquidity reserve requirements for deposit liabilities, deposit substitutes, common trust funds (CTFs) and Trust and Other Fiduciary Accounts (TOFA)-Others, liquidity floor requirement for government funds held, and ceilings on credit accommodations to directors, officers, stockholders and their related interests (DOSRI), for six (6) consecutive months prior to the filing of application for accreditation.

b. As of application date, the PFI has generally complied with the orders or instructions of the Monetary Board and/or BSP Management, more particularly:

(i) Set-up of the required general loan loss and specific provisioning requirements.; and

(ii) Correction of major violations and previous years' exceptions noted in the latest BSP examination.

c. The PFI has no past due obligations with the BSP or with any government financial institution.

d. The PFI's accounting records, systems, procedures and internal control systems are satisfactorily maintained.

2. Profitability

a. For PFIs operating for more than three (3) years as of date of filing of the application for accreditation - Operating

profitably for three (3) consecutive years prior to the filing of application for accreditation.

b. For PFIs operating for less than three (3) years as of date of filing of the application for accreditation - Operating profitably for two (2) consecutive years prior to the filing of application for accreditation.

3. Capital

Compliance with minimum capital accounts of P400.0 million or BSP required minimum capitalization applicable to the category where the PFI belongs, whichever is higher.

4. Non-performing loans ratio for six (6) consecutive months prior to the filing of application for accreditation shall not exceed the industry ratio which may be obtained from the SRSO of the BSP.

5. Ownership/Management

For PFIs operating for less than three (3) years as of date of filing of the application for accreditation –

a. Domestic bank owned by reputable individuals/institutions and managed by reputable and experienced bankers.

b. Philippine branch of a foreign bank carrying an international investment grade rating acceptable to the government bank with foreign bank's (Head Office/parent bank) unconditional and irrevocable guarantee on loan availments of Philippine branch or subsidiary.

II. Grant and Renewal of Credit Lines to Accredited PFIs

1. Government banks shall provide credit lines for a specified term to each accredited PFI based on the results of the quantitative and qualitative evaluation guidelines to be

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formulated in accordance with credit policies and procedures approved by the bank’s Board of Directors and/or as prescribed by the institutions, organizations or agencies which provide the funds.

2. PFIs shall be subject to quantitative and qualitative evaluation as well as the

accreditation criteria when applying for renewal of credit lines.

3. Government banks may suspend the release of funds to PFIs that failed to meet any of the quantitative and qualitative evaluation guidelines and/or the accreditation criteria.

DEED OF UNDERTAKING
FOR THE ISSUANCE OF REDEEMABLE PREFERRED SHARES
[Appendix to Subsec. X126.5a(3)(e)]

We, the majority of the members of the Board of Directors and key executive officers of _____, a banking corporation duly registered and organized under the laws of the Republic of the Philippines, with principal office and place of business at _____, by these presents do hereby obligate ourselves to undertake the following in the issuance of preferred stock:

1. That the issuance of preferred stock shall be in accordance with the terms and conditions of approval by the Bangko Sentral ng Pilipinas (BSP) and pertinent rules and regulations of the BSP and that of the Securities and Exchange Commission (SEC)/Cooperative Development Authority (CDA);
2. That any preferred shares so issued shall not be redeemed, retired, converted to any other kind of stocks or securities or paid back in cash or property without the prior approval of BSP in accordance with Subsections X126.5 and 3127.4 of the Manual of Regulations for Banks, Section 8, R.A. 7353 and other applicable regulations and banking laws;
3. That in no case shall the issuance of preferred shares be treated as similar to or as a substitute of other form of temporary investments of clients and depositors such as time deposits, savings deposits, money market placements or other form of investments subject to withdrawal;
4. That outstanding preferred shares may be redeemed or retired only if the shares redeemed or retired are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption or retirement: *Provided*, That no outstanding preferred share shall be redeemed within five (5) years from full payment of the subscription or issuance of stock certificate therefore;
5. That we, the undersigned, shall ensure that the above undertakings are strictly complied with and observed at all times by the management of the bank;
6. That non-compliance with this undertaking shall subject the directors/officers involved liable to such administrative sanctions as the Monetary Board may impose and such other sanctions as may be provided pursuant to Section 37 of R.A. 7653, without prejudice to the criminal sanctions under Section 36 of the same Act.

IN WITNESS WHEREOF, we have hereunto affix our signature on this _____ day of _____, 20__.

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Directors:	Officers:
_____	_____
_____	_____
_____	_____
_____	_____

REPUBLIC OF THE PHILIPPINES)
PROVINCE/CITY OF _____) S.S.

BEFORE ME, a Notary Public, for and in the Province/City of _____ this
_____ day of _____, 200_, personally appeared the herein named persons with
their Community Tax Receipts, known to me to be the same persons who executed the
foregoing instrument and acknowledged before me that the same is their own free and voluntary
act and deed.

Name	Comm. Tax Cert. No.	Date of Issue	Place of Issue
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the date and place
above written.

Notary Public
Until December 31, 20____
PTR No. _____
Issued at _____ on _____

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

**GUIDELINES TO GOVERN THE SELECTION, APPOINTMENT, REPORTING
REQUIREMENTS AND DELISTING OF EXTERNAL AUDITORS AND/OR
AUDITING FIRM OF COVERED ENTITIES**
[Appendix to Sec. X189 (2008 - X165) and Subsec. X162.3 (2008 - X169.3)]

Pursuant to Section 58 of the Republic Act No. 8791, otherwise known as "The General Banking Law of 2000", and the existing provisions of the executed Memorandum of Agreement (hereinafter referred to as the MOA) dated 12 August 2009, binding the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Professional Regulation Commission (IC) - Board of Accountancy (BOA) and the Insurance Commission (IC) for a simplified and synchronized accreditation requirements for external auditor and/or auditing firm, the Monetary Board, in its Resolution No. 950 dated 02 July 2009, approved the following revised rules and regulations that shall govern the selection and delisting by the Bangko Sentral of external auditors and auditing firms of covered institution which under special laws are subject to Bangko Sentral supervision.

A. STATEMENT OF POLICY

It is the policy of the Bangko Sentral 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 Bangko Sentral supervision, and to ensure reliance by Bangko Sentral and the public on the opinion of external auditors and auditing firms by prescribing the rules and regulations that shall govern the selection, appointment, reporting requirements and delisting for external auditors and auditing firms of said institutions, subject to the binding provisions and implementing regulations of the aforesaid MOA.

B. COVERED ENTITIES

The proposed amendment shall apply to the following supervised institution, as categorized below, and their external auditors:

1. *Category A*
 - a. UBs/KBs;
 - b. Foreign banks and branches or subsidiaries of foreign banks, regardless of unimpaired capital; and
 - c. Banks, trust department of qualified banks and other trust entities with additional derivatives authority, pursuant to Sec. X611 regardless of classification, category and capital position.
2. *Category B*
 - a. TBs;
 - b. QBs;
 - c. Trust department of qualified banks and other trust entities;
 - d. National Coop Banks; and
 - e. NBFIs with quasi-banking functions.
3. *Category C*
 - a. RBs;
 - b. NSSLAs;
 - c. Local Coop Banks; and
 - d. Pawnshops.

The above categories include their subsidiaries and affiliates engaged in allied activities and other FIs which are subject to Bangko Sentral risk-based and consolidated supervision: *Provided*, That an external auditor who has been selected by the Bangko Sentral to audit covered entities under *Category A* is automatically qualified to audit entities under *Category B* and *C* and if selected by the Bangko Sentral to audit covered entities under *Category B* is automatically qualified to audit entities under *Category C*.

C. DEFINITION OF TERMS

The following terms shall be defined as follows:

1. *Audit* – an examination of the financial statements of any issuer by an external auditor in compliance with the rules of the Bangko Sentral or the SEC in accordance with then applicable generally accepted auditing and accounting principles and standards, for the purpose of expressing an opinion on such statements.

2. *Non-audit services* – any professional services provided to the covered institution by an external auditor, other than those provided to a covered institution in connection with an audit or a review of the financial statements of said covered institution.

3. *Professional Standards* - includes: (a) accounting principles that are (1) established by the standard setting body; and (2) relevant to audit reports for particular issuers, or dealt with in the quality control system of a particular registered public accounting firm; and (b) auditing standards, standards for attestation engagements, quality control policies and procedures, ethical and competency standards, and independence standards that the Bangko Sentral or SEC determines (1) relate to the preparation or issuance of audit reports for issuers; and (2) are established or adopted by the Bangko Sentral or promulgated as SEC rules.

4. *Fraud* – an intentional act by one (1) or more individuals among management, employees, or third parties that results in a misrepresentation of financial statements, which will reduce the consolidated total assets of the company by five percent (5%). It may involve:

- a. Manipulation, falsification or alteration of records or documents;
- b. Misappropriation of assets;
- c. Suppression or omission of the effects of transactions from records or documents;

d. Recording of transactions without substance;

e. Intentional misapplication of accounting policies; or

f. Omission of material information.

5. *Error* - an intentional mistake in financial statements, which will reduce the consolidated total assets of the company by five percent (5%). It may involve:

a. Mathematical or clerical mistakes in the underlying records and accounting data;

b. Oversight or misinterpretation of facts; or

c. Unintentional misapplication of accounting policies.

6. *Gross negligence* - wanton or reckless disregard of the duty of due care in complying with generally accepted auditing standards.

7. *Material fact/information* - any fact/information that could result in a change in the market price or value of any of the issuer's securities, or would potentially affect the investment decision of an investor.

8. *Subsidiary* - a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by a bank, QB, trust entity or NSSLA.

9. *Affiliate* - a corporation, not more than fifty percent (50%) but not less than ten percent (10%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by a bank, QB, trust entity or NSSLA and a juridical person that is under common control with the bank, QB, trust entity or NSSLA.

10. *Control* - exists when the parent owns directly or indirectly more than one half of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control.

Control may also exist even when ownership is one half or less of the voting power of an enterprise when there is:

- a. Power over more than one half of the voting rights by virtue of an agreement with other stockholders;
- b. Power to govern the financial and operating policies of the enterprise under a statute or an agreement;
- c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- d. Power to cast the majority votes at meetings of the board of directors or equivalent governing body.

11. *External auditor* - means a single practitioner or a signing partner in an auditing firm.

12. *Auditing firm* – includes a proprietorship, partnership limited liability company, limited liability partnership, corporation (if any), or other legal entity, including any associated person of any of these entities, that is engaged in the practice of public accounting or preparing or issuing audit reports.

13. *Associate* – any director, officer, manager or any person occupying a similar status or performing similar functions in the audit firm including employees performing supervisory role in the auditing process.

14. *Partner* - all partners including those not performing audit engagements.

15. *Lead partner* – also referred to as engagement partner/partner-in-charge/managing partner who is responsible for signing the audit report on the consolidated financial statements of the audit client, and where relevant, the individual audit report of any entity whose financial statements form part of the consolidated financial statements.

16. *Concurring partner* - the partner who is responsible for reviewing the audit report.

17. *Auditor-in-charge* – refers to the team leader of the audit engagement.

D. GENERAL CONSIDERATION AND LIMITATIONS OF THE SELECTION PROCEDURES

1. Subject to mutual recognition provision of the MOA and as implemented in this regulation, only external auditors and auditing firms included in the list of Bangko Sentral selected external auditors and auditing firms shall be engaged by all the covered institutions detailed in Item "B". The external auditor and/or auditing firm to be hired shall also be in-charge of the audit of the entity's subsidiaries and affiliates engaged in allied activities: *Provided*, That the external auditor and/or auditing firm shall be changed or the lead and concurring partner shall be rotated every five (5) years or earlier: *Provided further*, That the rotation of the lead and concurring partner shall have an interval of at least two (2) years.

2. Category A covered entities which have engaged their respective external auditors and/or auditing firm for a consecutive period of five (5) years or more as of 18 September 2009 shall have a one (1)-year period from said date within which to either change their external auditors and/or auditing firm or to rotate the lead and/or concurring partner.

3. The selection of the external auditors and/or auditing firm does not exonerate the covered institution or said auditors from their responsibilities. Financial statements filed with the Bangko Sentral are still primarily the responsibility of the management of the reporting institution and accordingly, the fairness of the representations made therein is an implicit and integral part of the institution's responsibility. The independent certified public accountant's responsibility for the financial statements required to be filed with the Bangko Sentral is confined to the expression of his opinion, or lack thereof, on such statements which he has audited/ examined.

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4. The Bangko Sentral shall not be liable for any damage or loss that may arise from its selection of the external auditors and/or auditing firm to be engaged by banks for regular audit or non-audit services.

5. Pursuant to paragraph (5) of the MOA, SEC, Bangko Sentral and IC shall mutually recognize the accreditation granted by any of them for external auditors and firms of Group C or D companies under SEC, Category B and C under Bangko Sentral, and insurance brokers under IC. Once accredited/selected by any one (1) of them, the above-mentioned special requirements shall no longer be prescribed by the other regulators.

For corporations which are required to submit financial statements to different regulators and are not covered by the mutual recognition policy of this MOA, the following guidance shall be observed:

a. The external auditors of UBs which are listed in the Exchange, should be selected/accredited by both the Bangko Sentral and SEC, respectively; and

b. For insurance companies and banks that are not listed in the Exchange, their external auditors must each be selected/accredited by Bangko Sentral or IC, respectively. For purposes of submission to the SEC, the financial statements shall be at least audited by an external auditor registered/accredited with BOA.

This mutual recognition policy shall however be subject to the Bangko Sentral restriction that for banks and its subsidiary and affiliate bank, QBs, trust entities, NSSLAs, their subsidiaries and affiliates engaged in allied activities and other FIs which under special laws are subject to Bangko Sentral consolidated supervision, the individual and consolidated financial statements thereof shall be audited by only one (1) external auditor/auditing firm.

6. The selection of external auditors and/or auditing firm shall be valid for a

period of three (3) years. The SES shall make an annual assessment of the performance of external auditors and/or auditing firm and will recommend deletion from the list even prior to the three (3)-year renewal period, if based on assessment, the external auditors' report did not comply with Bangko Sentral requirements.

E. QUALIFICATION REQUIREMENT

The following qualification requirements are required to be met by the individual external auditor and the auditing firm at the time of application and on continuing basis, subject to Bangko Sentral's provisions on the delisting and suspension of accreditation:

1. Individual external auditor

a. General requirements

(1) The individual applicant must be primarily accredited by the BOA. The individual external auditor or partner in-charge of the auditing firm must have at least five (5) years of audit experience.

(2) Auditor's independence.

In addition to the basic screening procedures of BOA on evaluating auditor's independence, the following are required for Bangko Sentral purposes to be submitted in the form of notarized certification that:

(a) No external auditor may be engaged by any of the covered institutions under Item "B" hereof if he or any member of his immediate family had or has committed to acquire any direct or indirect financial interest in the concerned covered institution, or if his independence is considered impaired under the circumstances specified in the Code of Professional Ethics for CPAs. In case of a partnership, this limitation shall apply to the partners, associates and the auditor-in-charge of the engagement and members of their immediate family;

(b) The external auditor does not have/ shall not have outstanding loans or any credit accommodations or arranged for the extension of credit or to renew an extension of credit (except credit card obligations which are normally available to other credit

card holders and fully secured auto loans and housing loans which are not past due) with the covered institutions under Item "B" at the time of signing the engagement and during the engagement. In the case of partnership, this prohibition shall apply to the partners and the auditor-in-charge of the engagement; and

(c) It shall be unlawful for an external auditor to provide any audit service to a covered institution if the covered institution's CEO, CFO, Chief Accounting Officer (CAO), or comptroller was previously employed by the external auditor and participated in any capacity in the audit of the covered institution during the one-year preceding the date of the initiation of the audit;

(3) Individual applications as external auditor of entities under *Category A* above must have established adequate quality assurance procedures, such consultation policies and stringent quality control, to ensure full compliance with the accounting and regulatory requirements.

b. Specific requirements

(1) At the time of application, regardless of the covered institution, the external auditor shall have at least five (5) years experience in external audits;

(2) The audit experience above refers to experience required as an associate, partner, lead partner, concurring partner or auditor-in-charge; and

(3) At the time of application, the applicant must have the following track record:

(a) For *Category A*, he/she must have at least five (5) corporate clients with total assets of at least P50.0 million each.

(b) For *Category B*, he/she must have had at least three (3) corporate clients with total assets of at least P25.0 million each.

(c) For *Category C*, he/she must have had at least three (3) corporate clients with total assets of at least P5.0 million each;

2. Auditing firms

a. The auditing firm must be primarily accredited by the BOA and the name of the firm's applicant partner's should appear in the attachment to the certificate of accreditation issued by BOA. Additional partners of the firm shall be furnished by BOA to the concerned regulatory agencies (e.g. Bangko Sentral, SEC and IC) as addendum to the firm's accreditation by BOA.

b. Applicant firms to act as the external auditor of entities under *Category A* in Item "B" must have established adequate quality assurance procedures, such consultation policies and stringent quality control, to ensure full compliance with the accounting and regulatory requirements.

c. At the time of application, the applicant firm must have at least one (1) signing practitioner or partner who is already selected/accredited, or who is already qualified and is applying for selection by Bangko Sentral.

d. A registered accounting/auditing firm may engage in any non-auditing service for an audit client only if such service is approved in advance by the client's audit committee. Exemptions from the prohibitions may be granted by the Monetary Board on a case-by-case basis to the extent that such exemption is necessary or appropriate in the public interest. Such exemptions are subject to review by the Bangko Sentral.

e. At the time of application, the applicant firm must have the following track record:

(1) For *Category A*, the applicant firm must have had at least twenty (20) corporate clients with total assets of at least P50.0 million each;

(2) For *Category B*, the applicant firm must have had at least five (5) corporate clients with total assets of at least P20.0 million each;

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(3) For *Category C*, the applicant firm must have had at least five (5) corporate clients with total assets of at least P5.0 million each.

F. APPLICATION FOR AND/OR RENEWAL OF THE SELECTION OF INDIVIDUAL EXTERNAL AUDITOR

1. The initial application for Bangko Sentral selection shall be signed by the external auditor and shall be submitted to the appropriate department of the SES together with the following documents/information:

a. Copy of effective and valid BOA Certificate of Accreditation with the attached list of qualified partner/s of the firm;

b. A notarized undertaking of the external auditor that he is in compliance with the qualification requirements under Item "E" and that the external auditor shall keep an audit or review working papers for at least seven (7) years in sufficient detail to support the conclusion in the audit report and making them available to the Bangko Sentral's authorized representative/s when required to do so;

c. Copy of Audit Work Program which shall include assessment of the audited institution's compliance with Bangko Sentral rules and regulations, such as, but not limited to the following:

(1) capital adequacy ratio, as currently prescribed by the Bangko Sentral;

(2) AMLA framework;

(3) risk management system, particularly liquidity and market risks; and

(4) loans and other risk assets review and classification, as currently prescribed by the Bangko Sentral rules and regulations.

d. If the applicant will have clients falling under *Category A*, copy of the Quality Assurance Manual which, aside from the basic elements as required under the BOA basic quality assurance policies and procedures, specialized quality assurance procedures should be provided consisting

of, among other, review asset quality, adequacy of risk-based capital, risk management systems and corporate governance framework of the covered entities.

e. Copy of the latest AFS of the applicant's two (2) largest clients in terms of total assets.

2. Subject to Bangko Sentral's provision on early deletion from the list of selected external auditor, the selection may be renewed within two (2) months before the expiration of the three (3)-year effectivity of the selection upon submission of the written application for renewal to the appropriate department of the SES together with the following documents/information:

(a) copy of updated BOA Certificate of Accreditation with the attached list of qualified partner/s of the firm;

(b) notarized certification of the external auditor that he still possess all qualification required under Item "F.1.b" of this Appendix;

(c) list of corporate clients audited during the three (3)-year period of being selected as external auditor by Bangko Sentral. Such list shall likewise indicate the findings noted by the Bangko Sentral and other regulatory agencies on said AFS including the action thereon by the external auditor; and

(d) written proof that the auditor has attended or participated in trainings for at least thirty (30) hours in addition to the BOA's prescribed training hours. Such training shall be in subjects like international financial reporting standards, international standards of auditing, corporate governance, taxation, code of ethics, regulatory requirements of SEC, IC and Bangko Sentral or other government agencies, and other topics relevant to his practice, conducted by any professional organization or association duly recognized/accredited by the Bangko Sentral, SEC or by the BOA/PRC through a CPE Council which they may set up.

The application for initial or renewal accreditation of an external auditor shall be accomplished by a fee of P2,000.00.

G. APPLICATION FOR AND/OR RENEWAL OF THE SELECTION OF AUDITING FIRMS

1. The initial application shall be signed by the managing partner of the auditing firm and shall be submitted to the appropriate department of the SES together with the following documents/information:

a. copy of effective and valid BOA Certificate of Accreditation with attachment listing the names of qualified partners;

b. notarized certification that the firm is in compliance with the general qualification requirements under Item "E.2" and that the firm shall keep an audit or review working papers for at least seven (7) years insufficient detail to support the conclusions in the audit report and making them available to the Bangko Sentral's authorized representative/s when required to do so;

c. copy of audit work program which shall include assessment of the audited institution's compliance with Bangko Sentral rules and regulations, such as, but not limited to the following;

(1) capital adequacy ratio, as currently prescribed by the Bangko Sentral;

(2) AMLA framework;

(3) risk management system, particularly liquidity and market risks; and

(4) loans and other risk assets review and classification, as currently prescribed by the Bangko Sentral rules and regulations.

d. If the applicant firm will have clients falling under *Category A*, copy Quality Assurance Manual where, aside from the basic elements as required under the BOA basic quality assurance policies and procedures, specialized quality assurance procedures should be provided relative to, among others review asset

quality, adequacy of risk-based capital, risk management systems and corporate governance framework of covered entities;

e. Copy of the latest AFS of the applicant's two (2) largest clients in terms of total assets; and

f. Copy of firm's AFS for the immediately preceding two (2) years.

2. Subject to Bangko Sentral's provision on early deletion from the list of selected auditing firm, the selection may be renewed within two (2) months before the expiration of the three (3)-year effectivity of the selection upon submission of the written application for renewal to the appropriate department of the SES together with the following documents/information:

a. a copy of updated BOA Certificate of Registration with the attached list of qualified partner/s of the firm;

b. amendments on Quality Assurance Manual, inclusive of written explanation on such revision, if any; and

c. notarized certification that the firm is in compliance with the general qualification requirements under Item "G.1.b" hereof;

The application for initial or renewal accreditation of an auditing firm shall be accompanied by a fee of P5,000.00.

H. REPORTORIAL REQUIREMENTS

1. To enable the Bangko Sentral to take timely and appropriate remedial action, the external auditor and/or auditing firm must report to the Bangko Sentral within thirty (30) calendar days after discovery, the following cases:

a. Any material finding involving fraud or dishonesty (including cases that were resolved during the period of audit);

b. Any potential losses the aggregate of which amounts to at least one percent (1%) of the capital;

c. Any finding to the effect that the consolidated assets of the company, on a going concern basis, are no longer

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adequate to cover the total claims of creditors; and

d. Material internal control weaknesses which may lead to financial reporting problems.

2. The external auditor/auditing firm shall report directly to the Bangko Sentral within fifteen (15) calendar days from the occurrence of the following:

a. Termination or resignation as external auditor and stating the reason therefor;

b. Discovery of a material breach of laws or Bangko Sentral rules and regulations such as, but not limited to:

(1) CAR; and

(2) Loans and other risk assets review and classification.

c. Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.

3. In case there are no matters to report (e.g. fraud, dishonesty, breach of laws, etc.) the external auditor/auditing firm shall submit directly to Bangko Sentral within fifteen (15) calendar days after the closing of the audit engagement a notarized certification that there is none to report.

The management of the covered institutions, including its subsidiaries and affiliates, shall be informed of the adverse findings and the report of the external auditor/auditing firm to the Bangko Sentral shall include pertinent explanation and/or corrective action.

The management of the covered institutions, including its subsidiaries and affiliates, shall be given the opportunity to be present in the discussions between the BSP and the external auditor/auditing firm regarding the audit findings, except in circumstances where the external auditor believes that the entity’s management is involved in fraudulent conduct.

It is, however, understood that the accountability of an external auditor/auditing firm is based on matters within the

normal coverage of an audit conducted in accordance with generally accepted auditing standards and identified non-audit services.

**I. DELISTING AND SUSPENSION OF
SELECTED EXTERNAL AUDITOR/
AUDITING FIRM**

1. An external auditor’s duly selected pursuant to this regulation shall be suspended or delisted, in a manner provided under this regulation, under any of the following grounds:

a. Failure to submit the report under Item "H" of this Appendix or the required reports under Subsec. X190.1;

b. Continuous conduct of audit despite loss of independence as provided under Item "E.1" or contrary to the requirements under the Code of Professional Ethics;

c. Any willful misrepresentation in the following information/documents;

(1) application and renewal for accreditation;

(2) report required under Item "H"; and

(3) Notarized certification of the external auditor and/or auditing firm.

d. The BOA found that, after due notice and hearing, the external auditor committed an act discreditable to the profession as specified in the Code of Professional Ethics for CPAs. In this case, the BOA shall inform the Bangko Sentral of the results thereof;

e. Declaration of conviction by a competent court of a crime involving moral turpitude, fraud (as defined in the Revised Penal Code), or declaration of liability for violation of the banking laws, rules and regulation, the Corporation Code of the Philippines, the Securities Regulation Code (SRC); and the rules and regulations of concerned regulatory authorities;

f. Refusal for no valid reason, upon lawful order of the Bangko Sentral, to submit the requested documents in connection with an ongoing investigation. The external

auditor should however been made aware of such investigation;

g. Gross negligence in the conduct of audits which would result, among others, in non-compliance with generally accepted auditing standards in the Philippines or issuance of an unqualified opinion which is not supported with full compliance by the auditee with generally accepted accounting principles in the Philippines (GAAP). Such negligence shall be determined by the Bangko Sentral after proper investigation during which the external auditor shall be given due notice and hearing;

h. Conduct of any of the non-audit services enumerated under Item "E.1" for his statutory audit clients, if he has not undertaken the safeguards to reduce the threat to his independence; and

i. Failure to comply with the Philippine Auditing Standards and Philippine Auditing Practice Statements.

2. An auditing firms; accreditation shall be suspended or delisted, after due notice and hearing, for the following grounds:

a. Failure to submit the report under Item "H" or the required reports under Sec. X190.1.

b. Continuous conduct of audit despite loss of independence of the firm as provided under this regulation and under the Code of Professional Ethics;

c. Any willful misrepresentation in the following information/ documents;

(1) Application and renewal for accreditation;

(2) Report required under Item "H"; and

(3) Notarized certification of the managing partner of the firm.

d. Dissolution of the auditing firm/ partnership, as evidenced by an Affidavit of Dissolution submitted to the BOA, or

upon findings by the Bangko Sentral that the firm/partnership is dissolved. The accreditation of such firm/partnership shall however be reinstated by the Bangko Sentral upon showing that the said dissolution was solely for the purpose of admitting new partner/s have complied with the requirements of this regulation and thereafter shall be reorganized and re-registered;

e. There is a showing that the accreditation of the following number or percentage of external auditors, whichever is lesser, have been suspended or delisted for whatever reason, by the Bangko Sentral:

(1) at least ten (10) signing partners and currently employed selected/accredited external auditors, taken together; or

(2) such number of external auditors constituting fifty percent (50%) or more of the total number of the firm's signing partners and currently selected/accredited auditors, taken together.

f. The firm or any one (1) of its auditors has been involved in a major accounting/ auditing scam or scandal. The suspension or delisting of the said firm shall depend on the gravity of the offense or the impact of said scam or scandal on the investing public or the securities market, as may be determined by the Bangko Sentral;

g. The firm has failed reasonably to supervise an associated person and employed auditor, relating to the following:

(1) auditing or quality control standards, or otherwise, with a view to preventing violations of this regulations;

(2) provisions under SRC relating to preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto;

(3) the rules of the Bangko Sentral under this Appendix; or

(4) professional standards.

h. Refusal for no valid reason, upon order of the Bangko Sentral, to submit

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requested documents in connection with an ongoing investigation. The firm should however be made aware of such investigation.

3. Pursuant to paragraph 8 of the aforesaid MOA, the SEC, Bangko Sentral and IC shall inform BOA of any violation by an accredited/selected external auditor which may affect his/her accreditation status as a public practitioner. The imposition of sanction by BOA on an erring practitioner shall be without prejudice to the appropriate penalty that the SEC, IC or Bangko Sentral may assess or impose on such external auditor pursuant to their respective rules and regulations. In case of revocation of accreditation of a public practitioner by BOA, the accreditation by SEC, Bangko Sentral and IC shall likewise be automatically revoked/derecognized.

The SEC, Bangko Sentral and IC shall inform each other of any violation committed by an external auditor who is accredited/selected by any one (1) or all of them. Each agency shall undertake to respond on any referral or endorsement by another agency within ten (10) working days from receipt thereof.

4. Procedure and Effects of Delisting/Suspension.

a. An external auditor/auditing firm shall only be delisted upon prior notice to him/it and after giving him/it the opportunity to be heard and defend himself/itself by presenting witnesses/ evidence in his favor. Delisted external auditor and/or auditing firm may re-apply for Bangko Sentral selection after the period prescribed by the Monetary Board.

b. Bangko Sentral shall keep a record of its proceeding/investigation. Said proceedings/investigation shall not be public, unless otherwise ordered by the Monetary Board for good cause shown, with the consent of the parties to such proceedings.

c. A determination of the Monetary Board to impose a suspension or delisting under this section shall be supported by a clear statement setting forth the following:

(1) Each act or practice in which the selected/accredited external auditor or auditing firm, or associated entry, if applicable, has engaged or omitted to engage, or that forms a basis for all or part of such suspension/delisting;

(2) The specific provision/s of this regulation, the related SEC rules or professional standards which the Monetary Board determined as has been violated; and

(3) The imposed suspension or delisting, including a justification for either sanction and the period and other requirements specially required within which the delisted auditing firm or external auditor may apply for re-accreditation.

d. The suspension/delisting, including the sanctions/penalties provided in Sec. X189 shall only apply to:

(1) Intentional or knowing conduct, including reckless conduct, that results in violation or applicable statutory, regulatory or professional standards; or

(2) Repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory or professional standards.

e. No associate person or employed auditor of a selected/accredited auditing firm shall be deemed to have failed reasonably to supervise any other person for purpose of Item "1.2.g" above, if:

(1) There have been established in and for that firm procedures, and a system for applying such procedures, that comply with applicable rules of Bangko Sentral and that would reasonably be expected to prevent and detect any such violation by such associated person; and

(2) Such person or auditor has reasonably discharged the duties and obligations incumbent upon that person by

reason of such procedures and system, and had no reasonable cause to believe that such procedures and system were not being complied with.

f. The Bangko Sentral shall discipline any selected external auditor that is suspended or delisted from being associated with any selected auditing firm, or for any selected auditing firm that knew, or in the exercise or reasonable care should have known, of the suspension or delisting of any selected external auditor, to permit such association, without the consent of the Monetary Board.

g. The Bangko Sentral shall discipline any covered institution that knew or in the exercise of reasonable care should have known, of the suspension or delisting of its external auditor or auditing firm, without the consent of the Monetary Board.

h. The Bangko Sentral shall establish for appropriate cases an expedited procedure for consideration and determination of the question of the duration of stay of any such disciplinary action pending review of any disciplinary action of the Bangko Sentral under this Section.

J. SPECIFIC REVIEW

When warranted by supervisory concern, the Monetary Board may, at the expense of the covered institution require the external auditor and/or auditing firm to undertake a specific review of a particular aspect of the operations of these institutions. The report shall be submitted to the Bangko Sentral and the audited institution simultaneously, within thirty (30) calendar days after the conclusion of said review.

K. AUDIT BY THE BOARD OF DIRECTORS

Pursuant to Section 58 of RA. No. 8791, otherwise known as “The General Banking Law of 2000” the Monetary Board may also direct the board of directors of a covered institution or the individual members thereof, to conduct, either personally or by a committee created by the board, an annual balance sheet audit of the covered institution to review the internal audit and the internal control system of the concerned entity and to submit a report of such audit to the Monetary Board within thirty (30) calendar days after the conclusion thereof.

L. AUDIT ENGAGEMENT

Covered institutions shall submit the audit engagement contract between them, their subsidiaries and affiliates and the external auditor/auditing firm to the appropriate department of the SES within fifteen (15) calendar days from signing thereof. Said contract shall include the following provisions:

1. That the covered institution shall be responsible for keeping the auditor fully informed of existing and subsequent changes to prudential regulatory and statutory requirements of the Bangko Sentral and that both parties shall comply with said requirements;
2. That disclosure of information by the external auditor/auditing firm to the Bangko Sentral as required under Items “H” and “J” hereof, shall be allowed; and
3. That both parties shall comply with all the requirements under this Appendix.

(As amended by Circular No. 660 dated 25 August 2009)

IMPLEMENTING RULES AND REGULATIONS OF REPUBLIC
ACT NO. 6848 (THE ISLAMIC BANK CHARTER)
(Appendix to Sec. X101)

Pursuant to Section 43 of R.A. No. 6848, otherwise known as “The Charter of the Al-Amanah Islamic Investment Bank of the Philippines”, the Monetary Board, in its Resolution Nos. 161 and 244 dated 14 February and 6 March 1996, respectively, approved the following Implementing Rules and Regulations:

Sec. 1. Domicile and Place of Business

The principal domicile and place of business of the Al-Amanah Islamic Investment Bank of the Philippines, hereinafter called the Islamic Bank, shall be in Zamboanga City. It may establish branches, agencies or other offices at such places in the Philippines or abroad subject to applicable laws, rules and regulations of the *BSP*.

Sec. 2. Purpose and Basis

The primary purpose of the Islamic Bank shall be to promote and accelerate the socio-economic development of the Autonomous Region by performing banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on the Islamic concept of banking.

All business dealings and activities of the Islamic Bank shall be subject to the basic principles and rulings of Islamic *Shari’a* within the purview of the aforementioned declared policy. Any *zakat* or “tithe” paid by the Islamic Bank on behalf of its shareholders and depositors shall be considered as part of compliance by the Islamic bank with its obligation to appropriate said *zakat* fund and to disburse it in legitimate channels to be ascertained first by the *Shari’a* Advisory Council.

Sec. 3. Shari’a Advisory Council

The *Shari’a* Advisory Council of the Islamic Bank shall be composed of at least three (3) but not more than five (5) members, selected from among Islamic scholars and jurists of comparative law.

The members shall be elected at a general shareholders’ meeting of the Islamic Bank every three (3) years from a list of nominees prepared by the Board of Directors of the Islamic Bank. The Board is hereby authorized to select the members of the first *Shari’a* Advisory Council and to determine their remunerations.

Sec. 4. Functions of the Shari’a Advisory Council

The functions of the *Shari’a* Advisory Council shall be to offer advice and undertake reviews pertaining to the application of the principles and rulings of the Islamic *Shari’a* to the Islamic Bank’s transactions, but it shall not directly involve itself in the operations of the Bank.

Any member of the *Shari’a* Advisory Council may be invited to sit in the regular or special meetings of the Board of Directors of the Islamic Bank to expound his views on matters of the Islamic *Shari’a* affecting a particular transaction but he shall not be entitled to vote on the question presented before the board meetings.

Sec. 5. Islamic Bank’s Powers

The Al-Amanah Islamic Investment Bank of the Philippines, upon its organization, shall be a body corporate and shall have the power:

1. To prescribe its by-laws and its operating policies;
2. To adopt, alter and use a corporate seal;

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3. To make contracts, to sue and be sued;
4. To borrow money; to own real or personal property and to introduce improvements thereon, and to sell mortgage or otherwise dispose of the same;
5. To employ such officers and personnel, preferably from the qualified Muslim sector, as may be necessary to carry Islamic banking business;
6. To establish branches, agencies and correspondent offices in provinces and cities in the Philippines, particularly where Muslims are predominantly located, or in other areas in the country or abroad as may be necessary to carry on its Islamic banking business, subject to the rules and regulations of the *BSP*;
7. To perform the following banking services:
 - a. Open current or checking accounts;
 - b. Open savings accounts for safekeeping or custody with no participation in profit and losses unless otherwise authorized by the account holders to be invested;
 - c. Accept investment account placements and invest the same for a term with the IB's funds in Islamically permissible transactions on participation basis;
 - d. Accept foreign currency deposits from banks, companies, organizations and individuals, including foreign governments;
 - e. Buy and sell foreign exchange;
 - f. Act as correspondent of banks and institutions to handle remittances or any fund transfers;
 - g. Accept drafts and issue letters of credit or letters of guarantee, negotiable notes and bills of exchange and other evidence of indebtedness under the universally accepted Islamic financial instruments;
 - h. Act as collection agent insofar as the payment orders, bills of exchange or other commercial documents are exclusive of *riba* or interest prohibitions;
 - i. Provide financing with or without collateral by way of *Al-Ijarah* (leasing), *Al-Bai ul Takjiri* (sale and leaseback), or *Al-Murabahah* (cost-plus profit sales arrangement);
 - j. Handle storage operations for goods or commodity financing secured by warehouse receipts presented to the Bank;
 - k. Issue shares for the account of institutions and companies assisted by the Bank in meeting subscription calls or augmenting their capital and/or fund requirements as may be allowed by law;
 - l. Undertake various investments in all transactions allowed by the Islamic *Shari'a* in such a way that shall not permit the *haram* (forbidden), nor forbid the *halal* (permissible);
8. To act as an official depository of the government or its branches, subdivisions and instrumentalities and of government-owned or controlled corporations, particularly those doing business in the Autonomous Region;
9. To issue investment participation certificates, *muqaradah* (non-interest-bearing bonds), debentures, collaterals and/or the renewal or refinancing of the same, with the approval of the Monetary Board of the *BSP*, to be used by the Bank in its financing operations for projects that will promote the economic development primarily of the Autonomous Region;
10. To carry out financing and joint investment operations by way of *mudarabah* partnership, *musharaka* joint venture or by decreasing participation, *murabaha* purchasing for others on a cost-plus

financing arrangement, and to invest funds directly in various projects or through the use of funds whose owners desire to invest jointly with other resources available to the IB on a joint *mudarabah* basis;

11. To invest in the equity of allied undertakings, financial or non-financial, as well as in the equity of enterprises engaged in non-allied activities, as the Monetary Board has declared or may declare as appropriate from time to time, subject to the limitations and conditions provided for under the Manual of Regulaions for Banks and Other Financial Intermediaries - Book I (MRBOFI) ; and

12. To exercise the powers granted under R.A. No. 6848 and such incidental powers as may be necessary to carry on its business, and to exercise further the general powers mentioned in the Corporation Law and the General Banking Act, insofar as they are not inconsistent or incompatible with the provisions of R.A. No. 6848.

Sec. 6. Authorized Capital Stock

The authorized capital stock of the IB shall be P1.0 billion divided into 10.0 million common shares with par value of One hundred pesos (P100.00) each. All shares are nominative and indivisible. The subscription to and ownership of such shares, including the transfer thereof to third parties, shall be limited to persons and entities who subscribe to the concept of Islamic banking.

Sec. 7. Classification of Shares

The IB's authorized capital stock shall have the following classifications and features in relation to its Islamic banking operations:

1. Series "A" shares shall comprise 5.1 million shares equivalent to P510.0 million to be made available for subscription by the present stockholders of the Philippine

Amanah Bank namely: the National Government, and such other financial entities as it may designate.

2. Series "B" shares shall comprise nine hundred thousand (900,000) shares equivalent to P90.0 million to be made available for subscription by the Filipino individuals and institutions.
3. Series "C" shares shall comprise 4.0 million shares equivalent to P400.0 million to be made available for subscription by Filipino and foreign individuals and/or institutions or entities:

Any shareholders may exercise his preemptive right to consolidate ownership of the outstanding shares as hereinafter increased: *Provided*, That the common shares of the Philippine Amanah Bank which have been issued and outstanding shall form part of the increased capitalization of the IB, subject to the concurrence of the existing shareholders of the Philippine Amanah Bank.

The IB is authorized to reacquire its common shares that are held privately: *Provided*, That it has sufficient surplus and/or accumulated earnings for the purpose.

The IB may take the necessary steps to have its Series "B" shares listed in any duly registered stock exchange.

Sec. 8. Sale or Transfer of Shares

The IB shall make a report to the BSP whenever a change is about to take place in relation to the ownership or control of the Bank. The approval of the Monetary Board shall be required in the following changes.

1. Any proposal for the sale or disposal of its share or business, or other matters related thereto, which will result in a change of the control of management of the IB in the following cases:

- a. Any sale or transfer of ownership or control of more than twenty

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percent (20%) of the voting stock of the Bank to any person whether natural or juridical; and

- b. Any sale or transfer or a series of sales or transfers which will effect a change in the majority ownership or control of the voting stock of the Bank from one group of persons to another group.

2. Any scheme for reconstruction or for consolidation or merger, or otherwise, between the IB and any other company wherein the whole or any part of the undertaking of the property of the IB is to be transferred to another corporation.

3. Acquisition by foreign banking institutions, including their wholly- or majority-owned subsidiaries and their holding companies having majority holdings in such foreign banking institutions.

Sec. 9. Privatization

The IB may privatize its ownership. For this purpose, any limitation on the transfer of shares shall not be applicable with respect to the shareholdings of the National Government, SSS, GSIS, PNB and DBP. Transactions affecting the shares of stocks of the IB shall be subject to existing rules and regulations governing transfer of shares and ceilings on stockholdings, insofar as they are not in conflict with any provisions of R.A. No. 6848 and other pertinent laws, rules and regulations.

Sec. 10. Board of Arbitration

The Board of Directors of the IB, acting as an arbitrator, shall settle by the majority decision of its members any dispute between and among shareholders of the IB, whether individuals or entities, where such dispute arises from their relations as shareholders in the IB. The Board shall be bound in this respect to the procedures of laws on civil and commercial pleadings, except in regard to the basic principles of due process.

If the dispute is between the IB and any of the investors or the shareholders, a Board of Arbitration shall settle such dispute. In this case, the Board of Arbitration, consisting of three (3) members shall be formed by two (2) parties to the dispute within forty-five (45) days from receipt of written notice by either party to the dispute. The three (3) members shall be selected as follows: one (1) arbitrator from each party who shall then select a casting arbitrator as the third member of the board. The three (3) shall select one of them to preside over the Board of Arbitration. The selection by each party of its arbitrator shall be deemed as an acceptance of the arbitrator's decision and of its finality.

In the event that one of the two parties shall fail to select its arbitrator or in the case of non-agreement on the selection of the casting arbitrator or the presiding member of the Board of Arbitration within the period specified in the preceding paragraph, the matter shall be submitted to the *Shari'a* Advisory Council which shall select the arbitrator, the casting arbitrator or the presiding member, as the case may be.

The Board of Arbitration shall meet at the IB's principal office and shall set up the procedure of arbitration which it shall follow in hearing and deciding the dispute. The decision shall include the method of its execution and the party that shall incur the costs of arbitration. The final judgment shall be deposited with the Office of the Corporate Secretary of the Bank and the SEC.

The Board of Arbitration's decision shall, in all cases, be final and executory. It shall be valid for execution in the same manner as final judgments are effected under R.A. No. 876 otherwise known as the Arbitration Law.

Sec. 11. Incentives to Islamic Banking

Subject to the provisions of Section 72 of the New Central Bank Act, the

provisions of the Omnibus Investment Code on the basic rights and guarantees of investors are made applicable to the commercial operations of the IB in respect to repatriation or remittance of profits from investments, and to protection against nationalization, sequestrations, or expropriation proceedings. Any proceedings of judicial or administrative seizure may not be taken against the said property or investment except upon a final court judgment.

Sec. 12. Grants and Donations

The IB shall accept grants, donations, endowments, and subsidies, or funds and/or property offered by individuals and organization who may earmark such grants for a specific purpose or for such other purposes beneficial to the Muslim communities, without prejudice to the general objectives of the IB.

The financial statement and books of accounts of such funds shall be maintained separately but may be supplemented to the IB's balance sheet.

Under special circumstances in which the Board of Directors considers it advisable to promote or facilitate Islamic banking business and commercial operations, the IB may seek financing from governments, organizations, individuals or banks always without prejudice to the provisions of Section 43 of R.A. No. 6848.

Sec. 13. Non-Interest Bearing Placements

The IB is authorized to accept deposits from governments, banks, organizations or other entities and individuals from within the Philippines or abroad which shall form under any of the following non-interest bearing placements:

1. Savings accounts
2. Investment participation accounts
3. Current accounts and other deposit liabilities.

Any deposit received by the IB without authorization to invest shall be treated as current account and savings account, as the case may be, and may be withdrawn wholly or partly at any time, under the principle of *Al-Wadiah* (Safe Custody). The IB shall provide check books for its current account depositors and savings passbook for savings account depositors and other usual services connected therewith.

The IB, at its absolute discretion, may reward the customers for the use of their funds. The Board of Directors shall formulate rules and guidelines which should be consistent with the *Shari'a* principle, in the giving of rewards to the customers.

All deposits received with authorization to invest for a given period of time shall form part of the general pool of placements allocated for the investment portfolios of the IB and may be added to its working capital to be invested in any special projects or in general areas of investments or commercial operations of the Bank. These deposits shall be called as "Investment Participation Accounts" in which under the principle of *Al-Mudarabah*, the IB acts as the "entrepreneur" and the customers as the "Provider of Capital", and both shall agree through negotiation on the ratio of distribution of the profits generated from the investment of the funds. In the event of loss, the customers shall bear all the losses.

Sec. 14. Investment of Funds

The IB shall have the capacity of agent or attorney and shall act with full authority on behalf of the group of depositors in general in investing their commingled deposits without prejudice to the following sections and shall ensure a degree of liquidity to be determined by the Board of Directors to meet the current obligations of the IB including drawings from savings accounts and current accounts: *Provided*, That such degree of

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liquidity shall be subject to the reserve requirement as may be determined by the *BSP*. The Board of Directors shall determine the period for an investment participation account. Investment of funds shall be undertaken by the IB acting on behalf of the group of depositors or investors in selected areas of investment under such terms and conditions as the Board of Directors may determine by way of *mudarabah* or other forms of joint investment permitted by Islamic *Shari'a* principle.

Sec. 15. Return on Investment Funds

The depositors or investors in joint investment participation accounts shall be entitled to a portion of the return on investment according to the deposit balances and its period. The profits on participation account with authorization to invest in specific transaction shall be calculated on the same basis as on the capital funds invested as determined by the Board of Directors pursuant to Section 35 of R.A. No. 6848.

Sec. 16. Allocation of Resources

The IB may allocate part of its own investible funds or of the deposits on hand to finance investment projects and carry on its Islamic banking business directly or indirectly under its own supervision. For this purpose, it may create and finance investment companies or affiliates which shall manage investment projects on behalf of and under the supervision of the IB and for its own account.

The IB shall ascertain the viability and soundness of investment projects which it may directly supervise and those in which it may participate with part of its own funds, with the general pool of investors funds with authorization. The IB shall have the right to inspect and supervise the projects which it shall finance or in which it is the majority shareholder. The original capital and related profits shall be remitted in the same

currency it was originally contributed or in one of the convertible currencies, as the Board of Directors shall determine in accordance with R.A. No. 6848.

Sec. 17. Authorized Banking Services

The IB shall exercise all the powers enumerated under Section 6 of R.A. No. 6848 and perform all the services of a bank, except as otherwise prohibited by R.A. No. 6848: *Provided*, That no transactions with any customer, company, corporation or firm shall be permitted for discounts by the *BSP*.

Sec. 18. Acceptance of Government Funds

Pursuant to Sec. 6 (8) of R.A. No. 6848, the IB shall act as an official depository of the government or its branches, subdivisions and instrumentalities and of government-owned or controlled corporations, particularly those doing business in the autonomous region. Government funds placed with the IB shall be limited to working balances. All government deposits in excess of working balances shall be placed with the *BSP*.

Once privatized, acceptance by the IB of government funds or deposits shall be subject to existing laws and regulations governing the acceptance of such funds by private commercial banks which include prior Monetary Board approval.

The government deposits held by the IB shall be subject to reserve and liquidity floor requirements as the Monetary Board may prescribe.

Sec. 19. Authorized Commercial Operations

The IB may operate as an Investment House pursuant to Presidential Decree No. 129, as amended, and as a Venture Capital Corporation pursuant to Presidential Decree No. 1688, and by virtue thereof, carry on the following types of commercial operations:

1. The IB may have a direct interest as a shareholder, partner, owner or any other capacity in any commercial, industrial, agricultural, real estate or development project under *mudarabah* form of partnership or *musharaka* joint venture agreement or by decreasing participation, or otherwise invest under any of the various contemporary Islamic financing techniques or modes of investment for profit sharing.

2. The IB may carry on commercial operations for the purpose of realizing its investment banking objectives by establishing enterprises or financing existing enterprises, or otherwise by participating in any way with other companies, institutions or banks performing activities similar to its own or which may help accomplish its objectives in the Philippines or abroad, under any of the contemporary Islamic financing techniques or modes of investment for profit sharing; and

3) The IB may perform all business ventures and transactions as may be necessary to carry out the objectives of its charter within the framework of the IB's financial capabilities and technical considerations prescribed by law and convention: *Provided*, That these shall not involve any *riba* or other activities prohibited by the Islamic *Shari'a* principles.

The IB may likewise perform the functions of an investment house either directly or indirectly through a subsidiary investment house; in either case, the underwriting of equity securities and securities dealing shall be subject to pertinent laws and rules and regulations of the SEC: *Provided*, That the IB cannot perform such functions both directly and indirectly through a subsidiary: *Provided, further*, That if the investment house functions are performed directly by the IB, such functions shall be undertaken

by a separate and distinct department or other similar unit in the bank: *Provided, finally*, That if the bank avails of the option of exercising the powers of an investment house indirectly through its subsidiary investment house, it may not directly exercise the powers which are exclusively reserved to IHs.

Sec. 20. Employee Share Schemes

The Board of Directors may adopt an employee profit sharing scheme under any of the following ways:

1. Any arrangement under which the directors, officers and employees of the IB receive, in addition to their salaries and wages, a share, fixed beforehand, in the profits realized by the Bank or by its affiliate companies to which the profit sharing scheme relates; and

2. Any arrangement under which the IB facilitates the acquisition by its directors, officers and employees of common shares of stock either as share-incentives, share-bonus options, or any other share-saving schemes as the Board of Directors may determine.

No scheme shall be approved by the Board of Directors under this section unless it is satisfied that the participant in the profit sharing scheme is bound by a contract with the IB by virtue of which an appropriation of shares has been made for the purpose. The shares so purchased or appropriated shall be deposited in escrow with the Bank.

The Board of Directors of the IB shall then constitute the trustee of the approved scheme, whose functions with respect to the common shares held by them are regulated by Chapter VII of the General Banking Act and other pertinent laws. The terms of the approved scheme shall be prescribed by the Board of Directors and embodied in a deed of instrument.

The adoption of and any change in the employee profit sharing scheme shall

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be reported to the appropriate supervising and examining department of the *BSP* within thirty (30) calendar days from the date of approval.

Sec. 21. Investment Ceilings; Business Limits

The IB shall observe the following investment ceilings and business limits in its operations:

1. The aggregate credit facilities or any other liabilities of any customer of the IB shall not exceed at all times fifteen percent (15%) of the unimpaired capital and surplus of the Bank.

For purposes of determining compliance with this regulation, credit facilities shall refer to:

- a. Interbank Receivable
 - b. Financing and Investment
 - c. Trade Financing
 - d. Agrarian Reform/Other Agricultural Financing – P. D. No. 717
 - e. Bills Purchased
 - f. Customer's Liability on Bills/Drafts under Letters of Credit and/or Trust Receipts
 - g. Customer's Liability for this Bank's Acceptances Outstanding
 - h. Trading Account Securities – Financing
 - i. Underwriting Accounts – Debt Securities
 - j. Stand-by Letters of Credit
 - k. Such other facilities as may be determined by the Monetary Board
- Credit facilities granted by the IB to any other bank, as well as deposits maintained by it in any bank, shall be subject to the credit facility limit to any single borrower as herein prescribed.

2. The aggregate amount of investment portfolios for any single industry (following the major industry groupings in the 1977 Philippine Standard Industrial Classification) shall at no time exceed thirty percent (30%)

of the IB's investment capacity. Investment capacity shall mean the total unimpaired capital and surplus plus deposits and borrowings minus the investment in bank premises.

3. The IB shall not grant unsecured loans except *gardhasan* (benevolent loans). Such outstanding unsecured loans or credit accommodations which the IB may extend at any time without security or in respect of any advance, loan or credit facility made with the security wholly or partly whenever at any time it exceeds the aggregate market value of the assets constituting the security, shall be limited to fifty thousand pesos (P50,000.00) to any person, company, corporation or firm.

4. A credit facility granted to any person for the purpose of financing the acquisition of shares in any company, corporation or firm shall not exceed fifty percent (50%) of the appraised value of the shares at the time the credit facility is granted. Appraised value, in the case of listed shares, shall mean the weighted average price in the stock exchange. For unlisted shares, the appraised value shall mean the book value of the shares.

Sec. 22. Loans and Credit Facilities to Directors, Officers, Employees and Stockholders

1. *General Policy.* Except as otherwise provided in these regulations, the IB shall not directly or indirectly grant an advance, loan or credit facility to any of its directors, officers, employees or stockholders, or to any other person for whom any of them is a guarantor, or in any manner be an obligor for money granted by the IB.

2. *Direct Loans to Officers, Employees and Stockholders.* Whenever the IB is satisfied that special circumstances exist, a loan not exceeding at any one time an amount equivalent to six months remuneration, may be granted to an officer

or employee on such terms and conditions as the IB deems fit: *Provided, however,* That loans and advances to officers and employees in the form of fringe benefits granted in accordance with the rules and regulations prescribed under Section 1337 of the MRBOFI shall not be subject to the preceding limitation, nor to the ceiling on unsecured loans prescribed in Section 21.

The IB may extend credit facilities to stockholders owning two percent (2%) or more of the subscribed capital stock up to an amount equivalent to the outstanding deposits or the book value of his paid-in capital in the Bank, whichever is higher.

3. *Indirect Credit Facilities to Directors and Auditors.* No credit facility shall be granted by the IB to a company, corporation, partnership or firm wherein any member of the Board of Directors or auditors is a shareholder, partner, manager, agent or employee in any manner, except with the written approval of and by unanimous vote of not less than two-thirds of all the members of the Board of directors, excluding the director concerned: *Provided,* That the total liabilities of such company, corporation, partnership or firm to the IB shall be limited to the director's or auditor's outstanding deposits or the book value of his paid-in capital in the Bank, whichever is higher.

4. *Aggregate Ceiling.* Except with the prior approval of the Monetary Board, the total outstanding credit facilities of directors, officers, auditors and stockholders, whether direct or indirect, shall not exceed fifteen percent (15%) of the total credit facilities of the Bank or one hundred percent (100%) of combined capital accounts, net of deferred income tax and such unbooked valuation reserves and other capital

adjustments as may be required by the *BSP*, whichever is lower.

5. *Procedural Requirements.* The following provisions shall apply to direct loans to officers and indirect credit facilities to directors and auditors, allowed under these regulations.

- a. *Approval of the Board; when to obtain.* Direct loans to officers shall require the prior written approval of the majority of the directors.

Indirect loans to directors and auditors shall be allowed subject to the prior written approval, and by unanimous vote, of not less than two-thirds (2/3) of all the members of the Board of Directors, excluding the director concerned.

- b. *Approval by the Board; how manifested.* The approval as required in Item "a" above shall be manifested in a resolution passed by the Board of Directors duly assembled during a regular or special meeting for that purpose and made of record.
- c. *Determination of compliance with the required number of votes.* The determination of the majority or two-thirds (2/3) of the directors, excluding the directors concerned, shall be based on the total number of directors of the Bank as provided in its Charter and By-Laws.
- d. *Content of the resolution.* The resolution of the Board of Directors shall contain the following information:
 - (i) Name of the director, officer or auditor concerned and his relationship as regards the credit facility, such as principal, indorser, guarantor, etc.;
 - (ii) Nature of the loan or credit facility, purpose, amount, credit basis for such loan or credit facility,

security and appraisal thereof, maturity, schedule of repayment, and other terms of the loan or credit facility;

(iii) Date of the resolution;

(iv) Names of the directors who were present and who participated in the deliberations of the meeting;

(v) Names in print and signatures of the directors approving the resolution: *Provided*, That the corporate secretary may sign, under a power-of-attorney, in behalf of a director who was present in the board meeting and who approved such resolution, in instances where such signature is necessary to indicate that such resolution was approved by a majority or two-thirds of the directors; and

(vi) Such other information as may be required by the appropriate supervising and examining department of the *BSP*.

e. *Transmittal of copy of board approval; contents thereof.* A copy of the written approval of the Board of Directors, as herein required, shall be submitted to the appropriate supervising and examining department of the *BSP* within twenty (20) banking days from the date of approval. The copy may be a duplicate of the original, or a reproduction copy showing clearly the signatures of the approving directors: *Provided*, That if a reproduction copy is to be submitted, it shall contain on its face or reverse side a signed certification by the Secretary that it is a reproduction of the original written approval.

Sec. 23. Past Due Accounts

Accounts considered past due. The following shall be considered as past due:

1. Loans or receivables payable on demand – if not paid on the date indicated

on the demand letter, or within six (6) months from date of grant, whichever comes earlier;

2. Financing and investment accounts not paid at maturity/ expiry date or not paid in accordance with the terms of payment stipulated in the agreement/ contract;

3. Customers’ liability on drafts under LC/TR

a. Sight Bills – if dishonored upon presentment for payment or not paid within thirty (30) days from date of original entry, whichever comes earlier;

b. Usance Bills – if dishonored upon presentment for acceptance or not paid on due date, whichever comes earlier; and

c. Trust Receipts – if not paid on due date;

4. Bills and other negotiable instruments purchased – if dishonored upon presentment for acceptance/ payment or not paid on maturity date, whichever comes earlier: *Provided*, however, That an out-of-town check and a foreign check shall be considered as past due if outstanding for thirty (30) days and forty-five (45) days respectively, unless earlier dishonored;

5. Credit facilities or receivables payable in installments – the total outstanding balance thereof shall be considered past due in accordance with the following schedule:

<u>Mode of Payment</u>	<u>Minimum Number of Installments in Arrears</u>
Monthly	6
Quarterly	2
Semestraly	1
Annually	1

Provided, however, That when the total amount of arrearages reaches twenty percent (20%) of the total outstanding balance of the credit facility/receivable, the total outstanding balance of the credit

facility/receivable shall be considered as past due, notwithstanding the number of installments in arrears: *Provided, further,* That for modes of payment other than those listed above (e.g., daily, weekly or semi-monthly), the entire outstanding balance of the loan/receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10%) of the total receivable balance;

6. Credit card receivables – if the amount due is not paid within ten (10) days from the deadline indicated in the billing statement; and

7. All items in litigation as defined in the IB’s Manual of Accounts.

For the purpose of determining delinquency in the payment of obligations as a ground for disqualification of bank directors and officers, any due and unpaid loan/financing installment or portion thereof, from the time the obligor defaults, shall be considered as past due.

Sec. 24. Equity Investments

1. *Financial Allied Undertakings.* With prior approval of the Monetary Board, the IB may invest in the equity of the following financial allied undertakings:

- a. Leasing companies;
- b. Banks;
- c. Investment houses;
- d. Financing companies;
- e. Credit card operations;
- f. Financial institutions addressed/ catering to small and medium-scale industries;
- g. Companies engaged in stock brokerage/security dealership/ brokerage;
- h. Foreign exchange dealers/brokers; and
- i. Insurance companies

Provided, That any such undertaking is the primary purpose for which a particular enterprise was established and the volume of its business indicates that

it is principally engaged in such undertaking.

The equity investment of the IB in a single financial allied undertaking shall be, in relation to the total subscribed capital stock and in relation to the total voting stock of the allied undertaking, within the following ratios:

<u>Allied Undertaking</u>	<u>Limit</u>
KBs	- Up to 49%
TBs and RBs	- Up to 100%
Other financial allied undertakings	- Up to 100% without prejudice to the limitations prescribed in Subsec. 1378.1 (of the MRBOFI).

Provided, That the equity investment in an insurance company of the IB, any of its wholly or majority-owned subsidiaries, its directors, officers and stockholders owning two percent (2%) or more of the bank’s subscribed capital stock, shall not exceed fifty-one percent (51%) of the total subscribed capital stock and the total voting stock of such insurance company.

The equity investment of the IB in a bank pursuant to R.A. No. 7721 shall be governed by the rules and regulations implementing said law.

2. *Non-Financial Allied Undertakings.* The IB may invest in the equity of the following non-financial allied undertakings:

- a. Warehousing companies;
- b. Storage companies;
- c. Safe deposit box companies;
- d. Companies engaged in the management of mutual funds but not in the mutual funds themselves;
- e. Management corporations engaged or to be engaged in activity similar to the management of mutual funds;
- f. Companies engaged in the provision of computer services;
- g. Insurance agencies: *Provided,* That no director, officer or stockholder

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of the bank and their related interests hold/own more than twenty percent (20%) of the subscribed capital stock or equity of the insurance company for which the affiliates insurance acts as agent;

h. Companies engaged in home building and home development;

i. Companies providing drying and/or milling facilities for agricultural crops such as rice and corn;

j. Companies engaged in insurance brokerage: *Provided*, That no director, officer, stockholder of the IB or its related interests shall have financial interests in the insurance company/companies for which the affiliate insurance brokerage company acts as broker;

k. Bank service corporations all of the capital of which is owned by one or more banks and organized to perform for and in behalf of banks the following services:

- (i) data processing systems development and maintenance;
- (ii) deposit and withdrawal recording;
- (iii) computation and recording of interests, service charges, penalties and other fees;
- (iv) check-clearing processing, such as the transmission and receipt of check-clearing items/tapes to and from the *BSP*, collection and delivery of checks not included in the Philippine Clearing House System, as well as the recording of the same; and
- (v) printing and delivery of bank statements.

l. Clearing house companies such as the PCHC and the Philippine Central Depository, Inc.

Provided, further, That any such undertaking is the primary purpose for which a particular enterprise was established and the volume of its business indicates that it is principally engaged in such undertaking.

The IB may acquire up to one hundred percent (100%) of the equity of a non-financial allied undertaking. However, prior Monetary Board approval is required if the investment is in excess of forty percent (40%) of the total subscribed capital stock or forty percent (40%) of the total voting stock of such allied undertaking.

3. *Investments in Non-Allied or Non-Related Enterprises*. The broad category of undertakings in which the IB may invest in directly or through its wholly or majority-owned subsidiary shall be subject to prior approval of the Monetary Board. Investments shall be allowed in enterprises engaged in certain activities in agriculture, mining and quarrying, manufacturing, public utilities, construction, wholesale trade and community and social services following the industrial groupings in the 1977 Philippine Standard Industrial Classification (PSIC) as enumerated in Annex I of Subsection 1380.1 of the MRBOFI, as amended. Individual equity investment in undertakings within these enumerated activities shall not require prior approval: *Provided, however*, That within thirty (30) days after the investment, the Bank shall furnish the appropriate supervising and examining department of the *BSP* such relevant information on the investments made as amount invested, name of investee company, and nature of business, accompanied by such pertinent documents as Articles of Incorporation, Articles of Partnership or Registration Certificate, whichever may be applicable, and such other information which may be required: *Provided, further*, That said investment is within the limits and restrictions set forth in the succeeding paragraphs of this Section.

The equity investment of the IB or of its wholly or majority-owned subsidiary, in any single non-allied enterprise shall

not exceed thirty-five percent (35%) of the total subscribed capital stock nor shall it exceed thirty-five percent (35%) of the voting stock in the enterprise.

For the purpose of determining compliance with the ceiling prescribed in the preceding paragraph, (i) the equity investment of the Bank; (ii) the equity investment of the Bank's wholly or majority-owned subsidiaries; and (iii) the equity investment of directors, officers and stockholders owning two percent (2%) or more of the subscribed capital stock of the Bank or of the Bank's wholly or majority-owned subsidiaries, shall be combined.

In no case shall the total equity investments in a single non-allied enterprise of the IB, together with the investments of other expanded commercial banks, non-bank financial intermediaries performing quasi-banking functions, or their wholly or majority-owned subsidiaries, whether or not the parent financial intermediaries have equity investments in the enterprise, amount to fifty percent (50%) or more of the voting stock of that enterprise.

4. *Other Limitations and Restrictions on Equity Investments.* The following limitations and restrictions shall also apply regarding equity investments of the IB:

- a. The total equity investments of IB in any single enterprise, whether allied or non-allied, shall not at any time exceed fifteen percent (15%) of the Bank's net worth.
- b. The total amount of investment in equities made by the IB in all enterprises, whether allied or non-allied, shall not exceed fifty percent (50%) of its net worth.

5. *Investments Abroad.* The ceiling provided for in the preceding paragraph shall apply to equity investments in and/or credit facilities to any enterprise abroad.

For purposes hereof, the phrase "equity investments in and/or credit facilities to" shall include any accommodation that gives rise to a creditor/debtor relationship such as deposits, money market placements, loans or any advances or any amount of funds granted or remitted by the IB to its subsidiary/affiliate abroad including letters of comfort and deposits/placements abroad of the Bank which are hypothecated.

6. *Exclusion of Underwriting Exposure from Ceiling.* The exposure of the IB arising from the firm underwriting of equity securities of enterprises shall not be counted in determining compliance with the ceiling prescribed for equity investments for a period of two (2) years from the acquisition of such equity securities.

Sec. 25. Special Cash Account

The IB shall open a special cash account with the *BSP* in which the liquid funds shall be deposited. Any transfer of funds from this account to other accounts shall be made only upon prior consultation with the IB.

The Bank's Board of Directors shall make such representations with the *BSP* as may be necessary to facilitate the opening of said account.

Sec. 26. Capital Funds Requirements

The IB shall maintain its combined capital accounts in proportion to its assets as prescribed by the General Banking Act and subject to the Rules and Regulations of the *BSP*.

Sec. 27. Investment Risk Fund

1. *Creation.* A reserve account, known as the Investment Risk Fund, shall be created in the books of the IB, by annually setting aside an amount equal to ten percent (10%) of the profits realized during the financial year from the investment of the customers' deposits in the following operations:

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- a. Financing & Investment
- b. Foreign Exchange Transactions
- c. Investment in Bonds & Other Islamic Financial Instruments
- d. Trading Account Securities
- e. Investments in Stocks
- f. Equity Investments
- g. Placements with Treasury Department
- h. Others

Should the accumulated reserves equal the authorized capital of the IB, the Board of Directors may reduce the amount of the annual deduction to a minimal percentage until the aggregate reserves become double the amount of the capital, after which the herein authorized deduction shall cease to accrue to the reserve account.

2. Determination of Profits and Losses. At the close of each financial year, the IB shall determine the results of its operation. The Board of Directors shall, after deducting the general and administrative expenses including remunerations of the Board of Directors and *Shari'a* Advisory Council, determine annually what part of the income shall be appropriated to reserves, investors and shareholders. All accounts relating to financing and joint investment operations shall be kept separate from the accounts of the other banking activities and services offered by the IB. The same rule with respect to the accounts of specific investments shall apply where such specific projects may have a separate account.

Losses incurred, if any, shall be deducted from the total profits realized for the financial year in which such losses are incurred, but any excess of losses over the profits which have been actually realized during the year may be deducted from the Investment Risk Fund opened for covering the risks of investments: *Provided*, That should the total profits realized in the year

be insufficient to cover the losses incurred, the IB shall carry out a comprehensive assessment to arrive at estimated profit and loss based on the market rates, from operations which are financed by the *mudarabah* funds and which have not reached the stage of final settlement by the end of the financial year.

3. Utilization. The Investment Risk Fund shall be invested for the benefit of the IB in safe non-interest bearing transactions only, as authorized by the Board of Directors.

The Board of Directors shall adopt policies on the creation and utilization of the Investment Risk Fund and determination of profits and losses, within one (1) year from date of this Circular.

Sec. 28. Periodic Reports

The IB shall submit to the appropriate department/office of the *BSP* the periodic reports enumerated under Annex "A" and such other reports as may be prescribed by the Monetary Board.

Sec. 29. Manual of Accounts

The IB shall adopt/implement the Manual of Accounts for Al-Amanah Islamic Investment Bank of the Philippines as approved by the Monetary Board in its Resolution No. 335 dated 15 March 1991.

Sec. 30. Board of Directors

The Board of Directors shall be composed of nine (9) members duly elected by the shareholders. The Board of Directors shall choose from among themselves the Chairman. The Board shall convene at the principal office once every three (3) months at the most upon due notice by the Chairman or, whenever the need arises, upon the request of three (3) members. The Board may convene outside the IB's principal office as the members shall determine in the by-laws of the Bank.

Sec. 31. Power of the Board

The Board of Directors shall have the broadest powers to manage the IB except such matters as are explicitly reserved for the shareholders. The Board shall adopt policy guidelines necessary to carry out effectively the provisions of R.A. No. 6848, as well as internal rules and regulations necessary for the conduct of its Islamic banking business and all matters related to:

1. credit and investment;
2. discretionary and delegated authorities
3. risk management;
4. investment risk fund;
5. *qardhasan* (benevolent loans); and
6. personnel policies

The Board of Directors shall have the power to appoint managers, authorized agents or legal representatives and shall vest them with signing authority on behalf of the Bank either severally or jointly in accordance with the operational procedures of the Bank.

The Board shall cause the preparation of the IB's balance sheet for each financial year within three (3) months at the latest from the end of each accounting period as well as the profit and loss statement according to accounting rules established and based on Islamic criteria. Copies of the audited annual balance sheet, profit and loss account, together with any note thereon, and the report of the auditor and the directors own report shall be provided to the shareholders before the date of the general meeting.

The Board shall also cause the preparation of the annual revenue and expenditures budget as well as the annual business plan.

Sec. 32. Chief Executive Officer; Other Officers and Employees

The Chairman of the Board of the IB shall be the Chief Executive Officer of the

Bank. He must have experience and training in Islamic banking. All other officers and employees of the IB shall, upon recommendation of the Chief Executive Officer, be appointed and removed by the Board which shall not be subject to Civil Service Law.

The Chief Executive Officer of the IB shall, among others, execute and administer the policies, measures, orders and resolutions approved by the Board of Directors. In particular, he shall have the power and duty to execute all contracts in behalf of the IB, to enter into all necessary obligations required or permitted under R.A. No. 6848, to report weekly to the Board of Directors the main facts concerning the operations of the Bank during the preceding week, and to suggest changes in policy or policies which will serve the best interest of the Bank.

Sec. 33. Qualifications and Disqualifications of Directors and Officers

The provisions (of the MRBOFI – Book I) regarding the qualifications and disqualifications of directors and officers shall be applicable to the directors and officers of the IB.

Sec. 34. Business Development Office

The IB shall have a Business Development Office which shall be responsible for the following:

1. To conduct periodic economic surveys and studies of the investment climate and opportunities in the IB's sphere of operations and identify the viable projects which may be sponsored by the people of the Autonomous Region;
2. To offer technical consultancy services in the preparation of project studies and in meeting other technical credit requirements of the IB, including the provision of the management consultants at rates to be determined by the Board of

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Directors to projects financially assisted by the IB; and

3. To perform such other functions as may be directed by the Board of Directors.

Sec. 35. General Shareholder's Meeting

The shareholders shall convene in a general meeting annually at the latest within six (6) months following the end of the financial year of the Bank at the place, date and time fixed in the notice. The attendance of shareholders representing at least sixty percent (60%) of the capital of the IB shall constitute a quorum to do business and voting shall be by shares of stocks.

For purposes of this section, "Capital" shall refer to the Total Subscribed Capital, whether paid or unpaid.

No delinquent stock shall be voted for or be entitled to vote or to representation at any stockholders' meeting, nor shall the holder thereof be entitled to any of the rights of a stockholder except the right to dividends until and unless he pays the amount due on his subscription, including the cost and expenses incurred thereon, if any.

Holders of subscribed shares not fully paid which are not delinquent shall have all the rights of a stockholder.

Sec. 36. Purposes of General Meeting

The general shareholders' meeting shall be convened purposely to hear the Board of Directors' report on the activities of the IB, its financial condition, the auditor's report and to approve the balance sheet for the financial year ended and the profit and loss statement, to determine the portion of dividends to be distributed to the shareholders and the method of distribution, to appoint the auditors, and to elect the members of the Board of Directors and the *Shari'a* Advisory Council.

Sec. 37. Ordinary and Extraordinary Sessions

The general shareholders' meeting shall be presided over by the Chairman of the Board of Directors. All resolutions adopted by the general meeting in ordinary session assembled shall be taken by a vote of majority of the shareholders represented therein and in case of votes being equal, the Chairman shall cast his vote to break the tie. The resolutions of the general meeting adopted in accordance therewith shall be binding on all shareholders including those not in attendance or opposing the resolution.

An extraordinary general meeting shall be required to pass resolutions related to the increase or decrease of capital of the Bank, the extension of its legal existence or matters affecting amendment of R.A. No. 6848. Resolutions of the extraordinary general meeting shall be deemed adopted when a majority vote of at least sixty-six and two-thirds plus one percent ($66 \frac{2}{3} + 1\%$) of the capital shares shall have been cast.

In no case shall the general meeting resolve to modify the object of the Bank as an Islamic investment bank.

Sec. 38. Bank Auditor; Reports

Subject to the approval by the shareholders, the IB shall appoint an external auditor, whose qualifications and remunerations shall be fixed by the Board of Directors. The external auditor shall assume his functions from the date of his appointment until the date of the next general shareholders' meeting. In case a vacancy occurs at any time during the year for any reason, the Board of Directors shall immediately appoint a replacement who shall serve until the next general shareholders' meeting.

The external auditor shall conduct an annual financial audit not later than thirty

(30) days after the close of the calendar year. Reports on such audit shall be made and submitted to the Board of Directors and the appropriate supervising and examining department of the *BSP* not later than ninety (90) days after the start of the audit.

For purpose hereof, an independent external auditor who may be engaged by the Bank shall refer to one who does not hold or own two percent (2%) or more of equity in the Bank.

The Board of Directors, in a regular or special meeting, shall consider and act on the financial audit report and shall submit, within thirty (30) days after receipt of the report, a copy of its resolution to the appropriate supervising and examining department of the *BSP*. The resolution shall show, among other things, the names of the directors present and absent, and the action(s) taken on the findings and recommendations.

In the exercise of his auditing functions, all books, accounts and documents of the Bank shall be made available to the auditor for inspection to ascertain its assets and liabilities.

Sec. 39. Confidential Information

Banking transactions of the IB relating to all deposits of whatever nature are confidential and may not be examined, inquired or looked into by any person, government official, bureau or office except as provided in Sec. 38, or upon written permission by the depositor, or in cases where the money deposited or the transaction concerned is the subject of a court order.

It shall be unlawful for any official or employee of the IB or any person as may be designated by the Board of Directors to examine or audit the books of the Bank to disclose or reveal to any person any confidential information except under the circumstances mentioned in the preceding paragraph.

Sec. 40. Accounting Period

The financial year of the IB shall be based on the Gregorian calendar, but the corresponding Islamic *Hijra* date shall be mentioned on all correspondences, contracts, printed materials, forms and records of the IB. The accounting period shall commence on the first day of January and close on the last day of December each year.

Sec. 41. Sharing between the Bank and the Investors

Not later than the 31st day of January of each financial year, the Board of Directors shall determine and publish the general percentages of profit to be allocated to the total funds participating in joint investments of the IB.

The IB as a joint venturer (*Mudarib*) shall be entitled to certain percentage after deducting the amount allocated to investors. The Bank shall likewise be entitled to a share in the profits of joint investments in proportion to its own invested funds.

For the purpose of calculating funds employed in financing operations, priority shall be given to joint investment accounts and the holders of *muquaradah* (interest free) bonds.

All *zakat* due in the shareholder's capital and reserves represented by the pecuniary value of shares and the *zakat* due on the investor's funds or profits accruing to every depositor shall be paid to the *zakat* fund, subject to their instructions.

The Board of Directors shall adopt a policy on the sharing between the Bank and its investors which should be consistent with the *Shari'a* principle.

Sec. 42. Training of Technical Personnel

The IB shall promote and sponsor the training of technical personnel in the field of Islamic banking, finance and insurance.

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Towards this end, the IB may defray the costs of study, at home or abroad, of outstanding employees of the IB, of promising university graduates or of any other qualified persons who shall be determined by proper competitive examinations. The Board of Directors shall prescribe rules and regulations to govern the training program of the IB.

Sec. 43. Definition of Terms

For purposes of these Rules and Regulations, the following definition of term shall apply:

1. Islamic banking business means banking business whose aims and operations do not involve interest (*riba*) which is prohibited by the Islamic *Shari'a* principles.

2. *Shari'a* has the meaning assigned to it by Islamic law and jurisprudence as expounded by authoritative sources; in the context of R.A. No. 6848, it is construed by reference to pertinent Quranic ordinances and applicable rules in Islamic jurisprudence on business transactions.

3. *Riba* has the meaning assigned to it by Islamic law and jurisprudence as expounded by authoritative sources; in the context of banking activities, the term includes the receipt and payment of interest in the various types of lending and borrowing and in the exchange of currencies on forward basis.

4. *Zakat* has the meaning assigned to it by Islamic law and jurisprudence as expounded by authoritative sources; in the context of R.A. No. 6848, it represents annual an "tithe" payable by the Bank on behalf of its shareholders and investors in compliance with Islamic *Shari'a* principles.

5. Depositors means a person or entity who has an account at an IB, whether the account is a current account, a savings account, an investment account or any other deposit account; unless the

context requires another meaning, a depositor corresponds to an investor in joint investment of the IB.

6. Current account liabilities in relation to Islamic banking services mean the total deposits at the Bank which are repayable on demand.

7. Savings account liabilities in relation to Islamic banking services mean the total deposits at the IB which normally require the presentation of passbooks or such other legally acceptable documents in lieu of passbooks as approved by the *BSP* for the deposit or withdrawal of money;

8. Investment account liabilities in relation to Islamic banking services mean the total deposit liabilities at the IB in respect of funds placed by a depositor with the Bank for a fixed period of time under an agreement to share the profits and losses of that bank on the investment of such funds.

9. Other deposit liabilities in relation to an IB mean the deposit liabilities at the Bank other than savings account, investment account, current account liabilities and deposit liabilities from any IB or any other licensed bank.

10. Participation in relation to Islamic banking and commercial operations means any agreement or arrangement under which the mode of joint investments or specific transactions shall not involve the element of interest charge other than as percentage share in profits and losses of business.

11. Share means share in the capital of the Bank or a corporation and includes a stock, except where a distinction between stock and share is expressed or implied.

12. *Muqaradah* Bonds represent long term non-interest bearing bonds of definite denomination issued and floated by the bank on the basis of participation under the *Mudarabah* principle to be used

in financing projects for economic development.

Sec. 44. Statement of Principles

For purposes of implementing these Rules and Regulations, the following Shari'a principles shall be observed:

1. *Al-Bai Bithaman Ajil* (Deferred Payment Sale) - principle under which one sells to another by passing the ownership and delivery immediately but collects the payment later, usually by installments. This principle is applied in financing fixed asset acquisition, such as buying of houses, properties, plant and machinery, etc.

2. *Al-Bai ul Takjiri* (Leasing ending with ownership) - principle under which the fund-owner may purchase the asset required by the fund-user with the right to use the services of the asset, but subsequently to own the asset. Thus, the fund-owner first purchased the asset required by the fund-user and subsequently lease the asset to the fund-user with the stipulation that at a point in time the fund-user will purchase from the fund-owner the asset concerned at an agreed price with all the lease rental previously paid constituting part of the purchase price.

3. *Al-Ijarah* (Leasing) - principle under which the fund-owner purchases the asset required by the fund-user who acquires the right to use the services of said asset. The transaction is covered by a contract whereby the fund-owner first purchases the asset and subsequently leases the same to the beneficiary (fund-user) for a fixed, obligatory period, subject to lease rentals and other terms and conditions as may be agreed by both parties.

4. *Al-Kafalah* (Guarantee) - principle under which one can provide guarantee to another on behalf of a third person. This principle is applied by IBs

to issue Letters of Guarantee in respect of the performance of a task, or the settlement of a loan, etc. Where a security deposit is required, it is taken under the principle of *Al-Wadiah*. This principle also enables the IBs to take guarantees from others for the credit facilities granted.

5. *Al-Mudarabah* (Trust Financing) - principle under which a fund-owner provides full financing to the fund-user who provides only entrepreneurship and labor. The fund-owner is not involved in the management of the funds at all. The return to the fund-owner and the fund-user is a share of profit at a rate or ratio agreed in advance. In case of a failure, the fund-owner bears the financial losses. This principle is applied by the IBs in both deposit taking and financing. It is mostly applied to support the investment (fixed) deposit accounts.

6. *Al-Murabahah* (Purchase and Sale or Cost-plus) - principle under which the fund-owner purchases the goods or assets required by the fund-user and sells at an agreed mark-up to the fund-user. This principle is applied in Bills Receivable financing. If full financing is not to be given, the fund-user would be requested to place a margin deposit which will be used to pay for a portion of the cost of the goods or assets.

7. *Al-Musharaka* (Partnership Profit Sharing) - principle under which a fund-owner and an entrepreneur can jointly contribute to the finance and the management of a business. Profits or losses from the joint venture are shared between them in the rate or ratio agreed in advance. This principle is applicable in both the areas of funding and financing. It is mostly applied by IBs to raise capital, to finance projects on a joint venture basis, and in Trust Receipt financing.

8. *Al-Qardhasan* (Benevolent Loan) - principle under which one provides a direct loan, free of any charges, to

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another in need. Payment of dividend for the use of the loan is at the discretion of the user of the funds. Financing economic and business activities of the poor is sometimes extended under this principle.

9. *Al-Rahan* (Security) - principle under which security can be given and taken for an outstanding obligation. Although IBs extend financing through partnership and trading assets, security is also taken as a precaution under this principle.

10. *Al-Wadiah* (Safe Custody) - principle under which a trustee will safeguard the funds entrusted without any obligation to pay any dividend to the owners of the fund (depositors) as long as a guarantee is given to ensure the full refund of the money upon request of withdrawal. The trustee can have full discretion over the use of the funds.

11. *Al-Wakalah* (Agency) - principle under which one acts as an agent for another for a fee. This principle is applied in the Letters of Credit (LCs) operations in which the IBs issue LCs on behalf of their importing costumers when only LC service is required. A 100% margin deposit is collected under the principle of *Al-Wadiah*. The deposit will be used ultimately to meet the full value of the inward bills.

Sec. 45. Sanctions

Any director, officer, employee, auditor or agent of the IB who violates or permits the violation of any provisions of these Rules and Regulation shall be subject to the criminal and administrative sanctions provided under Sections 36 and 37 of R.A. No. 7653 (The New Central Bank Act).

Sec. 46. Supervision; Applicability of Banking Laws, Rules and Regulations

The IB shall be under the supervision of the *BSP*. The provisions of other banking laws, MRBOFI, as well as the existing Rules and Regulations of the *BSP*, particularly those enumerated under Annex “B”, and other pertinent laws insofar as they are not in conflict with any provisions of R.A. No. 6848 and these Rules and Regulations shall be applicable to the IB.

Sec. 47. Transformation to Islamic Banking Business

The IB shall transform its investment portfolios, accounts or assets for the conduct of full Islamic banking business within two (2) years from 24 April 1996. The Monetary Board may allow extension of the period as circumstances may warrant. If for any reason, such portfolios, accounts or assets granted under the authority of the Philippine Amanah Bank Charter are not eligible for this purpose, the same may be transferred, swapped, sold or otherwise disposed of in any manner deemed feasible.

The Board of Directors of the IB shall formulate policies to transform the business of the Bank into an Islamic concept, and shall submit the same to the appropriate department of the *BSP* within six (6) months from 24 April 1996.

During the transformation period, the Bank may continue to perform conventional banking activities under R.A. No. 337, as amended, insofar as they are not in conflict with R.A. No. 6848, and the applicable rules and regulations of the *BSP*.

NOTES ON MICROFINANCE
(Appendix to Subsec. X361)

A. *Definition of microfinance*
Microfinance is the provision of a broad range of financial services, such as deposits, loans, payment services, money transfers and insurance products to the poor and low-income households, generally for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards.

B. *Core principles for microfinance*

1. The poor needs access to variety of appropriate financial services that are convenient, flexible and reasonably priced.

2. The poor has the capability to repay loans, pay the real cost of loans, generate savings and avail complementary financial services.

3. Microfinance institutions must subscribe to performance standards and best practices to ensure greater outreach and sustainability.

4. In line with the Philippine National Strategy for Microfinance, the government’s role is an enabler (establishing the market-oriented policy and regulatory environment) and not as a direct provider of financial services.

5. Microfinance should become an integral part of the financial sector in order to achieve its full potential of reaching a large number of the poor.

6. Microfinance is an effective tool for poverty alleviation and is a clear testament that market-based solutions are feasible to expand access to financial services toward building a truly inclusive financial system.

C. *Characteristics of a typical microfinance client*

Characteristics	Distinguishing Features
Type of client	Low income with regular cash flow Employment in informal sector; low wage bracket Lack of physical collateral Closely interlinked household and business activities Poor and low income*
Other market segments	(1) The landless who are engaged in agricultural work on a seasonal basis and manual and laborers in forestry,mining, household industries, construction and transport; requires credit for consumption needs and also for acquiring small productive assets, such as livestock. (2) Small and marginal farmers, rural artisans,weavers and those self-employed in the urban informal sector as hawkers,vendors and workers in household micro-entepries requires credit for working capital, including a small part for consumption needs. This segment largely comprises the poor but not the poorest. (3) Medium farmers/small entrepreneurs who have gone into commercial crops and others who are engaged in dairy and poultry. Among non-farm activities, this segment includes those in villages and slums engaged in processing or manu-facturing activity. These persons live barely above the poverty line and also suffer from inadequate access to formal credit.

* For purposes of microinsurance products only. Poor and low income clients refer to those with annual family income below the national average based on the latest available National Statistics Office (NSO) Family Income and Expenditures Survey (FIES). The 2009 national average annual family income is P206,000.

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D. Definition of microfinance loans or micro-credit

Micro-credit loans are small loans granted to the basic sectors, on the basis of the borrower's cash flow and other loans granted to the poor and low-income households to enable them to raise their income levels and improve their living standards. These loans are typically unsecured but may also be secured in some cases.

E. General features of microfinance loans

1. Types of microfinance loans

a. Microenterprise loans – Small and short term loans granted to the basic sectors, in the basis of the borrower's cash flow, for their microenterprises and small businesses. The principal amount of a microenterprises loan can be generally pegged at P150,000.

b. Microenterprise Loan Plus or "Microfinance Plus"- loans granted to the basic sectors, on the basis of the borrower's cash flow, for their growing microenterprises and small businesses. These loans are from PhP150,001 to PhP300,000. The borrowers that will qualify as recipients of Microfinance Plus shall have a track record of at least two (2) microfinance loan cycles in the PhP50,000 to PhP150,000 range demonstrating the success of the business, its increasing credit demand and subsequent increased capacity to pay. The borrower must also have a savings account. The delivery of Microfinance Plus will be utilizing microfinance principles and methodologies in accordance with Sec. X361.

c. Housing microfinance loans-loans granted for home improvements, house construction, house and/or lot acquisition, utilizing microfinance principles and methodologies in accordance with

existing BSP regulations¹. The maximum principal amount of a housing microfinance loan for house construction and/or lot acquisition is generally pegged at P300,000.

d. Micro-agri loans – short term loans granted for farming activities, agri-business and agri-related fixed assets, among others, utilizing microfinance principles and methodologies in accordance with Sec. X361.

2. Collateralization of microfinance loan

Microfinance loans are typically unsecured, for relatively short periods of time (up to 365 days) with monthly (or more frequent) amortizations of interest and principal, and often featuring a joint and several guarantee of one (1) or more persons. In some cases, they can also be secured, depending on the capacity of the borrower to offer collaterals acceptable to the policies of the lending institutions.

3. Interest on microfinance loans

Global experience has demonstrated that a market-based interest rate regime permits the institution providing microfinance services become sustainable and able to cover administrative costs, provisions for loan losses and intermediation/funding costs. Global experience continues to validate the proposition that what matters most to the poor and underserved segments is access to financial services rather than their interest-rate cost – most especially because microenterprise and small business borrowers will take a microfinance loan whose repayment periods match the additional cash flows they hope to generate.

Therefore, interest on such microfinance loans shall be reasonable but shall not be lower than the prevailing market rates. This is to enable the lending

¹ Circular 678 dated 05 January 2010

institution not only to recover the financial and operational costs incidental to this type of microfinance lending but also to realize some bottom line gains.

- 4. Lending technology
 - Prompt approval and disbursement of microloans
 - Lack of extensive loan records
 - Collateral substitutes; group based guarantees
 - Conditional access to further micro-credits
 - Information intensive character-based lending linked to cash flow analysis and group-based borrower selection

F. Definition of microfinance savings deposit accounts or micro-deposits

Micro-deposits are savings accounts that cater to the needs of the basic sectors, low-income clients and those that are unserved or underserved by the financial system. They are appropriately designed and priced to fit the needs and capacity of this particular market.

G. General features of microfinance savings deposit account

- 1. Minimum maintaining balance not exceeding One Hundred Pesos (P100.00).
- 2. Not subject to dormancy charges.
- 3. Only for individual microfinance clients whose average daily savings account balance does not exceed Forty Thousand Pesos (P40,000.00).

H. Definition of microinsurance (Insurance Commission Memorandum Circular 1-2010 dated 29 January 2010)

Microinsurance is an activity providing specific insurance, insurance-like and other similar products and services that meet the needs of the low-income sector for risk protection and relief against distress, misfortune and other contingent events.

The marketing, sale and servicing of microinsurance products by thrift, rural and cooperative banks shall be governed by existing Bangko Sentral regulations¹.

I. General features of a microinsurance product (as provided by the Insurance Code)

- 1. Premiums, contributions, fees or charges are collected/deducted prior to the occurrence of a contingent event. The amount of contributions, premiums, fees or charges, computed on a daily basis, does not exceed seven and a half percent (7.5%) of the current daily minimum wage rate for non-agricultural workers in Metro Manila.

- 2. Guaranteed benefits are provided upon occurrence of a contingent event. The maximum sum of guaranteed benefits is not more than 1,000 times of the current daily minimum wage rate for non-agricultural workers in Metro Manila.

(As amended by Circular Nos. 841 dated 04 July 2014, 796 dated 03 May 2013, 782 dated 1 January 2013, 744 dated 28 December 2011 and 694 dated 14 October 2010)

¹ Circular 683 dated 23 February 2010

**GUIDELINES TO INCORPORATE MARKET RISK IN THE
RISK-BASED CAPITAL ADEQUACY FRAMEWORK**
[Appendix to Subsec. 1115.2 (2008 - 1116.5)]

Introduction

1. These guidelines describe the approach to be used by the Bangko Sentral to determine the minimum level of capital to be held by a bank against its market risk. The guidelines are broadly consistent with the recommendations of the Basel Committee on Banking Supervision in a document entitled “Amendment to the Capital Accord to Incorporate Market Risks” issued in January 1996.

2. Under these guidelines, banks shall be required to measure and apply capital charges against their market risk, in addition to their credit risk.

3. *Market risk* is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. The risks addressed by these guidelines are:

- the risks pertaining to *interest rate-related instruments* and *equities* in the trading book; and
- *Foreign exchange risk* throughout the bank.

Coverage of capital requirement for market risk

4. The capital requirement for market risk shall apply to all UBs and KBs.

5. The minimum CAR covering combined credit risk and market risk shall apply to banks which are subject to market risk capital requirement on both solo basis (i.e., head office plus branches) and consolidated basis (i.e., parent bank plus subsidiary financial allied undertakings, but excluding insurance companies).

Methods of measuring market risk

6. There are two (2) alternative methods recognized for the measurement of market risk, as follows:

(a) The *standardized approach* shall be used by all banks which are subject to market risk capital requirement, except by those which may be allowed by Bangko Sentral to use the alternative method described in paragraph (b) below. The method of measuring market risk under the standardized approach is set out in the Instructions for Accomplishing the Report on Computation of the Adjusted Risk-Based Capital Adequacy Ratio Covering Combined Credit Risk and Market Risk.

(b) The *internal models approach* allows banks with the necessary system to use their own internal risk management models to calculate market risk. The use of this approach is subject to prior Bangko Sentral approval. Approval shall be based on meeting certain qualitative and quantitative conditions relating to the models themselves and the controls surrounding them, as set out in Annex “A”. Banks may on a transitional basis be allowed to use a combination of the standardized approach and the models approach to measure their market risk, provided any such “partial” model shall cover a complete risk category (e.g., interest rate risk or foreign exchange risk). The reporting under the internal models approach is contained in the Instructions for Accomplishing the Report on Computation of the Adjusted Risk-Based Capital Adequacy Ratio Covering Combined Credit Risk and Market Risk.

Calculation of the capital adequacy ratio (CAR)

7. The adjusted CAR covering combined credit risk and market risk shall be calculated using the qualifying capital expressed as a percentage of the total risk-weighted assets (including credit risk and

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market risk-weighted assets). The components of this calculation are as follows:

- *Market risk-weighted assets* are the sum of the capital charges for all market risk categories calculated using either the standardized approach or the internal models approach [multiplied by 125% for those calculated using the standardized methodology to be consistent with the higher capital charge for credit risk, i.e., ten percent (10%) as opposed to BIS recommended eight percent (8%)] multiplied by 10. (The multiplier 10 is the reciprocal of the Bangko Sentral required minimum capital adequacy ratio for credit risk of ten percent (10%). The effect is to convert the sum of the market risk capital charges into a risk-weighted assets equivalent which can then be directly added to the total credit risk-weighted assets.)

In calculating the capital charge for foreign exchange exposures, the net open position for non-deliverable forwards (NDFs) shall be multiplied by 187.5% in lieu of the 125% factor referred to above starting 01 January 2012.

- *Credit risk-weighted assets* is the total risk weighted assets calculated in accordance with applicable and existing capital adequacy framework, less the part calculated for on-balance sheet debt securities and equities in the trading book. (The credit risk-weighted assets for on-balance sheet debt securities and equities are deducted because they represent an element now covered by the market risk capital charge); and

- *Qualifying capital* is the same as that calculated in accordance with applicable and existing capital adequacy framework.

8. Banks shall maintain a minimum adjusted risk-based CAR covering combined credit risk and market risk of ten percent (10%) calculated in this manner on solo basis and on consolidated basis.

The trading book

9. A key feature of the market risk

framework is the definition of the trading book of a bank. This is set out in the Instructions for Accomplishing the Report on Computation of the Adjusted Risk-Based Capital Adequacy Ratio Covering Combined Credit Risk and Market Risk. Banks are expected to adopt a consistent approach to allocating transactions into their trading and non-trading (i.e., banking book), and clear audit trail for this purpose should be created at the time each transaction is entered into. The Bangko Sentral shall monitor banks' practices to ensure that there is no abusive switching between different books to inappropriately reduce capital charges.

Required reports

10. Banks shall submit quarterly reports of their adjusted risk-based CARs covering combined credit risk and market risk on solo basis and on consolidated basis to the appropriate supervising and examining department of the Bangko Sentral in accordance with the prescribed forms within fifteen (15) banking days and thirty (30) banking days after the end of reference quarter for solo report and consolidated report, respectively. These reports shall be in addition to the reports on risk-based CAR covering credit risk required to be submitted in applicable and existing capital adequacy framework.

11. One (1) of three (3) alternative report forms prescribed, shall be used depending on the complexity of the bank's operations, to wit:

- (a) For UBs/KBs with expanded derivatives authority;
- (b) For UBs/KBs with expanded derivatives authority but without option transactions; or
- (c) For UBs/KBs without expanded derivatives authority.

12. The abovementioned reports shall be classified as *Category A-2 Reports*.

(As amended by Circular Nos. 890 dated 02 November 2015, 827 dated 28 February 2014, M-2011-062 dated 13 December 2011 and Circular No. 740 dated 16 November 2011)

REQUIREMENTS FOR THE USE OF INTERNAL
MODELS TO MEASURE MARKET RISK

I. General Criteria

1. The use of internal models shall be conditional upon the explicit prior approval of the BSP.
2. The BSP will only give approval if at a minimum:
 - It is satisfied that the bank's risk management system is conceptually sound and is implemented with integrity;
 - The bank has in the BSP's view sufficient number of staff skilled in the use of sophisticated models not only in the trading area but also in the risk control, audit and if necessary, back office areas;
 - The bank's models have in the BSP's judgment a proven track record of reasonable accuracy in measuring risk; and
 - The bank regularly conducts stress tests along the lines discussed in Part V below.
3. The BSP may require a period of initial monitoring and live testing of a bank's internal model before it is used for supervisory capital purposes.
4. In addition to these general criteria, banks using internal models for capital purposes shall be subject to the requirements detailed in Parts II to VII below.

II. Qualitative Standards

5. Banks using internal models must have market risk management systems that are conceptually sound and implemented with integrity. Accordingly, a number of *qualitative criteria* that banks would have to meet before they are permitted to use a model-based approach are specified in paragraph 6 below. The extent to which banks meet the qualitative criteria may influence the level at which the BSP will set the multiplication factor referred to in Part IV, paragraph 8(j) below. Only those banks whose models are in full compliance with the qualitative criteria as listed in this section will be eligible for application of the minimum multiplication factor.
6. The qualitative criteria are:
 - (a) The bank should have an independent risk control unit that is responsible for the design and implementation of the bank's risk management system. The unit should produce and analyze daily reports on the output of the bank's risk measurement model, including an evaluation of the relationship between measures of risk exposure and trading limits. This unit must be independent from business trading units and should report directly to senior management of the bank.
 - (b) The unit should conduct a regular backtesting program, i.e. an ex-post

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comparison of the risk measure generated by the model against actual daily changes in portfolio value over longer periods of time, as well as hypothetical changes based on static positions.

- (c) The board of directors (or equivalent management committee in the case of Philippine branches of foreign banks) and senior management should be actively involved in the risk control process and must regard risk control as an essential aspect of the business to which significant resources need to be devoted. In this regard, the daily reports prepared by the independent risk control unit must be reviewed by a level of management with sufficient seniority and authority to enforce both reductions of positions taken by individual traders and reductions in the bank's overall risk exposure.
- (d) The bank's internal risk measurement model must be closely integrated into the day-to-day risk management process of the bank. Its output should accordingly be an integral part of the process of planning, monitoring and controlling the bank's market risk profile.
- (e) The risk measurement system should be used in conjunction with internal trading and exposure limits. In this regard, trading limits should be related to the bank's risk measurement model in a manner that is consistent over time and that is well-understood by both traders and senior management.
- (f) A routine and rigorous program of stress testing should be in place as

a supplement to the risk analysis based on day-to-day output of the bank's risk measurement model. The results of stress testing exercises should be reviewed periodically by senior management and should be reflected in the policies and limits set by management and the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks). Where stress tests reveal particular vulnerability to a given set of circumstances, prompt steps should be taken to manage those risks appropriately (e.g., by hedging against that outcome or reducing the size of the bank's exposures).

- (g) Banks should have a routine in place for ensuring compliance with a documented set of internal policies, controls and procedures concerning the operation of the risk measurement system. The bank's risk measurement system must be well documented, for example, through a risk management manual that describes the basic principles of the risk management system and that provides an explanation of the empirical techniques used to measure market risk.
- (h) An independent review of the risk measurement system should be carried out regularly in the bank's own internal auditing process. This review should include both the activities of the business trading units and of the independent risk control unit. A review of the overall risk management process should take place at regular intervals (ideally not less than once a year) and should specifically address, at a minimum:

- the adequacy of the documentation of the risk management system and process;
- the organization of the risk control unit;
- the integration of market risk measures into daily risk management;
- the approval process for risk pricing models and valuation systems used by front and back-office personnel;
- the validation of any significant change in the risk measurement process;
- the scope of market risks captured by the risk measurement model;
- the integrity of the management information system;
- the accuracy and completeness of position data;
- the verification of the consistency, timeliness and reliability of data sources used to run internal models, including the independence of such data sources;
- the accuracy and appropriateness of volatility and correlation assumptions;
- the accuracy of valuation and risk transformation calculations; and
- the verification of the model's accuracy through frequent

backtesting as described in paragraph (b) above.

III. Specification of Market Risk Factors

7. A bank's internal market risk measurement system must specify an appropriate set of market risk factors, i.e., the market rates and prices that affect the value of the bank's trading positions. The risk factors contained in a market risk measurement system should be sufficient to capture the risks inherent in the bank's portfolio of on-and off- balance sheet trading positions. Although banks will have some discretion in specifying the risk factors for their internal models, the following guidelines should be fulfilled:
- (a) For interest rates, there must be a set of risk factors corresponding to interest rates in each currency in which the bank has interest rate-sensitive on- or off-balance sheet positions.
- The risk measurement system should model the yield curve using one (1) of a number of generally accepted approaches, for example, by estimating forward rates of zero coupon yields. The yield curve should be divided into various maturity segments in order to capture variation in the volatility of rates along the yield curve; there will typically be one (1) risk factor corresponding to each maturity segment. For material exposures to interest rate movements in the major currencies and markets, banks must model the yield curve using a minimum of six (6) risk factors. However, the number

of risk factors used should ultimately be driven by the nature of the bank’s trading strategies. For instance, a bank with a portfolio of various types of securities across many points of the yield curve and that engages in complex arbitrage strategies would require a greater number of risk factors to capture interest rate risk accurately; and

- The risk measurement system must incorporate separate risk factors to capture spread risk (e.g., between bonds and swaps). A variety of approaches may be used to capture the spread risk arising from less than perfectly correlated movements between government and other fixed-income interest rates, such as specifying a completely separate yield curve for non-government fixed-income instruments (for instance, swaps or local government unit securities) or estimating the spread over government rates at various points along the yield curve.
- (b) For equity prices, there should be risk factors corresponding to each of the equity markets in which the bank holds significant positions.
- At a minimum, there should be a risk factor that is designed to capture market-wide movements in equity prices (e.g., a market index). Positions in individual securities or in sector indices could be expressed in “beta-equivalents” relative to this market-wide index;

- A somewhat more detailed approach would be to have risk factors corresponding to various sectors of the overall equity market (for instance, industry sectors or cyclical and non-cyclical sectors). As above, positions in individual stocks within each sector could be expressed in beta-equivalents relative to the sector index; and
- The most extensive approach would be to have risk factors corresponding to the volatility of individual equity issues.

The sophistication and nature of the modeling technique for a given market should correspond to the bank’s exposure to the overall market as well as its concentration in individual equity issues in that market.

- (c) For exchange rates, the risk measurement system should incorporate risk factors corresponding to the individual foreign currencies in which the bank’s positions are denominated. Since the value-at-risk (VaR) figure calculated by the risk measurement system will be expressed in Philippine peso, any net position denominated in a foreign currency will introduce a foreign exchange risk. Thus, there must be risk factors corresponding to the exchange rate between the Philippine peso and each foreign currency in which the bank has a significant exposure.

IV. Quantitative Standards

8. Banks will have flexibility in devising the precise nature of their models, but

the following minimum standards shall apply for the purpose of calculating their capital charge:

- (a) “*Value-at-risk*” (VaR) must be computed on a daily basis.
- (b) In calculating VaR, a 99th percentile, one-tailed *confidence interval* is to be used.
- (c) In calculating VaR, an instantaneous price shock equivalent to a 10-day movement in prices is to be used, i.e., the minimum “*holding period*” will be ten (10) trading days. Banks may use VaR numbers calculated according to shorter holding periods scaled up to ten (10) days by the square root of time. (For the treatment of options, also see paragraph (h) below.)
- (d) The choice of *historical observation period* (sample period) for calculating VaR will be constrained to a minimum length of one (1) year. For banks that use a weighting scheme or other methods for the historical observation period, the “effective” observation period must be at least one (1) year (that is, the weighted average time lag of the individual observations cannot be less than six (6) months).
- (e) Banks should update their *data sets* no less frequently than once every three (3) months and should also reassess them whenever market prices are subject to material changes. The BSP may also require a bank to calculate its VaR using a shorter observation period’ if in the BSP’s judgment, this is justified by a significant upsurge in price volatility.

- (f) No particular *type of model* is prescribed. So long as each model used captures all the material risks run by the bank, as set out in Part III, banks will be free to use models based, for example on variance-covariance matrices, historical simulations, or Monte Carlo simulations.
- (g) Banks will have discretion to recognize empirical *correlations* within broad risk categories (e.g., interest rates, exchange rates and equity prices, including related options volatilities in each risk factor category). The BSP may also recognize empirical correlations across broad risk factor categories, provided that the BSP is satisfied that the bank’s system for measuring correlations is sound and implemented with integrity.
- (h) For banks with option transactions, banks’ models must accurately capture the unique risks associated with *options* within each of the broad risk categories. The following criteria apply to the measurement of options risk:
 - Banks’ models must capture the *non-linear price characteristics* of options positions;
 - Banks are expected to ultimately move towards the application of a full 10-day price shock to options positions or positions that display option-like characteristics. In the interim, the BSP may require banks to adjust their capital measure for options risk through

other methods, e.g., periodic simulations or stress testing; and

- Each bank’s risk measurement system must have a set of risk factors that captures the *volatilities of the rates and prices* underlying option positions, i.e., vega risk. Banks with relatively large and/or complex options portfolios should have detailed specifications of the relevant volatilities. This means that banks should measure the volatilities of options positions broken down by different maturities.
- (i) Each bank must meet, on a daily basis, a *capital requirement* expressed as the higher of (i) last trading day’s VaR number or (ii) an average of the daily VaR measures on each of the preceding sixty (60) trading days (both measured according to the parameters specified in this section) multiplied by a multiplication factor.
- (j) The *multiplication factor* shall be set by the BSP on the basis of its assessment of the quality of the bank’s risk management system subject to an absolute minimum of three (3). Banks will be required to add to this factor a “plus” directly related to the ex-post performance of the model (to be determined on a quarterly basis), thereby introducing a built-in positive incentive to maintain the predictive quality of the model. The plus will range from 0 to 1 based on the number of backtesting exceptions (i.e., the number of times that actual/hypothetical loss exceeds the VaR

measure) for the past 250 trading days of the reference quarter-end as set out in Table 5 of the Instructions for Accomplishing the Report on Computation of the Adjusted Risk-Based Capital Adequacy Ratio Covering Combined Credit Risk and Market Risk. (Table 3 for banks with expanded derivatives authority but without option transactions, and banks without expanded derivatives authority.)

- (k) Banks using models will be subject to a separate capital charge to cover the *specific risk* of interest rate-related instruments and equity securities as defined in the standardized approach to the extent that this risk is not incorporated into their models. However, for banks using models, the total specific risk charge applied to interest rate-related instruments or to equities should in no case be less than half the specific risk charges calculated according to the standardized methodology.

V. Stress Testing

- 9. Banks using internal models for measuring market risk capital requirements must have in place a rigorous and comprehensive stress testing program. Stress testing to identify events or influences that could greatly impact banks is a key component of a bank’s assessment of its capital position.
- 10. Banks’ stress scenarios should cover a range of factors that can create extraordinary losses or gains in trading portfolios, or to make the control of risks in those portfolios very difficult. These factors include low-probability

events in all major types of risks, including the various components of market, credit, and operational risks. Stress scenarios should shed light on the impact of such events on positions that display both linear and non-linear price characteristics (i.e., options and instruments that have options-like characteristics).

11. Banks' stress tests should be both of a qualitative and quantitative nature, incorporating both market risk and liquidity aspects of market disturbances. Quantitative criteria should identify plausible stress scenarios to which banks could be exposed. Qualitative criteria should emphasize that two (2) major goals of stress testing are to evaluate the capacity of the bank's capital to absorb potential large losses and to identify steps the bank can take to reduce its risk and conserve capital. This assessment should be integral to setting and evaluating the bank's management strategy and the results of stress testing should be regularly reported to senior management and, periodically, to the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks).
12. Banks should combine the use of supervisory stress scenarios with stress tests developed by banks themselves to reflect their specific risk characteristics. Specifically, the BSP may ask banks to provide information on stress testing in the following three (3) broad areas:
 - (a) *Supervisory scenarios requiring no simulation by the bank.* Banks should provide the BSP information on the largest losses experienced during the reference quarter. This loss information could be compared

to the level of capital that results from a bank's internal measurement system. For example, it could provide BSP with a picture of how many days of peak day losses would have been covered by a given VaR estimate.

- (b) *Scenarios requiring a simulation by the bank.* Banks should subject their portfolios to a series of simulated stress scenarios and provide BSP with the results. These scenarios could include testing the current portfolio against past periods of significant disturbance, for example, the early 80's banking crisis or the 1997 Asian financial crisis, incorporating both the large price movements and the sharp reduction in liquidity associated with these events. A second type of scenario would evaluate the sensitivity of the bank's market risk exposure to changes in the assumptions about volatilities and correlations. Applying this test would require an evaluation of the historical range of variation for volatilities and correlations and evaluation of the bank's current positions against the extreme values of the historical range. Due consideration should be given to the sharp variation that at times has occurred in a matter of days in periods of significant market disturbance.
- (c) *Scenarios developed by the bank itself to capture the specific characteristics of its portfolio.* A bank should also develop its own stress test which it identifies as most adverse based on the characteristics of its portfolio. It should provide the BSP with a description of the

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methodology used to identify and carry out the scenarios, as well as with the description of the results derived from these scenarios.

The results should be reviewed periodically by senior management and should be reflected in the policies and limits set by management and the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks). Moreover, if a bank’s testing reveals particular vulnerability to a given set of circumstances, the BSP would expect the bank to take prompt steps to manage those risks appropriately (e.g., by hedging against that outcome or reducing the size of its exposures).

VI. External Validation

13. The validation of models’ accuracy by external auditors and the BSP should at a minimum include the following steps:
- (a) Verify that the *internal validation processes* described in Part II, paragraph 6 (h) are operating in a satisfactory manner;
 - (b) Ensure that the *formulae* used in the calculation process, as well as for the pricing of options and other complex instruments, are validated by a qualified unit, which in all cases should be independent from the trading area;
 - (c) Check that the *structure* of internal models is adequate with respect to the bank’s activities and geographical coverage;

- (d) Check the results of the bank’s *backtesting* of its internal measurement system (i.e., comparing VaR estimates with actual profits and losses) to ensure that the model provides a reliable measure of potential losses over time. This means that banks should make the results, as well as the underlying inputs to their VaR calculation, available to the BSP and/or external auditors on request; and
- (e) Make sure that data flows and processes associated with the risk measurement system are *transparent and accessible*. In particular, it is necessary that auditors or the BSP is in a position to have easy access, whenever they judge it necessary and under appropriate procedures, to the models’ specifications and parameters.

VII. Combination of Internal Models and the Standardized Methodology

14. Unless a bank’s exposure to a particular risk factor is insignificant, the internal models approach will require banks to have an integrated risk measurement system that captures the broad risk factor categories (i.e., interest rates, exchange rates and equity prices, with related option volatilities being included in each risk factor category). A bank which has developed one or more models will no longer be able to revert to measuring the risk measured by those models according to the standardized methodology (unless the BSP withdraws approval for that model).
15. The following conditions will apply to banks using such combinations:

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- (a) Each broad risk factor category must be assessed using a single approach (either internal models or the standardized approach), i.e., no combination of the two (2) methods will be permitted within a risk category or across banks' different entities for the same type of risk;
- (b) All the criteria laid down in this Annex will apply to the models being used;
- (c) Banks may not modify the combination of the two (2) approaches they use without justifying to the BSP that they have a good reason for doing so;
- (d) No element of market risk may escape measurement, i.e., the exposure for all the various risk factors, whether calculated according to the standardized approach or internal models, would have to be captured; and
- (e) The capital charges assessed under the standardized approach and under the models approach are to be aggregated according to the simple sum method.

**MARKET RISK CAPITAL TREATMENT FOR
DOLLAR-LINKED PESO NOTES**
[Appendix to Subsec. 1115.2 (2008 - 1116.5)]

1. *Treatment of interest rate risk.* Dollar-linked Peso Notes (DLPNs) booked under Trading Account Securities (TAS) or Available for Sale Securities (ASS) result in interest rate risk. These exposures shall be included in the report forms in the following manner:

 - *Under the standardized approach.* The market value of the DLPN shall be reported in Part I.1, Item I.1, and Part I.2, US dollar ladder, under the coupon and time band corresponding to the DLPN's residual maturity; and
 - *Under the internal models approach.* DLPN exposures must be included in the computation of Value-at-Risk (VaR) measure for interest rate risk. This VaR measure shall be reported in Part V, Item 1 (for banks with expanded derivatives authority), or Part IV, Item 1 (for banks with expanded derivatives authority but without option transactions and for banks without expanded derivatives authority).
2. *Treatment of foreign exchange risk.* DLPNs booked under TAS, ASS or Investment in Bonds and other Debt Instruments (IBODI) result in foreign exchange risk. These exposures shall be included in the report forms in the following manner:

 - *Under the standardized approach.* The market value of the DLPN shall be included in the computation of the net long/(short) position for US dollar to be reported in Part III; and
 - *Under the internal models approach.* DLPN exposures must be included in the computation of VaR measure for foreign exchange risk. This VaR measure shall be reported in Part V, Item 2 (for banks with expanded derivatives authority), or Part IV, Item 2 (for banks with expanded derivatives authority but without option transactions, and for banks without expanded derivatives authority).

**INSTRUCTIONS FOR ACCOMPLISHING THE REPORT ON COMPUTATION OF
THE ADJUSTED RISK-BASED CAPITAL ADEQUACY RATIO COVERING
COMBINED CREDIT RISK AND MARKET RISK
(For Universal Banks and Commercial Banks
With Expanded Derivatives Authority)**

General Instructions

1. All universal banks and commercial banks are required to complete this Report both on a solo basis (i.e., head office plus branches) and on a consolidated basis (i.e., parent bank plus subsidiary financial allied undertakings, but excluding insurance companies).
2. The Report should be submitted as follows:
 - (a) Solo report - within 15 banking days after the end of each reference quarter; and
 - (b) Consolidated report - within 30 banking days after the end of each reference quarter.
3. Current market value should be used for reporting. For leveraged instruments where the apparent notional amount differs from the effective notional amount, the bank should use the effective notional amount in calculating the market value for reporting, e.g., a swap contract with a stated notional amount of PHP1.0 million, the terms of which call for a quarterly settlement of the difference between five percent (5%) and PHIBOR multiplied by 10 has an effective notional amount of PHP10.0 million.
4. Securities transactions are to be reported on a “trade date” basis.

Definitions and Clarifications

5. Market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices.

The risks subject to this reporting requirement are:

- (a) the risks pertaining to interest rate-related instruments and equities in the bank’s trading book; and
- (b) foreign exchange risk throughout the bank.

The Report should include the reporting bank’s positions in on-balance sheet financial instruments and off-balance sheet derivatives, the latter being defined as financial contracts whose values depend on the values of one or more underlying assets or indices.

6. For the purpose of the Report, the trading book of a bank shall consist of:
 - (a) its proprietary positions in financial instruments which are taken on with the intention of short-term resale or benefiting in the short term from actual or expected differences between the buying and selling prices or from other price or interest rate variations;
 - (b) positions which arise from the execution of trade orders from customers and market making; and
 - (c) positions taken in order to hedge other elements of the trading book.

7. The financial instruments referred to in the preceding paragraph include:
 - (a) (i) transferable securities;
 - (ii) units in collective investment undertakings;
 - (b) certificates of deposit and other similar capital market instruments;
 - (c) financial futures contracts;
 - (d) forward contracts including forward rate agreements;

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- (e) swaps; and
- (f) options.

8. Banks are expected to have an established policy for allocating transactions (including internal deals) to the trading or non-trading (i.e., banking) book, as well as procedures to ensure compliance with such policy. There must be a clear audit trail at the time each transaction is entered into and the Bangko Sentral will examine the adequacy of such policy and procedures and their consistent implementation when it is considered necessary. For this purpose, banks which engage in trading activities should submit to the Bangko Sentral a policy statement covering:

- (a) the definition of trading activities;
- (b) the financial instruments which can be traded or used for hedging the trading book portfolio; and
- (c) the principles for transferring positions between the trading and the banking books.

9. In general, the Bangko Sentral will have regard to the bank's intention in entering into a particular transaction when determining whether such transaction should fall into the trading book. Transactions will likely be considered to carry a trading intent on the part of the bank if:

- (a) the positions arising from the transactions are marked to market on a daily basis as part of the internal risk management process;
- (b) the positions are not (or not intended to be) held to maturity; and
- (c) the positions satisfy other criteria the bank applies to its trading portfolio on a consistent basis.

10. Debt securities include both fixed-rate and floating-rate instruments, negotiable certificates of deposit, non-convertible preference shares, and also convertible bonds (i.e., debt issues or preference shares that are convertible, at a stated price, into

common shares of the issuer) which trade like debt securities. Debt related derivatives include bond futures and bond options. Options are subject to special treatment described in detail under Part IV of Specific Instructions.

11. Interest rate derivatives include all derivatives contracts and off-balance sheet instruments which react to changes in interest rates, e.g., interest rate futures, forward rate agreements (FRAs), interest rate and cross currency swaps, interest rate options and forward foreign exchange positions. As noted above, the treatment for options is described in Part IV of Specific Instructions.

12. Detailed offsetting rules applicable to the reporting of positions are set out in the relevant parts of Specific Instructions. These offsetting rules can be applied on both the solo and consolidated basis, provided that in the latter case there are no obstacles to the quick repatriation of profits from a foreign subsidiary to the Philippines and the bank performs daily management of risks on a consolidated basis. For this purpose, offsetting means the exclusion of matched positions of a bank from reporting and hence exclusion of such positions from the calculation of the adjusted capital adequacy ratio.

13. For avoidance of doubt, items that are deductible from the qualifying capital of the bank in the calculation of the risk-based capital adequacy ratio under applicable and existing capital adequacy framework are excluded from market risk capital requirement.

14. In general, banks are only required to complete Parts I to IV and VI of the Report. Banks which have obtained the Bangko Sentral's approval to adopt their internal value-at-risk (VaR) models to calculate their market risk capital charge (in all or individual risk

categories) should complete Part V (in lieu of Parts I to IV). Where the internal model is used to calculate only selected risk categories, the capital charge for the risk categories measured under the internal models approach should be reported in Part V while that for the other risk categories measured under the standardized approach should be reported in the relevant sections of Parts I to IV. This combination of the standardized approach and the internal models approach is allowed on a transitional basis. Banks which adopt the internal models approach will not be permitted, save in exceptional circumstances, to revert to the standardized approach.

Specific Instructions

Part I Interest Rate Exposures

1. Debt securities and debt related derivatives – specific risk

15. Report in this part the long and short positions in debt securities and debt derivatives (e.g., bond futures and bond options) in the trading book by category of the issuer. Offsetting will be allowed between long and short positions in identical issues (including positions in derivatives) with exactly the same issuer, coupon, currency and maturity. For items 1.4 to 1.7 of the Report, positions should be slotted into the appropriate time bands according to the residual maturities of the debt securities (or the underlying securities in case of debt derivatives). (Refer to examples (1) and (2) in Annex A).

16. A security, which is the subject of a repurchase agreement, will be treated as if it were still owned by the seller of the security, i.e., to be reported by the seller. This principle applies also in Part 1.2 of the Report. Commitments to buy and sell

securities should be reported as long and short positions, respectively.

17. Foreign countries, foreign incorporated banks and Philippine incorporated banks/QBs with the “highest credit quality”, as well as debt securities with the “highest credit quality” refer to ratees/debt securities given the minimum credit ratings as indicated below by any two of the following internationally accepted rating agencies:

Rating Agency	Credit Rating
(a) Moody’s	“Aa3” and above
(b) Standard and Poor’s	“AA-” and above
(c) Fitch IBCA	“AA-” and above

and such other recognized international rating agencies as may be approved by the Monetary Board.

The ratings of domestic rating agencies may likewise be used for this purpose provided that such rating agencies meet the criteria to be prescribed by the Monetary Board.

18. Multilateral development banks refer to the World Bank Group comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB); the Nordic Investment Bank (NIB); the Caribbean Development Bank (CDB), the Council of Europe Development Bank (CEDB) and such others as may be recognized by the Bangko Sentral.

19. Non-central government public sector entities of a foreign country refer to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

2. Debt securities, debt related derivatives and interest rate derivatives – general market risk

20. Report in this part the long and short trading book positions in debt securities and debt derivatives described above, as well as interest rate derivatives. Report also interest rate exposures arising from futures contracts and forward positions in equities. A Maturity Method is adopted for the reporting of these positions as detailed below. Banks that possess the necessary capability to calculate the duration and price sensitivity of each position separately and wish to adopt such a duration approach for reporting in this part may seek approval from Bangko Sentral.

21. Positions should be reported separately for each currency, i.e., banks should use separate sheets (Part I.2 of the Report) to report positions of different currencies. The unadjusted market risk capital charge is then calculated for each currency according to procedures set out in paragraphs 31 to 34 with no offsetting between different currencies.

22. Under the Maturity Method, positions are slotted into the time bands of the maturity ladder (as shown in Part I.2 of the Report) by remaining maturity if fixed rate and by the period to the next repricing date if floating rate. (Refer to examples (1) and (2) in Annex A). Derivatives should be treated as combinations of long and short positions. The maturity of an interest rate future or a forward rate agreement will be the period until delivery or exercise of the contract, plus – where applicable – the life of the underlying instrument. For example, a long position in a June 3-month interest rate future taken in December is to be reported at end of December as a long position in a zero coupon government security in that particular currency with a

maturity of 9 months and a short position in a zero coupon government security with a maturity of 6 months. (Refer to examples (5) and (6) in Annex A). The market values of the two positions should be reported. For forward foreign exchange positions in the trading book, they should be treated as long and as short positions in a zero coupon government security of the 2 currencies with the same maturity as the forward contract. (Refer to example (8) in Annex A).

23. For a bond future, where a range of deliverable instruments may be delivered to fulfill the contract, the bank has flexibility to elect which deliverable security goes into the maturity ladder but should take account of any conversion factor defined by the exchange. A two-leg approach will be adopted similar to the above. A long bond future will be taken as a long position in a deliverable bond and a short position in a zero coupon security maturing at the future's delivery date. For example, a long futures contract on a 5 year fixed rate security with delivery 3 months from the reporting date will be reported as a long position in say, a 5.25 year security, i.e., a specific security which is within the range of deliverables under the futures contract (as opposed to a notional/theoretical security), and a short position in a 3 months zero coupon security. (Refer to example (3) in Annex A).

The amount to be reported in the above example for both legs will be the contract face value divided by the relevant conversion factor and multiplied by the current cash price of the selected deliverable bond. A forward bond transaction (i.e., with a settlement period longer than the market norm) will be treated similarly, i.e., a long bond forward will be reported as long position in the bond and a short position in a zero coupon security up

to the forward delivery date. The current market value (at spot price) of the bond should be reported.

24. Swaps will be treated as two positions in securities with the relevant maturities. For example, an interest rate swap under which a bank is receiving floating rate interest and paying fixed will be treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument of maturity equivalent to the residual life of the swap. The market values of the 2 instruments should be reported. (Refer to example (4) in Annex A). For swaps that pay or receive a fixed or floating interest rate against some other reference price, e.g., an equity price, the interest rate component should be slotted into the appropriate maturity category, with the equity component being included in the equity framework. The separate legs of cross-currency swaps are to be reported in the relevant maturity ladders for the currencies concerned. (Refer to example (12) in Annex A).

25. As with the reporting under Part I.1 of the Report, banks can offset long and short positions in identical instruments with exactly the same issuer, coupon, currency and maturity for general market risk purposes. Similarly, a matched position in a futures or forward contract and its underlying may be fully offset. However, the leg representing the time to expiry of the futures or forward contract should be reported.

For example, a bank has a long position in a particular bond and sells forward (i.e., beyond the normal settlement period for the security) such a bond as at the reporting date. The long and short positions in the bond can be offset but a long position in a (notional) zero coupon security with maturity at the forward delivery date should be reported, at the current market value of

the bond. Similarly, if the bank has a short position in a bond future and a long position in the underlying bond, such positions can be offset. A long position up to the future's delivery date should, however, be reported.

When the futures contract comprises a range of deliverable instruments, offsetting of positions in the futures contract and its underlying is only permissible in cases where there is a readily identifiable underlying security which is most profitable for the trader with a short position to deliver, i.e., the "cheapest to deliver". This means that offsetting is only permitted between a short future and a long bond, not between a long future and a short bond; and the long bond must be the one that is "cheapest to deliver". The amount to be reported for the remaining long position up to the futures contract's delivery date will be the face value of the contract divided by the relevant conversion factor and multiplied by the current spot price of the "cheapest to deliver" bond.

26. Opposite positions in the same category of derivatives instruments (including the delta-equivalent value of options where the delta-plus approach for options is adopted – see Part IV of the Report) can in certain circumstances be regarded as matched and allowed to offset fully. The separate legs of different swaps may also be "matched" subject to the same conditions. To qualify for this treatment, the positions must relate to the same underlying instruments, be of the same nominal value and be denominated in the same currency. In addition:

(a) for futures: offsetting positions in the notional or underlying instruments to which the futures contract relates must be for identical products and mature within 7 days of each other;

(b) for swaps and forward rate agreements (FRAs): the reference rate (for

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floating rate positions) must be identical and the coupon closely matched (i.e., within 15 basis points); and

(c) for swaps, FRAs and forwards: the next interest fixing date or, for fixed coupon positions or forwards, the residual maturity must correspond within the following limits:

- if either of the instruments for offsetting has an interest fixing date or residual maturity up to 1 month, the interest fixing date or residual maturity must be the same for both instruments;
- if either of the instruments for offsetting has an interest fixing date or residual maturity greater than 1 month and up to 1 year, those dates or residual maturities must be within 7 days of each other; and
- if either of the instruments for offsetting has an interest fixing date or residual maturity over 1 year, those dates or residual maturities must be within 30 days of each other.

For example, a bought and a sold FRA in the same currency with the same face value and settlement date as well as notional deposit maturity date can be offset against each other and excluded from reporting if the contract rates are within 15 basis points of each other. Similarly, opposite swap positions in the same currency with the same face value and reference dates can be offset if, say, the floating rate in both cases is 6 months PHIBOR and the fixed rates are within 15 basis points of each other. The positions can still be offset if the reference dates (i. e., the next interest fixing date or remaining maturity) of the opposite positions are different but within the range as set out in (c) above. Opposite bond futures can, for example, be offset against each other if the deliverable bonds are of the same type and mature within 7 days of each other.

27. Banks with the necessary expertise and systems may use alternative formulae

(the so called “pre-processing” techniques) to calculate the positions to be included in the maturity ladder. This applies to all interest rate sensitive positions, arising from both physical and derivative instruments. One method is to first convert the payments required under each transaction into their present values. For that purpose, each cash flow should be discounted using zero-coupon yields. A single net figure of all of the cash flows within each time band may be reported. Banks wishing to adopt this or other methods for reporting should seek the Bangko Sentral’s prior approval. The “pre-processing” models would be subject to review by the Bangko Sentral.

Calculation of capital charges for interest rate exposures reported in Part I

28. The unadjusted minimum capital requirement is expressed in terms of two separately calculated charges, one applying to the “specific risk” of each trading book position in debt securities or debt derivatives, whether it is a short or long position, and the other to the overall interest rate risk in the trading book portfolio (termed “general market risk”) where long and short positions in different securities or derivatives can be offset subject to certain “disallowances”.

Specific risk

29. The unadjusted specific risk charge is graduated into five broad categories by types of issuer, as follows:

Government and multilateral development banks*	0.00%
Qualifying**	0.25% (residual maturity of 6 months or less)
	1.00% (residual maturity of over 6 months to 24 months)

* “Government and multilateral development banks” refers to the issuers as described under items 1.1 and 1.3 in Part I.1 of the Report.
** “Qualifying” refers to the issuers/issues as described under items 1.4 to 1.7 in Part I.1 of the Report.

	1.60% (residual maturity of over 24 months)
LGU bonds***	4.00%
Others	8.00%

30. Interest rate and currency swaps, FRAs, forward foreign exchange contracts and interest rate futures will not be subject to a specific risk charge. In the case of futures contracts where the underlying is a debt security, a specific risk charge will apply according to the issuer (and the remaining maturity) as set out in the above paragraph.

General market risk

31. General market risk applies to positions in all debt securities, debt derivatives and interest rate derivatives, subject only to an exemption for fully or very closely matched positions in identical instruments as described in paragraphs 25 to 26 above. The unadjusted capital charge is the sum of the following components:

- (a) the net short or long weighted position in the whole trading book;
- (b) a small proportion of the matched positions in each time band (the “vertical disallowance”); and
- (c) a larger proportion of the matched positions across different time-bands (the “horizontal disallowance”).

32. In the maturity ladder, first calculate the weighted positions by multiplying the positions reported in each time band by a risk-factor according to the following table:

Table 1
Maturity method: time bands and weights

Coupon 3% or more	Coupon less than 3%	Risk weight
1 month or less	1 month or less	0.00%
Over 1 month to	Over 1 month to	0.20%

3 months	3 months	
Over 3 months	Over 3 months to	0.40%
to 6 months	6 months	
Over 6 months to	Over 6 months to	0.70%
12 months	12 months	
Over 1 year to	Over 1.0 year to	1.25%
2 years	1.9 years	
Over 2 years to	Over 1.9 years to	1.75%
3 years	2.8 years	
Over 3 years to	Over 2.8 years to	2.25%
4 years	3.6 years	
Over 4 years to	Over 3.6 years to	2.75%
5 years	4.3 years	
Over 5 years to	Over 4.3 years to	3.25%
7 years	5.7 years	
Over 7 years to	Over 5.7 years to	3.75%
10 years	7.3 years	
Over 10 years to	Over 7.3 years to	4.50%
15 years	9.3 years	
Over 15 years to	Over 9.3 years to	5.25%
20 years	10.6 years	
Over 20 years	Over 10.6 years to	6.00%
	12 years	
	Over 12 years to	8.00%
	20 years	
	Over 20 years	12.50%

33. The weighted longs and shorts in each time band will be offset resulting in a single short or long position for each band. A 10% capital charge (“vertical disallowance”) will be levied on the smaller of the offsetting positions, be it long or short. Thus, if the sum of the weighted longs in a time band is ₱100.0 million and the sum of the weighted shorts is PHP90.0 million, the vertical disallowance would be 10% of PHP90.0 million (i.e., PHP9.0 million).

34. Two rounds of “horizontal offsetting” will then be conducted, first between the net positions in each of 3 zones (zero to 1 year, over 1 year to 4 years and over 4 years), and subsequently between the net positions in the 3 different zones. The offsetting will be subject to a scale of disallowances expressed as a fraction of the matched positions, as set out in Table 2 below. The weighted long and short positions in each of 3 zones may be offset,

*** “LGU bonds” refers to bonds issued by local government units (LGUs), covered by Deed of Assignment of Internal Revenue Allotment of the LGU and guaranteed by LGU Guarantee Corporation.

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subject to the matched portion attracting a disallowance factor that is part of the capital charge. The residual net position in each zone may be carried over and offset against opposite positions in other zones, subject to a second set of disallowance factors.

Table 2
Horizontal disallowances

Zones	Time-band	Within the zone	Between adjacent zones	Between zones 1 and 3
	1 month or less			
Zone 1	Over 1 month to 3 months	40%	40%	100%
	Over 3 months to 6 months			
	Over 6 months to 12 months			
	Over 1 year to 2 years			
	Over 2 years to 3 years			
Zone 2	Over 3 years to 4 years	30%	40%	
	Over 4 years to 5 years			
	Over 5 years to 7 years			
	Over 7 years to 10 years			
Zone 3	Over 10 years to 15 years	30%		
	Over 15 years to 20 years			
	Over 20 years			

Part II Equity Exposures

35. Report in this part the long and short positions in equities and equity derivatives in the trading book, including instruments that exhibit market behavior similar to equities. The instruments covered include common stock (whether voting or non-voting), convertible bonds (i.e., debt issues or preference shares that are convertible, at a stated price, into

common shares of the issuer) which trade like equities and commitments to buy or sell equity securities. For non-convertible preference shares and those convertible bonds which trade like debt securities, they should be reported under Part I. Equity derivatives include forwards, futures and swaps on both individual equities and or stock indices. Options should be included subject to the specific instructions set out in Part IV. Long and short positions in the same issue may be reported on a net basis.

36. The positions are to be reported on a market-by-market basis, i.e., under separate columns to indicate the exchange where the reported equities are listed/traded. For foreign markets, banks should indicate the country where the market is located. (Refer to example (9) in Annex A) Equities with listing in more than one market should be reported as positions in the market of their primary listing.

37. Equity derivatives are to be converted into positions in the relevant underlying. Futures and forward contracts relating to an individual equity should be reported at current market values. Futures relating to equity indices can be reported either as the current index value times the monetary value of one index point set by the exchange, i.e., the “tick” value, or the marked-to-market value of the notional underlying equity portfolio. (Refer to example (11) in Annex A).

38. Matched positions in each identical equity or index (same delivery months) in each market may be fully offset, resulting in a single net short or long position. A future in a given equity may be offset against an opposite cash position in the same equity but the interest rate exposure

arising out of the equity futures should be reported in Part I. For example, a short futures contract on a specific stock with delivery 3 months from the reporting date can be offset against a long position in the underlying stock. However, the interest rate exposure arising out of the equity futures should be reported as a long position in the “1 to 3 months” time band of the stock denominated currency in Part I. The position should be reported as the current market value of the stock.

39. An equity swap obligates a bank to receive an amount based on the change in value of a particular equity or equity index and also to pay an amount based on the change in value of a different equity or equity index. Accordingly, the receipt side and the payment side of an equity swap contract should be reported as a long and a short position, respectively. For an equity swap contract which involves a leg relating to a financial instrument other than equities or equity derivatives, for example, receiving/paying a fixed or floating interest rate, the exposure should be slotted into the appropriate maturity band in Part I. Where equities are part of a forward contract (equities to be received or to be delivered), any interest rate exposure from the other leg of the contract should be reported in Part I. The treatment is similar to that set out in paragraph 38. The same arrangement applies for index futures. (Refer to example (11) in Annex A).

40. As with interest rate exposures, the capital charge is levied to separately cover both the specific risk and the general market risk. Calculation is done on an individual market basis. The unadjusted capital charge for specific risk will be 8% on the gross (i.e., long plus short) positions. The unadjusted general market risk charge will be 8% on the net

position. Net long and short positions in different markets cannot be offset for the purpose of calculating general market risk charge.

Part III Foreign Exchange Exposures

41. Report in this part the amount in US dollars (USD) of net long or net short position in each currency. The net delta-based equivalent of foreign currency options should also be reported for each currency, subject to the specific instructions in Part IV. In addition, structural positions taken deliberately to hedge against the effects of exchange rate movements on the capital adequacy of the reporting bank may be excluded. This should be cleared with the BSP prior to reporting.

42. Net long/(short) position shall refer to FX assets (excluding FX items allowed under existing regulations to be excluded from FX assets in the computation of a bank’s net FX position limits) less FX liabilities (excluding FX items allowed under existing regulations to be excluded from FX liabilities in the computation of a bank’s net FX position limits), plus contingent FX assets less contingent FX liabilities, including net delta weighted long/(short) position of options (subject to a separately calculated capital charge for gamma and vega described in Part IV.2). Alternatively, if the bank engages in purchase of options only, the options shall be carved out and reported under Part IV.1. Delta-weighted long and short positions refer to potential purchases and sales of the underlying, respectively. For example, a short put option carries a potential purchase of the underlying, thus will be treated as a long delta-weighted position.

43. Banks which base their normal management accounting of forward currency positions on net present values

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shall use the net present values of each position, discounted using current interest rates, for measuring their positions. Otherwise, forward currency positions shall be measured based on notional amount.

44. The total USD amount of net long or net short position in each currency should then be converted at spot rates into Philippine peso. The overall net open position is the greater of the absolute value of the sum of net long position or sum of net short position.

45. The unadjusted capital charge will be 8% of the overall net open position.

Part IV Options

46. Report in this part the positions of option contracts which are related to the risk categories reported in Parts I to III, using either the Simplified Approach or the Delta Plus Approach.

1. For banks that purchase options only – Simplified Approach

47. Banks will be considered to be engaging only in purchase of options if at any time all their written option positions (if any) are hedged by perfectly matched long positions in exactly the same options. In this case such perfectly matched options need not be reported and only the outstanding long (purchased) options are covered by the following approach.

48. Treatments for purchased options with and without related cash positions are summarized in Table 3 below. The capital charge should be calculated separately for each individual option (together with the related cash position). Banks should then

report the sum of the capital charges calculated.

Table 3
Simplified approach: capital charge for purchased options only

Short cash and Long call or Long cash and Long put	The capital charge will be the market value of the underlying of the option multiplied by the sum of specific and general market risk charges for the underlying less the amount the option is in the money (if any), with the reduced capital charge bounded at zero*. (Refer to example (10) in Annex A).
Long call or Long put	The capital charge will be the lesser of: a. the market value of the underlying of the option multiplied by the sum of specific and general market risk charges for the underlying; and b. the market value of the option.**

49. The market risk capital charges to be applied for the purpose of the above paragraph are indicated in Table 4 below:

Table 4

Underlying	Specific risk charge	General market risk charge
Debt instruments***: Government and multi-lateral development banks Qualifying (with residual maturity) 6 months or less Over 6 months to 24 months Over 24 months	0.00% 0.25% 1.00% 1.60%	As per the risk weights in Table 1, according to the residual maturity (fixed rate) or next repricing (floating

* For options with a residual maturity of more than 6 months, the strike price should be compared with the forward, not current, price. A bank unable to do this must take the in the money amount to be zero.
** Where the position does not fall within the trading book (i.e., options on certain foreign exchange position not belonging to the trading book), it is acceptable to use the book value instead.
*** Issuer/issues classifications as per Part I.1 of the Report.

LGU bonds	4.00%	
Others	8.00%	
Interest rate (non-debt related)	0.00%	
Equity	8.00%	8.00%
Foreign Exchange	0.00%	8.00%

50. In some cases such as foreign exchange where it may be unclear which currency is the “underlying” of the option, this should be taken to be the asset which would be received if the option is exercised. In addition, the nominal value should be used for items where the market value of the underlying instrument could be zero, e.g., caps and floors as well as swaptions.

2. For banks that write options – Delta Plus Approach

51. Banks that write options (apart from those described in paragraph 47) should report in Parts I to III the relevant delta-weighted positions of all their outstanding options, i.e., the market value of the underlying of the option multiplied by the option delta. The relevant negative gamma and vega sensitivities of these options should be reported in Parts IV.2(a) to IV.2(c) of the Report in order to capture the delta sensitivity and volatility risk of these options. Banks wishing to adopt alternate treatments for their options such as a scenario approach should seek prior approval from the Bangko Sentral.

52. Delta-weighted option positions with *debt securities or interest rates as the underlying* will be slotted into the interest rate time bands, as set out in Part I.2 of the Report. A two-legged approach should be used as for other derivatives, requiring one entry at the time the underlying contract takes effect and a second at the time the underlying contract matures. In other words the reporting mechanism would be the same as those for the positions in the underlying instruments of the options as presented in Parts I to III, except that the market value of the

underlying instruments will be adjusted by the delta ratios of the relevant options for reporting under this approach. For instance:

(a) A bought call option on a June 3-month interest-rate future will in March be considered, on the basis of its delta-equivalent value, to be a long position with a maturity of 6 months and a short position with a maturity of 3 months. The written option will similarly be slotted as a long position with a maturity of 3 months and a short position with a maturity of 6 months.

(b) A 2-month purchased call option on a bond future where delivery of the bond takes place in September would be considered in March as being long the deliverable bond and short a 6-month government security in the same currency, both positions being delta-weighted.

(c) Floating rate instruments with caps or floors will be treated as a combination of floating rate securities and a series of European-style options, e.g., the holder of 2-year floating rate security indexed to 6 month LIBOR with a cap of 8% will treat it as:

(i) a debt security that reprices in 6 months; and

(ii) a series of 3 written call options on a FRA with a reference rate of 8%, each with a negative sign at the time the underlying FRA takes effect and a positive sign at the time the underlying FRA matures. (The rules applying to closely matched positions set out in paragraph 26 will also apply in this respect.) (Refer to example (7) in Annex A).

53. The reporting of *options with equities as the underlying* will also be based on the delta-weighted positions which will be incorporated in Part II of the Report. For purposes of this calculation, each national market is to be treated as a separate underlying. For options on foreign exchange position, the net delta-based equivalent of the foreign currency options will be incorporated into the measurement of the exposure for the respective currency position. These delta

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positions will be reported in Part III of the Report.

54. The net negative gamma positions and vega positions of all outstanding options (purchased or written) should also be reported in Part IV.2. This is in addition to the delta positions being reported in Parts I to III.

55. The net negative gamma positions should be reported in the following way:

(a) for each individual option, a “gamma impact” should be calculated by the following formula:

$$\text{Gamma impact} = \frac{1}{2} \times \text{Gamma} \times \text{VU}^2$$

where VU = Variation of the underlying of the option.

(b) VU will be calculated as follows:

- for debt and interest rate options of which the delta-equivalent position is reported in Part I, the market value of the underlying or notional underlying multiplied by the risk weights for the appropriate time bands set out in Table 1;
- for options on equities and equity indices, the market value of the underlying multiplied by 8%; and
- for options on foreign exchange, the market value of the underlying multiplied by 8%.

(c) For the purpose of this calculation the following positions should be treated as the same underlying:

- for interest rate instruments, each time band as set out in Table 1;
- for equities and equity indices, each national market; and
- for foreign currencies, each currency pair.

Banks with options relating to more underlyings than the space provided should report their positions in additional sheets.

(d) Each option on the same underlying will have a gamma impact that is either positive or negative. These individual

gamma impacts will be summed, resulting in a net gamma impact for each underlying that is either positive or negative. Only those net gamma impacts that are negative should be reported.

56. The vega charge should be reported in the following way:

(a) The vega positions should represent the risk in a proportional shift in volatility of $\pm 25\%$ for the underlying. For example, an increase in volatility carries a risk of loss for a short option of which the assumed current (implied) volatility is 20%. With a proportional shift of 25%, the vega position has to be calculated on the basis of an increase in volatility of 5 percentage points from 20% to 25%. If the vega is calculated as 1.68, i.e., a 1% increase in volatility increases the value of the option by 1.68, then the above change in volatility of 5 percentage points will increase the value of the option by 8.4 (1.68 x 5) which represents the vega position to be reported.

(b) Each option on the same underlying will have a vega position that is either positive or negative. These individual vega positions will be summed, resulting in a net vega position for each underlying that is either positive or negative. The total vega charge will be the sum of the absolute values of the net vega positions obtained for each underlying.

Part V Internal Models Approach

57. Only those banks which have obtained the BSP’s approval to adopt their internal value-at-risk (VaR) models to calculate their market risk capital charges in lieu of the standardized methodology are required to report in this part.

1. Value-at-risk results

58. Report in this part the value-at-risk (VaR) results as at the last trading day of the

reference quarter in column (a) and the average VaR over the most recent 60 trading days of the reference quarter in column (b), both for each individual market risk category using internal models approach, i.e., item 1.1 to 1.3, and for the aggregate of these risk categories, i.e., item 1.4.

59. Provided that the Bangko Sentral is satisfied with the bank’s system for measuring correlations, recognition of empirical correlations across broad risk categories (e.g., interest rates, equity prices and exchange rates, including related options volatilities in each risk factor category) may be allowed. The VaR for the aggregate of all risk categories will therefore not necessarily be equal to an arithmetic sum of the VaR for the individual risk category.

60. Report also in this part the number of backtesting exceptions for the past 250 trading days (from the reference quarter-end going backwards), based on:

- actual daily changes in portfolio value, in item 1.4. column (c), and
- hypothetical changes in portfolio value that would occur were end-of-day positions to remain unchanged during the 1 day holding period, in item 1.4 column (d),

for the aggregate of the broad risk categories.

61. The multiplication factor to be reported in item 1.4 column (e) is the summation of the following 3 elements:

- (a) the minimum multiplication factor of 3;
- (b) the “plus” factor ranging from 0 to 1 based on the number of backtesting exceptions (i.e., the larger of item 1.4 column (c) or item 1.4 column (d)) for the past 250 trading days as set out in Table 5 below: and
- (c) any additional “plus” factor as may be prescribed by the Bangko Sentral.

Table 5
“Plus” factor based on the number of backtesting exceptions for the past 250 trading days

Zone	Number of exceptions	“Plus” factor
Green zone	0	0.00
	1	0.00
	2	0.00
	3	0.00
	4	0.00
Yellow zone	5	0.40
	6	0.50
	7	0.65
	8	0.75
	9	0.85
Red zone	10 or more	1.00

62. Capital charge for general market risk calculated by internal models reported in item 1.6 is larger of:

- (a) Item 1.4 column (a), i.e., VaR for the aggregate of all risk categories, as at the last trading day of the reference quarter; or
- (b) Item 1.5, i.e., the average VaR for the last 60 trading days of the reference quarter [item 1.4 column (b)] times the multiplication factor [item 1.4 column (e)] set out in paragraph 61 above.

2. Specific risk

63. Capital charge for the specific risk of debt securities and other debt related derivatives, and equities and equity derivatives is to be reported using either of the following two methods:

- (a) For banks which incorporate the specific risk into their models, report the capital charge for the total specific risk calculated by the models in item 1.7 of Part V.1; or
- (b) For banks which do not incorporate the specific risk into their models, report the specific risk of debt securities and other debt related derivatives in Part I.1 according to the instructions in paragraphs 15-19 and 29-30. For equities and equity derivatives,

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report the specific risk in Part II according to the instructions in paragraphs 35 to 40.

3. Largest daily losses over the quarter

64. Report in this part in descending order (i.e., the largest loss first) the 5 largest daily losses over the reference quarter and their respective VaRs for the risk exposures which are measured by the internal models approach. If the number of daily losses during the quarter is less than 5, report only all such daily losses.

Part VI Adjusted Capital Adequacy Ratio

65. The market risk capital charges should be aggregated and converted to a market risk-weighted exposure. The total market risk capital charges is the sum of the capital charges for individual market risk categories computed using either (a) the standardized approach, or (b) the internal models approach. The total capital charges for individual market risk categories using the standardized approach should be multiplied by 125% (to be consistent with the higher capital charge for credit risk, i.e., ten percent (10%) as

opposed to the BIS recommended eight percent (8%).

66. The total market risk-weighted exposure is computed by multiplying the total market risk capital charges by 10. (The multiplier 10 is the reciprocal of the Bangko Sentral required minimum capital ratio for credit risk of 10%). The qualifying capital and total credit risk-weighted exposures are extracted from Part V.A and Part V.B, respectively, of the Report on the Computation of Risk-Based Capital Adequacy Ratio covering credit risk.

67. For on-balance-sheet debt securities and equities in the trading book included in Parts I, II and V of this Report, the credit risk-weighted exposures reported in Part II of the Report on the Computation of the Risk-Based Capital Adequacy Ratio covering credit risk should be excluded in calculating the adjusted ratio covering combined credit risk and market risk. The market risk capital charges for these positions calculated in this Report cover all the capital requirements for absorbing potential losses arising from carrying such positions.

(As amended by Circular Nos. 890 dated 02 November 2015 and 827 dated 28 February 2014)

Suppose as at 31 December, 200X, ABC Bank Corporation has the following trading book positions:

- (1) Long position in US Treasury Bond (7.5% annual coupon) with face value equivalent to PHP507.000MM and residual maturity of 8 years. Market value based on quoted price: PHP518.914MM equivalent

(2) Long position in an unrated floating rate note (6.25% current annual coupon) issued by a US corporate with face value equivalent of PHP260.000MM and next repricing 9 months after. Market value based on quoted price: PHP264.758MM equivalent

(3) Long 10 futures contracts involving 5-year US Treasury Note (face value USD0.100MM per contract) for delivery 3 months after. Selected deliverable: US Treasury Note (coupon 6.375%) maturing 5.25 years, current price at 100.0625, conversion factor 0.9423.

(4) Single currency interest rate swap with face value PHP975.000MM and residual maturity of 2.5 years, bank receives annual floating rate interest and pays fixed at 8% per annum. The current floating rate is fixed at 5.5% with next repricing after 6 months.

(5) Long 10 futures contracts involving 3-month LIBOR interest rate (face value GBP6.500MM per contract) for delivery 6 months after.

(6) An FRA sold on 6-month PHIBOR with nominal amount PHP130.000MM and settlement date 9 months after.

(7) A GBP2.000MM 2 year cap written on GBP 6 month LIBOR at cap rate 8%, next repricing after 6 months and remaining maturity 2 years (i.e., the cap is written on the reporting date).

(8) Forward foreign exchange position of EUR5.000MM (long) against PHP250.000MM equivalent maturing in 3 months.
- (9) Long 1000 shares of a US listed company with current market price of PHP715.000MM equivalent.

(10) Long 50,000 shares of a Philippine listed company hedged by a long position in 25 put option contracts (each contract represents 1,000 shares) for the same share. The current market price for the share is PHP195.00 and the exercise price of all the option contracts is PHP214.50.

(11) Short one Hang Seng Index Futures for delivery 3 months after, current index at 10,000.

(12) Currency swap with residual maturity of 6 months. Bank receives USD19.500MM at 9.5% per annum and pays PHP975.000MM at 11% per annum.
- Treatments:**

(1) Report market value (PHP518.914MM) of the long position in Part I.1, item I.2 and Part I.2, USD ladder, 7 to 10 years time band.

(2) Report market value (PHP264.758MM) of the long position in Part I.1, item 1.9' and Part I.2, USD ladder, 6 to 12 months time band.

(3) Report selected Treasury Note (long position) in Part I.1, item I.2 and Part I.2, USD ladder, 5 to 7 year time band. Report the same amount in short position, 1 to 3 months time band.
- Assume spot exchange rate PHP50.00

Amount to be reported:

USD0.100MM x 10 x 100.0625%/0.9423
= USD1.062MM

= P53.095MM

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(4) Report the fixed rate leg as a short 2.5-year bond in Part I.2, Peso ladder, 2 to 3 years time band. Report the floating rate leg as a long 6 months security in the 3 to 6 months time band.

Assume the Peso zero coupon yields are as follows:

Period	Zero Coupon (ZC)
1M	5.31
3M	5.63
6M	5.81
1Y	6.16
2Y	6.69
3Y	7.07

(Zero coupon yields within 1 year can be taken as cash rates, i.e., PHIBOR, zero coupon yields beyond 1 year can be constructed from, say, swap rates.)

Cash flows of Peso swap: 2 legs

Pay – fixed rate bond
8% of PHP975.000MM in 6 months
8% of PHP975.000MM in 18 months
108% of PHP975.000MM in 30 months
Receive – floating rate paper
105.5% of PHP975.000MM in 6 months

Zero-coupon rates at 18 months can be obtained from the linear interpolation between the 1Y and 2Y zero coupon rates.

ZC(18 months) = (6.16% + 6.69%)/2 = 6.425%

Similarly,

ZC(30 months) = (6.69% + 7.07%)/2 = 6.88%

PV of the fixed leg (i.e., pay side)
= PHP975.000MM x $\frac{0.08}{(1 + 0.0581 \times 0.5)} + \frac{0.08 + 1.08}{(1 + 0.06425)^{1.5}} + \frac{1.08}{(1 + 0.0688)^{2.5}}$
= PHP1,038.479MM

PV of the floating leg (i.e. receive side)

= PHP975.000MM x $\frac{1.055}{(1 + 0.0581 \times 0.5)}$

= PHP999.587MM

(5) Report a long 9 months zero coupon security in Part I.2, GBP ladder, 6 to 12 months time band and a short 6 months zero coupon security in 3 to 6 months time band.

Assume the GBP 6 months zero-coupon yield is 6.74% while the interpolated 9 months zero-coupon yield is 6.87%. Assume spot exchange rate is PHP75.00.

Amount to be reported:

9 months = GBP65.000MM/(1 + 0.0687 x 0.75)
= GBP65.000MM x 0.951
= PHP4,636.124MM equivalent

6 months = GBP65.000MM/(1 + 0.0674 x 0.5)
= GBP65.000MM x 0.9674
= PHP4,716.069MM equivalent

(6) Report a long 15 months zero coupon security in Part I.2, Peso ladder, 1.0 to 1.9 years time band and a short 9 months zero coupon security in 6 to 12 months time band.

Calculations similar to (4) above,
ZC(15 months) = 6.16% + (6.69%-6.16%)x 0.25
= 6.2925%

15 months = PHP130.000MM(1 + 0.062925)^{1.25}
= PHP121.000MM

9 months = PHP130.000MM x 0.957
= PHP124.410MM

(7) Report the cap as 3 written call options on 6-month FRA, i.e., 6 against 12, 12 against 18 and 18 against 24.

(The rate for the first 6 months is already set on the reporting date, i.e., the option already expires.)

Assume the delta ratios of the options are: 6 against 12 0.055 12 against 18 0.17 18 against 24 0.225	(For simplicity, gamma and vega positions are not presented in this example.)
Assume the discounting factors are: 6 month 0.9674 12 month 0.9346 18 month 0.9009 24 month 0.8673	(8) Report a long 3 months zero coupon security in Part I.2, EUR ladder, 1 to 3 months time band and a short 3 months zero coupon security in the Peso ladder, 1 to 3 months time band.
Assume spot exchange rate is PHP75.00	Calculations similar to (4) above and assume 3 months EUR cash rate at 3.25% and spot exchange rate is PHP46.00.
Report in Part I.2 GBP ladder:	EUR = EUR5.000MM/(1 + 0.0325 x 0.25) = PHP228.146MM equivalent
For the first option – A long position in the 6 to 12 months time band = GBP2.000MM x 0.055 x 0.9346 = PHP7.710MM equivalent A short position in the 3 to 6 months time band = GBP2.000MM x 0.055 x 0.9674 = PHP7.981MM equivalent	PHP = PHP250.000MM/(1 + 0.0563 x 0.25) = PHP246.530MM (For simplicity, Part III of the report is not presented in this example.)
For the second option – A long position in the 1.0 to 1.9 years time band = GBP2.000MM x 0.17 x 0.9009 = PHP22.973MM equivalent A short position in the 6 to 12 months time band = GBP2.000MM x 0.17 x 0.9346 = PHP23.832MM equivalent	(9) Report market value in Part II, item 1 (US column). (10) Report as a long position the market value for 25,000 shares (PHP4.875MM) in Part II, Item 1 (Philippine column). Report 25,000 shares covered by put option in Part IV.1 (a), item 2 Amount to be reported = (25,000 x PHP195.00 x 16%) – {25,000 x (PHP214.50 – PHP195.00)} = PHP0.293MM
For the third option – A long position in the 1.9 to 2.8 years time band = GBP2.000MM x 0.225 x 0.8673 = PHP29.271MM equivalent A short position in the 1.0 to 1.9 years time band = GBP2.000MM x 0.225 x 0.9009 = PHP30.405MM equivalent	(11) Report as a short position the market value for futures (HKD50.00 per index point) in Part II, item 5 (HKD column) and as a long position in Part I.2, HKD ladder, 1 to 3 months time band. Assume HKD to PHP exchange rate is PHP6.50. (12) Report the USD leg as a long 6-month zero coupon security in Part I.2, USD ladder, 3 to 6 months time band. Report

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the PHP leg as a short 6-month zero coupon security in Part I.2, PHP ladder, 3 to 6 months time band.

Assume the 6-month Peso and Dollar zero coupon yields are 5.81% and 4%, respectively, and the spot exchange rate is PHP50.00.

Cash flows of currency swap: two legs

Pay – PHP
111% of PHP975.000MM in 6 months

PV of PHP leg

$$= \frac{\text{PHP}975.000\text{MM} \times (1.11)}{(1 + 0.0581 \times 0.5)}$$

= PHP1,051.700MM

Receive – USD

109.5% of USD19.500MM in 6 months

PV of USD leg

$$= \frac{\text{USD}19.500\text{MM} \times (1.095)}{(1 + 0.04 \times 0.5)}$$

= PHP1,046.700MM equivalent

INSTRUCTIONS FOR ACCOMPLISHING THE REPORT ON COMPUTATION OF
THE ADJUSTED RISK-BASED CAPITAL ADEQUACY RATIO COVERING
COMBINED CREDIT RISK AND MARKET RISK
(For Universal Banks and Commercial Banks with Expanded Derivatives Authority
But Without Options Transactions)

General Instructions

- 1. All UBs and KBs are required to complete this Report both on a solo basis (i.e., head office plus branches) and on a consolidated basis (i.e., parent bank plus subsidiary financial allied undertakings, but excluding insurance companies).
- 2. The Report should be submitted as follows:
 - (a) Solo report - within fifteen (15) banking days after the end of each reference quarter; and
 - (b) Consolidated report - within thirty (30) banking days after the end of each reference quarter.
- 3. Current market value should be used for reporting. For leveraged instruments where the apparent notional amount differs from the effective notional amount, the bank should use the effective notional amount in calculating the market value for reporting, e.g., a swap contract with a stated notional amount of PHP1.0 million, the terms of which call for a quarterly settlement of the difference between five percent (5%) and PHIBOR multiplied by 10 has an effective notional amount of PHP10.0 million.
- 4. Securities transactions are to be reported on a “trade date” basis.

Definitions and Clarifications

- 5. Market risk is defined as the risk of losses in on- and off-balance sheet positions

arising from movements in market prices. The risks subject to this reporting requirement are:

- (a) the risks pertaining to interest rate-related instruments and equities in the bank’s trading book; and
- (b) foreign exchange risk throughout the bank.

The Report should include the reporting bank’s positions in on-balance sheet financial instruments and off-balance sheet derivatives, the latter being defined as financial contracts whose values depend on the values of one or more underlying assets or indices.

- 6. For the purpose of the Report, the trading book of a bank shall consist of:
 - (a) its proprietary positions in financial instruments which are taken on with the intention of short-term resale or benefiting in the short term from actual or expected differences between the buying and selling prices or from other price or interest rate variations;
 - (b) positions which arise from the execution of trade orders from customers and market making; and
 - (c) positions taken in order to hedge other elements of the trading book.
- 7. The financial instruments referred to in the preceding paragraph include:
 - (a) (i) transferable securities;
 - (ii) units in collective investment undertakings;
 - (b) certificates of deposit and other similar capital market instruments;
 - (c) financial futures contracts;

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- (d) forward contracts including forward rate agreements; and
- (e) swaps

8. Banks are expected to have an established policy for allocating transactions (including internal deals) to the trading or non-trading (i.e., banking) book, as well as procedures to ensure compliance with such policy. There must be a clear audit trail at the time each transaction is entered into and the Bangko Sentral will examine the adequacy of such policy and procedures and their consistent implementation when it is considered necessary. For this purpose, banks which engage in trading activities should submit to the Bangko Sentral a policy statement covering:

- (a) the definition of trading activities;
- (b) the financial instruments which can be traded or used for hedging the trading book portfolio; and
- (c) the principles for transferring positions between the trading and the banking books.

9. In general, the Bangko Sentral will have regard to the bank's intention in entering into a particular transaction when determining whether such transaction should fall into the trading book. Transactions will likely be considered to carry a trading intent on the part of the bank if:

- (a) the positions arising from the transactions are marked to market on a daily basis as part of the internal risk management process;
- (b) the positions are not (or not intended to be) held to maturity; and
- (c) the positions satisfy other criteria the bank applies to its trading portfolio on a consistent basis.

10. Debt securities include both fixed-rate and floating-rate instruments, negotiable certificates of deposit, non-convertible preference shares, and also convertible bonds (i.e., debt issues or preference shares

that are convertible, at a stated price, into common shares of the issuer) which trade like debt securities. Debt related derivatives include bond futures.

11. Interest rate derivatives include all derivatives contracts and off-balance sheet instruments which react to changes in interest rates, e.g., interest rate futures, forward rate agreements (FRAs), interest rate and cross currency swaps, and forward foreign exchange positions.

12. Detailed offsetting rules applicable to the reporting of positions are set out in the relevant parts of Specific Instructions. These offsetting rules can be applied on both the solo and consolidated basis, provided that in the latter case there are no obstacles to the quick repatriation of profits from a foreign subsidiary to the Philippines and the bank performs daily management of risks on a consolidated basis. For this purpose, offsetting means the exclusion of matched positions of a bank from reporting and hence exclusion of such positions from the calculation of the adjusted capital adequacy ratio.

13. For avoidance of doubt, items that are deductible from the qualifying capital of the bank in the calculation of the risk-based capital adequacy ratio pursuant to applicable and existing capital adequacy framework are excluded from market risk capital requirement.

14. In general, banks are only required to complete Parts I to III and V of the Report. Banks which have obtained the Bangko Sentral's approval to adopt their internal value-at-risk (VaR) models to calculate their market risk capital charge (in all or individual risk categories) should complete Part IV (in lieu of Parts I to III). Where the internal model is used to calculate only selected risk categories, the capital charge for the risk

categories measured under the internal models approach should be reported in Part IV while that for the other risk categories measured under the standardized approach should be reported in the relevant sections of Parts I to III. This combination of the standardized approach and the internal models approach is allowed on a transitional basis. Banks which adopt the internal models approach will not be permitted, save in exceptional circumstances, to revert to the standardized approach.

Specific Instructions

Part I Interest Rate Exposures

1. Debt securities and debt related derivatives – specific risk

15. Report in this part the long and short positions in debt securities and debt derivatives (e.g., bond futures) in the trading book by category of the issuer. Offsetting will be allowed between long and short positions in identical issues (including positions in derivatives) with exactly the same issuer, coupon, currency and maturity. For items 1.4 to 1.7 of the Report, positions should be slotted into the appropriate time bands according to the residual maturities of the debt securities (or the underlying securities in case of debt derivatives). (Refer to examples (1) and (2) in Annex A).
16. A security, which is the subject of a repurchase agreement, will be treated as if it were still owned by the seller of the security, i.e., to be reported by the seller. This principle applies also in Part 1.2 of the Report. Commitments to buy and sell securities should be reported as long and short positions, respectively.

17. Foreign countries, foreign incorporated banks and Philippine incorporated banks/QBs with the “highest credit quality”, as well as debt securities with the “highest credit quality” refer to ratees/debt securities given the minimum credit ratings as indicated below by any two of the following internationally accepted rating agencies:

Rating Agency	Credit Rating
(a) Moody’s	“Aa3” and above
(b) Standard and Poor’s	“AA-” and above
(c) Fitch IBCA	“AA-” and above

and such other recognized international rating agencies as may be approved by the Monetary Board.

The ratings of domestic rating agencies may likewise be used for this purpose provided that such rating agencies meet the criteria to be prescribed by the Monetary Board.

18. Multilateral development banks refer to the World Bank Group comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB); the Nordic Investment Bank (NIB); the Caribbean Development Bank (CDB), the Council of Europe Development Bank (CEDB) and such others as may be recognized by the Bangko Sentral.
19. Non-central government public sector entities of a foreign country refer to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

2. Debt securities, debt related derivatives and interest rate derivatives – general market risk

20. Report in this part the long and short trading book positions in debt securities and debt derivatives described above, as well as interest rate derivatives. Report also interest rate exposures arising from futures contracts and forward positions in equities. A Maturity Method is adopted for the reporting of these positions as detailed below. Banks that possess the necessary capability to calculate the duration and price sensitivity of each position separately and wish to adopt such a duration approach for reporting in this part may seek approval from Bangko Sentral.

21. Positions should be reported separately for each currency, i.e., banks should use separate sheets (Part I.2 of the Report) to report positions of different currencies. The unadjusted market risk capital charge is then calculated for each currency according to procedures set out in paragraphs 31 to 34 with no offsetting between different currencies.

22. Under the Maturity Method, positions are slotted into the time bands of the maturity ladder (as shown in Part I.2 of the Report) by remaining maturity if fixed rate and by the period to the next repricing date if floating rate. (Refer to examples (1) and (2) in Annex A). Derivatives should be treated as combinations of long and short positions. The maturity of an interest rate future or a forward rate agreement will be the period until delivery or exercise of the contract, plus – where applicable – the life of the underlying instrument. For example, a long position in a June 3-month interest rate future taken in December is to be reported at end of December as a long position in a zero coupon government security in that particular currency with a maturity of 9 months and a short position in a zero

coupon government security with a maturity of 6 months. (Refer to examples (5) and (6) in Annex A). The market values of the two positions should be reported. For forward foreign exchange positions in the trading book, they should be treated as long and as short positions in a zero coupon government security of the 2 currencies with the same maturity as the forward contract. (Refer to example (7) in Annex A).

23. For a bond future, where a range of deliverable instruments may be delivered to fulfill the contract, the bank has flexibility to elect which deliverable security goes into the maturity ladder but should take account of any conversion factor defined by the exchange. A two-leg approach will be adopted similar to the above. A long bond future will be taken as a long position in a deliverable bond and a short position in a zero coupon security maturing at the future's delivery date. For example, a long futures contract on a 5 year fixed rate security with delivery 3 months from the reporting date will be reported as a long position in say, a 5.25 year security, i.e., a specific security which is within the range of deliverables under the futures contract (as opposed to a notional/theoretical security), and a short position in a 3 months zero coupon security. (Refer to example (3) in Annex A).

The amount to be reported in the above example for both legs will be the contract face value divided by the relevant conversion factor and multiplied by the current cash price of the selected deliverable bond. A forward bond transaction (i.e., with a settlement period longer than the market norm) will be treated similarly, i.e., a long bond forward will be reported as long position in the bond and a short position in a zero coupon security up to the forward delivery date. The current market value (at spot price) of the bond should be reported.

24. Swaps will be treated as two positions in securities with the relevant maturities. For example, an interest rate swap under which a bank is receiving floating rate interest and paying fixed will be treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument of maturity equivalent to the residual life of the swap. The market values of the 2 instruments should be reported. (Refer to example (4) in Annex A). For swaps that pay or receive a fixed or floating interest rate against some other reference price, e.g., an equity price, the interest rate component should be slotted into the appropriate maturity category, with the equity component being included in the equity framework. The separate legs of cross-currency swaps are to be reported in the relevant maturity ladders for the currencies concerned. (Refer to example (10) in Annex A).

25. As with the reporting under Part I.1 of the Report, banks can offset long and short positions in identical instruments with exactly the same issuer, coupon, currency and maturity for general market risk purposes. Similarly, a matched position in a futures or forward contract and its underlying may be fully offset. However, the leg representing the time to expiry of the futures or forward contract should be reported.

For example, a bank has a long position in a particular bond and sells forward (i.e., beyond the normal settlement period for the security) such a bond as at the reporting date. The long and short positions in the bond can be offset but a long position in a (notional) zero coupon security with maturity at the forward delivery date should be reported, at the current market value of the bond. Similarly, if the bank has a short position in a bond future and a long position in the underlying bond, such positions can

be offset. A long position up to the future's delivery date should, however, be reported.

When the futures contract comprises a range of deliverable instruments, offsetting of positions in the futures contract and its underlying is only permissible in cases where there is a readily identifiable underlying security which is most profitable for the trader with a short position to deliver, i.e., the "cheapest to deliver". This means that offsetting is only permitted between a short future and a long bond, not between a long future and a short bond; and the long bond must be the one that is "cheapest to deliver". The amount to be reported for the remaining long position up to the futures contract's delivery date will be the face value of the contract divided by the relevant conversion factor and multiplied by the current spot price of the "cheapest to deliver" bond.

26. Opposite positions in the same category of derivatives instruments can in certain circumstances be regarded as matched and allowed to offset fully. The separate legs of different swaps may also be "matched" subject to the same conditions. To qualify for this treatment, the positions must relate to the same underlying instruments, be of the same nominal value and be denominated in the same currency. In addition:

(a) for futures: offsetting positions in the notional or underlying instruments to which the futures contract relates must be for identical products and mature within 7 days of each other;

(b) for swaps and forward rate agreements (FRAs): the reference rate (for floating rate positions) must be identical and the coupon closely matched (i.e., within 15 basis points); and

(c) for swaps, FRAs and forwards: the next interest fixing date or, for fixed coupon positions or forwards, the residual maturity must correspond within the following limits:

- if either of the instruments for offsetting has an interest fixing date or

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residual maturity up to 1 month, the interest fixing date or residual maturity must be the same for both instruments;

- if either of the instruments for offsetting has an interest fixing date or residual maturity greater than 1 month and up to 1 year, those dates or residual maturities must be within 7 days of each other; and
- if either of the instruments for offsetting has an interest fixing date or residual maturity over 1 year, those dates or residual maturities must be within 30 days of each other.

For example, a bought and a sold FRA in the same currency with the same face value and settlement date as well as notional deposit maturity date can be offset against each other and excluded from reporting if the contract rates are within 15 basis points of each other. Similarly, opposite swap positions in the same currency with the same face value and reference dates can be offset if, say, the floating rate in both cases is 6 months PHIBOR and the fixed rates are within 15 basis points of each other. The positions can still be offset if the reference dates (i. e., the next interest fixing date or remaining maturity) of the opposite positions are different but within the range as set out in (c) above. Opposite bond futures can, for example, be offset against each other if the deliverable bonds are of the same type and mature within 7 days of each other.

27. Banks with the necessary expertise and systems may use alternative formulae (the so called “pre-processing” techniques) to calculate the positions to be included in the maturity ladder. This applies to all interest rate sensitive positions, arising from both physical and derivative instruments.

One method is to first convert the payments required under each transaction into their present values. For that purpose, each cash flow should be discounted using zero-coupon yields. A single net figure of all of the cash flows within each time band may be reported. Banks wishing to adopt this or other methods for reporting should seek the Bangko Sentral’s prior approval. The “pre-processing” models would be subject to review by the Bangko Sentral.

Calculation of capital charges for interest rate exposures reported in Part I

28. The unadjusted minimum capital requirement is expressed in terms of two separately calculated charges, one applying to the “specific risk” of each trading book position in debt securities or debt derivatives, whether it is a short or long position, and the other to the overall interest rate risk in the trading book portfolio (termed “general market risk”) where long and short positions in different securities or derivatives can be offset subject to certain “disallowances”.

Specific risk

29. The unadjusted specific risk charge is graduated into five broad categories by types of issuer, as follows:

Government and multilateral development banks*	0.00%
Qualifying**	0.25% (residual maturity of 6 months or less)
	1.00% (residual maturity of over 6 months to 24 months)
	1.60% (residual maturity of over 24 months)
LGU bonds***	4.00%
Others	8.00%

* “Government and multilateral development banks” refers to the issuers as described under items 1.1 and 1.3 in Part I.1 of the Report.

** “Qualifying” refers to the issuers/issues as described under items 1.4 to 1.7 in Part I.1 of the Report.

*** “LGU bonds” refers to bonds issued by local government units (LGUs), covered by Deed of Assignment of Internal Revenue Allotment of the LGU and guaranteed by LGU Guarantee Corporation.

30. Interest rate and currency swaps, FRAs, forward foreign exchange contracts and interest rate futures will not be subject to a specific risk charge. In the case of futures contracts where the underlying is a debt security, a specific risk charge will apply according to the issuer (and the remaining maturity) as set out in the above paragraph.

General market risk

31. General market risk applies to positions in all debt securities, debt derivatives and interest rate derivatives, subject only to an exemption for fully or very closely matched positions in identical instruments as described in paragraphs 25 to 26 above. The unadjusted capital charge is the sum of the following components:

- (a) the net short or long weighted position in the whole trading book;
- (b) a small proportion of the matched positions in each time band (the “vertical disallowance”); and
- (c) a larger proportion of the matched positions across different time-bands (the “horizontal disallowance”).

32. In the maturity ladder, first calculate the weighted positions by multiplying the positions reported in each time band by a risk-factor according to the following table:

Table 1		
Maturity method: time bands and weights		
Coupon 3% or more	Coupon less than 3%	Risk Weight
1 month or less	1 month or less	0.00%
Over 1 month to 3 months	Over 1 month to 3months	0.20%
Over 3 months to 6 months	Over 3 months to 6 months	0.40%
Over 6 months to 12 months	Over 6 months to 12 months	0.70%
Over 1 year to 2 years	Over 1.0 year to 1.9 years	1.25%

Over 2 years to 3 years	Over 1.9 years to 2.8 years	1.75%
Over 3 years to 4 years	Over 2.8 years to 3.6 years	2.25%
Over 4 years to 5 years	Over 3.6 years to 4.3 years	2.75%
Over 5 years to 7 years	Over 4.3 years to 5.7 years	3.25%
Over 7 years to 10 years	Over 5.7 years to 7.3 years	3.75%
Over 10 years to 15 years	Over 7.3 years to 9.3 years	4.50%
Over 15 years to 20 years	Over 9.3 years to 10.6 years	5.25%
Over 20 years	Over 10.6 years to 12 years	6.00%
	Over 12 years to 20 years	8.00%
	Over 20 years	12.50%

33. The weighted longs and shorts in each time band will be offset resulting in a single short or long position for each band. A 10% capital charge (“vertical disallowance”) will be levied on the smaller of the offsetting positions, be it long or short. Thus, if the sum of the weighted longs in a time band is P100.0 million and the sum of the weighted shorts is P90.0 million, the vertical disallowance would be 10% of P90.0 million (i.e., P9.0 million).

34. Two rounds of “horizontal offsetting” will then be conducted, first between the net positions in each of 3 zones (zero to 1 year, over 1 year to 4 years and over 4 years), and subsequently between the net positions in the 3 different zones. The offsetting will be subject to a scale of disallowances expressed as a fraction of the matched positions, as set out in Table 2 below. The weighted long and short positions in each of 3 zones may be offset, subject to the matched portion attracting a disallowance factor that is part of the capital charge. The residual net position in each zone may be carried over and offset against opposite positions in other zones, subject to a second set of disallowance factors.

Table 2					
Horizontal disallowance					
Zones	Time-band	Within the zone	Between adjacent zones	Between zones 1 and 3	
Zone 1	1 month or less	40%	40%	100%	
	Over 1 month to 3 months				
	Over 3 months to 6 months				
	Over 6 months to 12 months				
Zone 2	Over 1 year to 2 years	30%	40%		
	Over 2 years to 3 years				
	Over 3 years to 4 years				
Zone 3	Over 4 years to 5 years	30%			40%
	Over 5 years to 7 years				
	Over 4 years to 5 years				
	Over 5 years to 7 years				
	Over 7 years to 10 years				
	Over 10 years to 15 years				
	Over 15 years to 20 years				
	Over 20 years				

Part II Equity Exposures

35. Report in this part the long and short positions in equities and equity derivatives in the trading book, including instruments that exhibit market behavior similar to equities. The instruments covered include common stock (whether voting or non-voting), convertible bonds (i.e., debt issues or preference shares that are convertible, at a stated price, into common shares of the issuer) which trade like equities and commitments to buy or sell equity securities. For non-convertible preference shares and those convertible bonds which trade like debt securities, they should be reported under Part I. Equity derivatives include forwards, futures and swaps on both individual equities and or

stock indices. Long and short positions in the same issue may be reported on a net basis.

36. The positions are to be reported on a market-by-market basis, i.e., under separate columns to indicate the exchange where the reported equities are listed/traded. For foreign markets, banks should indicate the country where the market is located. (Refer to example (8) in Annex A) Equities with listing in more than one market should be reported as positions in the market of their primary listing.

37. Equity derivatives are to be converted into positions in the relevant underlying. Futures and forward contracts relating to an individual equity should be reported at current market values. Futures relating to equity indices can be reported either as the current index value times the monetary value of one index point set by the exchange, i.e., the “tick” value, or the marked-to-market value of the notional underlying equity portfolio. (Refer to example (9) in Annex A).

38. Matched positions in each identical equity or index (same delivery months) in each market may be fully offset, resulting in a single net short or long position. A future in a given equity may be offset against an opposite cash position in the same equity but the interest rate exposure arising out of the equity futures should be reported in Part I. For example, a short futures contract on a specific stock with delivery 3 months from the reporting date can be offset against a long position in the underlying stock. However, the interest rate exposure arising out of the equity futures should be reported as a long position in the “1 to 3 months” time band of the stock denominated currency in Part I.

The position should be reported as the current market value of the stock.

39. An equity swap obligates a bank to receive an amount based on the change in value of a particular equity or equity index and also to pay an amount based on the change in value of a different equity or equity index. Accordingly, the receipt side and the payment side of an equity swap contract should be reported as a long and a short position, respectively. For an equity swap contract which involves a leg relating to a financial instrument other than equities or equity derivatives, for example, receiving/paying a fixed or floating interest rate, the exposure should be slotted into the appropriate maturity band in Part I. Where equities are part of a forward contract (equities to be received or to be delivered), any interest rate exposure from the other leg of the contract should be reported in Part I. The treatment is similar to that set out in paragraph 38. The same arrangement applies for index futures. (Refer to example (9) in Annex A).

40. As with interest rate exposures, the capital charge is levied to separately cover both the specific risk and the general market risk. Calculation is done on an individual market basis. The unadjusted capital charge for specific risk will be 8% on the gross (i.e., long plus short) positions. The unadjusted general market risk charge will be 8% on the net position. Net long and short positions in different markets cannot be offset for the purpose of calculating general market risk charge.

Part III Foreign Exchange Exposures

41. Report in this part the amount in US dollars (USD) of net long or net short

position in each currency. In addition, structural positions taken deliberately to hedge against the effects of exchange rate movements on the capital adequacy of the reporting bank may be excluded. This should be cleared with the Bangko Sentral prior to reporting.

42. Net long/(short) position shall refer to FX assets (excluding FX items allowed under existing regulations to be excluded from FX assets in the computation of a bank’s net FX position limits) less FX liabilities (excluding FX items allowed under existing regulations to be excluded from FX liabilities in the computation of a bank’s net FX position limits), plus contingent FX assets less contingent FX liabilities.

43. Banks which base their normal management accounting of forward currency positions on net present values shall use the net present values of each position, discounted using current interest rates, for measuring their positions. Otherwise, forward currency positions shall be measured based on notional amount.

44. The total USD amount of net long or net short position in each currency should then be converted at spot rates into Philippine peso. The overall net open position is the greater of the absolute value of the sum of net long position or sum of net short position.

45. The unadjusted capital charge will be 8% of the overall net open position.

Part IV Internal Models Approach

46. Only those banks which have obtained the Bangko Sentral’s approval to adopt their internal value-at-risk (VaR) models to

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calculate their market risk capital charges in lieu of the standardized methodology are required to report in this part.

1. Value-at-risk results

47. Report in this part the value-at-risk (VaR) results as at the last trading day of the reference quarter in column (a) and the average VaR over the most recent 60 trading days of the reference quarter in column (b), both for each individual market risk category using internal models approach, i.e., item 1.1 to 1.3, and for the aggregate of these risk categories, i.e., item 1.4.

48. Provided that the Bangko Sentral is satisfied with the bank’s system for measuring correlations, recognition of empirical correlations across broad risk categories (e.g., interest rates, equity prices and exchange rates) may be allowed. The VaR for the aggregate of all risk categories will therefore not necessarily be equal to an arithmetic sum of the VaR for the individual risk category.

49. Report also in this part the number of backtesting exceptions for the past 250 trading days (from the reference quarter-end going backwards), based on:

- actual daily changes in portfolio value, in item 1.4. column (c), and
- hypothetical changes in portfolio value that would occur were end-of-day positions to remain unchanged during the 1 day holding period, in item 1.4 column (d), for the aggregate of the broad risk categories.

50. The multiplication factor to be reported in item 1.4 column (e) is the summation of the following 3 elements:

- (a) the minimum multiplication factor of 3;
- (b) the “plus” factor ranging from 0 to 1 based on the number of backtesting exceptions (i.e., the larger of item 1.4 column (c) or item

1.4 column (d)) for the past 250 trading days as set out in Table 3 below: and

(c) any additional “plus” factor as may be prescribed by the Bangko Sentral.

Table 3
“Plus” factor based on the number of backtesting exceptions for the past 250 trading days

Zone	Number of exceptions	“Plus” factor
Green zone	0	0.00
	1	0.00
	2	0.00
	3	0.00
	4	0.00
Yellow zone	5	0.40
	6	0.50
	7	0.65
	8	0.75
	9	0.85
Red zone	10 or more	1.00

51. Capital charge for general market risk calculated by internal models reported in item 1.6 is larger of:

- (a) Item 1.4 column (a), i.e., VaR for the aggregate of all risk categories, as at the last trading day of the reference quarter; or
- (b) Item 1.5, i.e., the average VaR for the last 60 trading days of the reference quarter (item 1.4 column (b)) times the multiplication factor (item 1.4 column (e)) set out in paragraph 50 above.

2. Specific risk

52. Capital charge for the specific risk of debt securities and other debt related derivatives, and equities and equity derivatives is to be reported using either of the following two methods:

- (a) For banks which incorporate the specific risk into their models, report the capital charge for the total specific risk calculated by the models in item 1.7 of Part IV.1; or
- (b) For banks which do not incorporate the specific risk into their models, report the specific risk of debt securities and other

debt related derivatives in Part I.1 according to the instructions in paragraphs 15-19 and 29-30. For equities and equity derivatives, report the specific risk in Part II according to the instructions in paragraphs 35 to 40.

3. Largest daily losses over the quarter

53. Report in this part in descending order (i.e., the largest loss first) the 5 largest daily losses over the reference quarter and their respective VaRs for the risk exposures which are measured by the internal models approach. If the number of daily losses during the quarter is less than 5, report only all such daily losses.

Part V Adjusted Capital Adequacy Ratio

54. The market risk capital charges should be aggregated and converted to a market risk-weighted exposure. The total market risk capital charges is the sum of the capital charges for individual market risk categories computed using either (a) the standardized approach, or (b) the internal models approach. The total capital charges for individual market risk categories using the standardized approach should be multiplied

by 125% (to be consistent with the higher capital charge for credit risk, i.e., 10% as opposed to the BIS recommended 8%).)

55. The total market risk-weighted exposures is computed by multiplying the total market risk capital charges by 10. (The multiplier 10 is the reciprocal of the Bangko Sentral required minimum capital ratio for credit risk of 10%.) The qualifying capital and total credit risk weighted exposures are extracted from Part V.A and Part V.B, respectively, of the Report on the Computation of Risk-Based Capital Adequacy Ratio covering credit risk.

56. For on-balance-sheet debt securities and equities in the trading book included in Parts I, II and IV of this Report, the credit risk-weighted exposures reported in Part II of the Report on the Computation of the Risk-Based Capital Adequacy Ratio covering credit risk should be excluded in calculating the adjusted ratio covering combined credit risk and market risk. The market risk capital charges for these positions calculated in this Report cover all the capital requirements for absorbing potential losses arising from carrying such positions.

(As amended by Circular Nos. 890 dated 02 November 2015 and 827 dated 28 February 2014)

Suppose as at 31 December, 200X, ABC Bank Corporation has the following trading book positions:

- (1) Long position in US Treasury Bond (7.5% annual coupon) with face value equivalent to PHP507.000MM and residual maturity of 8 years.
Market value based on quoted price: PHP518.914MM equivalent
- (2) Long position in an unrated floating rate note (6.25% current annual coupon) issued by a US corporate with face value equivalent of PHP260.000MM and next repricing 9 months after.
Market value based on quoted price: PHP264.758MM equivalent
- (3) Long 10 futures contracts involving 5-year US Treasury Note (face value USD0.100MM per contract) for delivery 3 months after.
Selected deliverable: US Treasury Note (coupon 6.375%) maturing 5.25 years, current price at 100.0625, conversion factor 0.9423.
- (4) Single currency interest rate swap with face value PHP975.000MM and residual maturity of 2.5 years, bank receives annual floating rate interest and pays fixed at 8% per annum. The current floating rate is fixed at 5.5% with next repricing after 6 months.
- (5) Long 10 futures contracts involving 3-month LIBOR interest rate (face value GBP6.500MM per contract) for delivery 6 months after.
- (6) An FRA sold on 6-month PHIBOR with nominal amount PHP130.000MM and settlement date 9 months after.
- (7) Forward foreign exchange position of EUR5.000MM (long) against

Annex A

- PHP250.000MM equivalent maturing in 3 months.
- (8) Long 1000 shares of a US listed company with current market price of PHP715.000MM equivalent.
 - (9) Short one Hang Seng Index Futures for delivery 3 months after, current index at 10,000.
 - (10) Currency swap with residual maturity of 6 months. Bank receives USD19.500MM at 9.5% per annum and pays PHP975.000MM at 11% per annum.
- Treatments:**
- (1) Report market value (PHP518.914MM) of the long position in Part I.1, item I.2 and Part I.2, USD ladder, 7 to 10 years time band.
 - (2) Report market value (PHP264.758MM) of the long position in Part I.1, item 1.9' and Part I.2, USD ladder, 6 to 12 months time band.
 - (3) Report selected Treasury Note (long position) in Part I.1, item I.2 and Part I.2, USD ladder, 5 to 7 year time band. Report the same amount in short position, 1 to 3 months time band.
- Assume spot exchange rate PHP50.00
- Amount to be reported:
- USD0.100MM x 10 x 100.0625%/0.9423
= USD1.062MM

= P53.095MM
- (4) Report the fixed rate leg as a short 2.5-year bond in Part I.2, Peso ladder, 2 to 3

years time band. Report the floating rate leg as a long 6 months security in the 3 to 6 months time band.

Assume the Peso zero coupon yields are as follows:

Period	Zero Coupon (ZC)
1M	5.31
3M	5.63
6M	5.81
1Y	6.16
2Y	6.69
3Y	7.07

(Zero coupon yields within 1 year can be taken as cash rates, i.e., PHIBOR, zero coupon yields beyond 1 year can be constructed from, say, swap rates.)

Cash flows of Peso swap: 2 legs

Pay – fixed rate bond
8% of PHP975.000MM in 6 months
8% of PHP975.000MM in 18 months
108% of PHP975.000MM in 30 months
Receive – floating rate paper
105.5% of PHP975.000MM in 6 months

Zero-coupon rates at 18 months can be obtained from the linear interpolation between the 1Y and 2Y zero coupon rates.

ZC(18 months) = (6.16% + 6.69%)/2 = 6.425%

Similarly,

ZC(30 months) = (6.69% + 7.07%)/2 = 6.88%

PV of the fixed leg (i.e., pay side)

= PhP975.000MM x $\frac{0.08}{(1 + 0.0581 \times 0.5)} + \frac{0.08}{(1 + 0.06425)^{1.5}}$
+ $\frac{1.08}{(1 + 0.0688)^{2.5}}$
= PHP1,038.479MM

PV of the floating leg (i.e. receive side)

= PhP975.000MM x $\frac{1.055}{(1 + 0.0581 \times 0.5)}$
= PHP999.587MM

(5) Report a long 9 months zero coupon security in Part I.2, GBP ladder, 6 to 12 months time band and a short 6 months zero coupon security in 3 to 6 months time band.

Assume the GBP 6 months zero-coupon yield is 6.74% while the interpolated 9 months zero-coupon yield is 6.87%. Assume spot exchange rate is PHP75.00.

Amount to be reported:

9 months = GBP65.000MM/(1 + 0.0687 x 0.75)
= GBP65.000MM x 0.951
= PHP4,636.124MM equivalent
6 months = GBP65.000MM/(1 + 0.0674 x 0.5)
= GBP65.000MM x 0.9674
= PHP4,716.069MM equivalent

(6) Report a long 15 months zero coupon security in Part I.2, Peso ladder, 1.0 to 1.9 years time band and a short 9 months zero coupon security in 6 to 12 months time band.

Calculations similar to (4) above, ZC(15 months)
= 6.16% + (6.69% - 6.16%) x 0.25 = 6.2925%
15 months = PHP130.000MM/(1 + 0.062925)^{1.25}
= PHP121.000MM
9 months = PHP130.000MM x 0.957
= PHP124.410MM

(7) Report a long 3 months zero coupon security in Part I.2, EUR ladder, 1 to 3 months time band and a short 3 months zero coupon security in the Peso ladder, 1 to 3 months time band.

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Calculations similar to (4) above and assume 3 months EUR cash rate at 3.25% and spot exchange rate is PHP46.00.

EUR = EUR5.000MM/(1 + 0.0325 x 0.25)
= PHP228.146MM equivalent
PhP = PHP250.000MM/(1 + 0.0563 x 0.25)
= PHP246.530MM

(For simplicity, Part III of the report is not presented in this example.)

(8) Report market value in Part II, item 1 (US column).

(9) Report as a short position the market value for futures (HKD50.00 per index point) in Part II, item 5 (HKD column) and as a long position in Part I.2, HKD ladder, 1 to 3 months time band. Assume HKD to PHP exchange rate is PHP6.50.

(10)Report the USD leg as a long 6-month zero coupon security in Part I.2, USD ladder, 3 to 6 months time band. Report the PHP leg as a short 6-month zero coupon security in Part I.2, PHP ladder, 3 to 6 months time band.

Assume the 6-month Peso and Dollar zero coupon yields are 5.81% and 4%, respectively, and the spot exchange rate is PHP50.00.

Cash flows of currency swap: two legs

Pay – PHP
111% of PHP975.000MM in 6 months

PV of PHP leg

$$= \frac{\text{PHP975.000MM} \times (1.11)}{(1 + 0.0581 \times 0.5)}$$

= PHP1,051.700MM

Receive – USD
109.5% of USD19.500MM in 6 months

PV of USD leg

$$= \frac{\text{USD19.500MM} \times (1.095)}{(1 + 0.04 \times 0.5)}$$

= PHP1,046.700MM equivalent

(For simplicity, Part III of the report is not presented in this example.)

**INSTRUCTIONS FOR ACCOMPLISHING THE REPORT ON COMPUTATION OF
THE ADJUSTED RISK-BASED CAPITAL ADEQUACY RATIO COVERING
COMBINED CREDIT RISK AND MARKET RISK
(For Universal Banks and Commercial Banks
Without Expanded Derivatives Authority)**

General Instructions

1. All universal banks and commercial banks are required to complete this Report both on a solo basis (i.e., head office plus branches) and on a consolidated basis (i.e., parent bank plus subsidiary financial allied undertakings, but excluding insurance companies).
2. The Report should be submitted as follows:
 - (a) Solo report - within fifteen (15) banking days after the end of each reference quarter; and
 - (b) Consolidated report - within thirty (30) banking days after the end of each reference quarter.
3. Current market value should be used for reporting. For leveraged instruments where the apparent notional amount differs from the effective notional amount, the bank should use the effective notional amount in calculating the market value for reporting, e.g., a swap contract with a stated notional amount of PhP1.0 million, the terms of which call for a quarterly settlement of the difference between 5% and PHIBOR multiplied by 10 has an effective notional amount of PhP10.0 million.
4. Securities transactions are to be reported on a “trade date” basis.

Definitions and Clarifications

5. Market risk is defined as the risk of losses in on- and off-balance sheet positions

arising from movements in market prices. The risks subject to this reporting requirement are:

- (a) the risks pertaining to interest rate-related instruments and equities in the bank’s trading book; and
- (b) foreign exchange risk throughout the bank.

The Report should include the reporting bank’s positions in on-balance sheet financial instruments and off-balance sheet derivatives, the latter being defined as financial contracts whose values depend on the values of one or more underlying assets or indices.

6. For the purpose of the Report, the trading book of a bank shall consist of:
 - (a) its proprietary positions in financial instruments which are taken on with the intention of short-term resale or benefiting in the short term from actual or expected differences between the buying and selling prices or from other price or interest rate variations;
 - (b) positions which arise from the execution of trade orders from customers and market making; and
 - (c) positions taken in order to hedge other elements of the trading book.
7. The financial instruments referred to in the preceding paragraph include:
 - (a) (i) transferable securities;
 - (ii) units in collective investment undertakings;
 - (b) certificates of deposit and other similar capital market instruments;
 - (c) currency forwards with tenor of one (1) year or less; and

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(d) currency swaps with tenor of one (1) year or less and which for this purpose refer to the simultaneous buying and selling of a currency in approximately equal amounts for different maturity dates with the same party.

8. Banks are expected to have an established policy for allocating transactions (including internal deals) to the trading or non-trading (i.e., banking) book, as well as procedures to ensure compliance with such policy. There must be a clear audit trail at the time each transaction is entered into and the Bangko Sentral will examine the adequacy of such policy and procedures and their consistent implementation when it is considered necessary. For this purpose, banks which engage in trading activities should submit to the Bangko Sentral a policy statement covering:

- (a) the definition of trading activities;
- (b) the financial instruments which can be traded or used for hedging the trading book portfolio; and
- (c) the principles for transferring positions between the trading and the banking books.

9. In general, the Bangko Sentral will have regard to the bank's intention in entering into a particular transaction when determining whether such transaction should fall into the trading book. Transactions will likely be considered to carry a trading intent on the part of the bank if:

- (a) the positions arising from the transactions are marked to market on a daily basis as part of the internal risk management process;
- (b) the positions are not (or not intended to be) held to maturity; and
- (c) the positions satisfy other criteria the bank applies to its trading portfolio on a consistent basis.

10. Debt securities include both fixed-rate and floating-rate instruments, negotiable certificates of deposit, non-convertible

preference shares, and also convertible bonds (i.e., debt issues or preference shares that are convertible, at a stated price, into common shares of the issuer) which trade like debt securities.

11. Detailed offsetting rules applicable to the reporting of positions are set out in the relevant parts of Specific Instructions. These offsetting rules can be applied on both the solo and consolidated basis, provided that in the latter case there are no obstacles to the quick repatriation of profits from a foreign subsidiary to the Philippines and the bank performs daily management of risks on a consolidated basis. For this purpose, offsetting means the exclusion of matched positions of a bank from reporting and hence exclusion of such positions from the calculation of the adjusted capital adequacy ratio.

12. For avoidance of doubt, items that are deductible from the qualifying capital of the bank in the calculation of the risk-based capital adequacy ratio pursuant to applicable and existing capital adequacy framework are excluded from market risk capital requirement.

13. In general, banks are only required to complete Parts I to III and V of the Report. Banks which have obtained the Bangko Sentral's approval to adopt their internal value-at-risk (VaR) models to calculate their market risk capital charge (in all or individual risk categories) should complete Part IV (in lieu of Parts I to III). Where the internal model is used to calculate only selected risk categories, the capital charge for the risk categories measured under the internal models approach should be reported in Part IV while that for the other risk categories measured under the standardized approach should be reported in the relevant sections of Parts I to III. This combination of the standardized approach and the internal models approach is allowed on a transitional basis. Banks which adopt the internal

models approach will not be permitted, save in exceptional circumstances, to revert to the standardized approach.

Specific Instructions

Part I Interest Rate Exposures

1. Debt securities – specific risk

14. Report in this part the long and short positions in debt securities in the trading book by category of the issuer. Offsetting will be allowed between long and short positions in identical issues with exactly the same issuer, coupon, currency and maturity. For items 1.4 to 1.7 of the Report, positions should be slotted into the appropriate time bands according to the residual maturities of the debt securities. (Refer to examples (1) and (2) in Annex A).

15. A security, which is the subject of a repurchase agreement, will be treated as if it were still owned by the seller of the security, i.e., to be reported by the seller. This principle applies also in Part 1.2 of the Report.

16. Foreign countries, foreign incorporated banks and Philippine incorporated banks/ QBs with the “highest credit quality”, as well as debt securities with the “highest credit quality” refer to ratees/debt securities given the minimum credit ratings as indicated below by any two of the following internationally accepted rating agencies:

<u>Rating Agency</u>	<u>Credit Rating</u>
(a) Moody’s	“Aa3” and above
(b) Standard and Poor’s	“AA-” and above
(b) Fitch IBCA	“AA-” and above

and such other recognized international rating agencies as may be approved by the Monetary Board.
The ratings of domestic rating agencies may likewise be used for this purpose provided

that such rating agencies meet the criteria to be prescribed by the Monetary Board.

17. Multilateral development banks refer to the World Bank Group comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB); the Nordic Investment Bank (NIB); the Caribbean Development Bank (CDB), the Council of Europe Development Bank (CEDB) and such others as may be recognized by the Bangko Sentral.

18. Non-central government public sector entities of a foreign country refer to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

2. Debt securities – general market risk

19. Report in this part the long and short trading book positions in debt securities and forward foreign exchange positions. A Maturity Method is adopted for the reporting of these positions as detailed below. Banks that possess the necessary capability to calculate the duration and price sensitivity of each position separately and wish to adopt such a duration approach for reporting in this part may seek approval from Bangko Sentral.

20. Positions should be reported separately for each currency, i.e., banks should use separate sheets (Part I.2 of the Report) to report positions of different currencies. The unadjusted market risk capital charge is then calculated for each currency according to procedures set out in paragraphs 28 to 31 with no offsetting between different currencies.

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21. Under the Maturity Method, positions are slotted into the time bands of the maturity ladder (as shown in Part I.2 of the Report) by remaining maturity if fixed rate and by the period to the next repricing date if floating rate. (Refer to examples (1) and (2) in Annex A). For forward foreign exchange positions in the trading book, they should be treated as long and as short positions in a zero coupon government security of the 2 currencies with the same maturity as the forward contract. (Refer to example (3) in Annex A).

22. As with the reporting under Part I.1 of the Report, banks can offset long and short positions in identical instruments with exactly the same issuer, coupon, currency and maturity for general market risk purposes.

23. Opposite forward foreign exchange positions can in certain circumstances be regarded as matched and allowed to offset fully. The separate legs of different currency swaps may also be “matched” subject to the same conditions. To qualify for this treatment, the positions must relate to the same underlying currency and be of the same nominal value. In addition, the residual maturity must correspond within the following limits:

- if either of the instruments for offsetting has a residual maturity up to 1 month, the residual maturity must be the same for both instruments; and
- if either of the instruments for offsetting has a residual maturity greater than 1 month and up to 1 year, those residual maturities must be within 7 days of each other.

24. Banks with the necessary expertise and systems may use alternative formulae (the so called “pre-processing” techniques) to calculate the positions to be included in the maturity ladder. This applies to all interest rate sensitive positions, arising from physical

instruments and currency forwards and swaps. One method is to first convert the payments required under each transaction into their present values. For that purpose, each cash flow should be discounted using zero-coupon yields. A single net figure of all of the cash flows within each time band may be reported. Banks wishing to adopt this or other methods for reporting should seek the Bangko Sentral’s prior approval. The “pre-processing” models would be subject to review by the Bangko Sentral.

Calculation of capital charges for interest rate exposures reported in Part I

25. The unadjusted minimum capital requirement is expressed in terms of two separately calculated charges, one applying to the “specific risk” of each trading book position in debt securities, whether it is a short or long position, and the other to the overall interest rate risk in the trading book portfolio (termed “general market risk”) where long and short positions in different securities and currency forwards and swaps can be offset subject to certain “disallowances”.

Specific risk

26. The unadjusted specific risk charge is graduated into five broad categories by types of issuer, as follows:

Government and multilateral development banks*	0.00%
Qualifying**	0.25% (residual maturity of 6 months or less)
	1.00% (residual maturity of over 6 months to 24 months)
	1.60% (residual maturity of over 24 months)
LGU bonds***	4.00%
Others	8.00%

* “Government and multilateral development banks” refers to the issuers as described under items 1.1 and 1.3 in Part I.1 of the Report.
** “Qualifying” refers to the issuers/issues as described under items 1.4 to 1.7 in Part I.1 of the Report.
*** “LGU bonds” refers to bonds issued by local government units (LGUs), covered by Deed of Assignment of Internal Revenue Allotment of the LGU and guaranteed by LGU Guarantee Corporation.

27. Currency swaps and forward foreign exchange contracts will not be subject to a specific risk charge.

General market risk

28. General market risk applies to positions in all debt securities and currency forwards and swaps subject only to an exemption for fully or very closely matched positions in identical instruments as described in paragraphs 22 to 23 above. The unadjusted capital charge is the sum of the following components:

- (a) the net short or long weighted position in the whole trading book;
- (b) a small proportion of the matched positions in each time band (the “vertical disallowance”); and
- (c) a larger proportion of the matched positions across different time-bands (the “horizontal disallowance”).

29. In the maturity ladder, first calculate the weighted positions by multiplying the positions reported in each time band by a risk-factor according to the following table:

Table 1

Maturity method: time bands and weights

Coupon 3% or more	Coupon less than 3%	Risk weight
1 month or less	1 month or less	0.00%
Over 1 month to 3 months	Over 1 month to 3 months	0.20%
Over 3 months to 6 months	Over 3 months to 6 months	0.40%
Over 6 months to 12 months	Over 6 months to 12 months	0.70%
Over 1 year to 2 years	Over 1.0 year to 1.9 years	1.25%
Over 2 years to 3 years	Over 1.9 years to 2.8 years	1.75%

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Over 3 years to 4 years	Over 2.8 years to 3.6 years	2.25%
Over 4 years to 5 years	Over 3.6 years to 4.3 years	2.75%
Over 5 years to 7 years	Over 4.3 years to 5.7 years	3.25%
Over 7 years to 10 years	Over 5.7 years to 7.3 years	3.75%
Over 10 years to 15 years	Over 7.3 years to 9.3 years	4.50%
Over 15 years to 20 years	Over 9.3 years to 10.6 years	5.25%
	Over 10.6 years to 12 years	6.00%
	Over 12 years to 20 years	8.00%
	Over 20 years	12.50%

30. The weighted longs and shorts in each time band will be offset resulting in a single short or long position for each band. A 10% capital charge (“vertical disallowance”) will be levied on the smaller of the offsetting positions, be it long or short. Thus, if the sum of the weighted longs in a time band is P100.0 million and the sum of the weighted shorts is PhP90.0 million, the vertical disallowance would be 10% of PhP90.0 million (i.e., PhP9.0 million).

31. Two rounds of “horizontal offsetting” will then be conducted, first between the net positions in each of 3 zones (zero to 1 year, over 1 year to 4 years and over 4 years), and subsequently between the net positions in the 3 different zones. The offsetting will be subject to a scale of disallowances expressed as a fraction of the matched positions, as set out in Table 2 below. The weighted long and short positions in each of 3 zones may be offset, subject to the matched portion attracting a disallowance factor that is part of the capital charge. The residual net position in each zone may be carried over and offset against opposite positions in other zones, subject to a second set of disallowance factors.

Table 2
Horizontal disallowances

Zones	Time-band	Within the zone	Between adjacent zones	Between zones 1 and 3
Zone 1	1 month or less	40%	40%	100%
	Over 1 month to 3 months			
	Over 3 months to 6 months			
	Over 6 months to 12 months			
Zone 2	Over 1 year to 2 years	30%	40%	
	Over 2 years to 3 years			
	Over 3 years to 4 years			
Zone 3	Over 4 years to 5 years	30%		
	Over 5 years to 7 years			
	Over 7 years to 10 years			
	Over 10 years to 15 years			
	Over 15 years to 20 years			
	Over 20 years			

Part II Equity Exposures

32. Report in this part the long and short positions in equities in the trading book, including instruments that exhibit market behavior similar to equities. The instruments covered include common stock (whether voting or non-voting), and convertible bonds (i.e., debt issues or preference shares that are convertible, at a stated price, into common shares of the issuer) which trade like equities. For non-convertible preference shares and those convertible bonds which trade like debt

securities, they should be reported under Part I. Long and short positions in the same issue may be reported on a net basis.

33. The positions are to be reported on a market-by-market basis, i.e., under separate columns to indicate the exchange where the reported equities are listed/traded. For foreign markets, banks should indicate the country where the market is located. (Refer to example (4) in Annex A) Equities with listing in more than one market should be reported as positions in the market of their primary listing.

34. Matched positions in each identical equity in each market may be fully offset, resulting in a single net short or long position.

35. As with interest rate exposures, the capital charge is levied to separately cover both the specific risk and the general market risk. Calculation is done on an individual market basis. The unadjusted capital charge for specific risk will be 8% on the gross (i.e., long plus short) positions. The unadjusted general market risk charge will be 8% on the net position. Net long and short positions in different markets cannot be offset for the purpose of calculating general market risk charge.

Part III Foreign Exchange Exposures

36. Report in this part the amount in US dollars (USD) of net long or net short position in each currency. In addition, structural positions taken deliberately to hedge against the effects of exchange rate movements on the capital adequacy of the reporting bank may be excluded. This should be cleared with the Bangko Sentral prior to reporting.

37. Net long/(short) position shall refer to FX assets (excluding FX items allowed under existing regulations to be excluded from FX assets in the computation of a bank’s net FX position limits) less FX liabilities (excluding FX items allowed under existing regulations to be excluded from FX liabilities in the computation of a bank’s net FX position limits), plus contingent FX assets less contingent FX liabilities.

38. Banks which base their normal management accounting of forward currency positions on net present values shall use the net present values of each position, discounted using current interest rates, for measuring their positions. Otherwise, forward currency positions shall be measured based on notional amount.

39. The total USD amount of net long or net short position in each currency should then be converted at spot rates into Philippine peso. The overall net open position is the greater of the absolute value of the sum of net long position or sum of net short position.

40. The unadjusted capital charge will be 8% of the overall net open position.

Part IV Internal Models Approach

41. Only those banks which have obtained the BSP’s approval to adopt their internal value-at-risk (VaR) models to calculate their market risk capital charges in lieu of the standardized methodology are required to report in this part.

1. Value-at-risk results

42. Report in this part the value-at-risk (VaR) results as at the last trading day of the

reference quarter in column (a) and the average VaR over the most recent 60 trading days of the reference quarter in column (b), both for each individual market risk category using internal models approach, i.e., items 1.1 to 1.3, and for the aggregate of these risk categories, i.e., item 1.4.

43. Provided that the Bangko Sentral is satisfied with the bank’s system for measuring correlations, recognition of empirical correlations across broad risk categories (e.g., interest rates, equity prices and exchange rates) may be allowed. The VaR for the aggregate of all risk categories will therefore not necessarily be equal to an arithmetic sum of the VaR for the individual risk category.

44. Report also in this part the number of backtesting exceptions for the past 250 trading days (from the reference quarter-end going backwards), based on:

- actual daily changes in portfolio value, in item 1.4. column (c), and
- hypothetical changes in portfolio value that would occur were end-of-day positions to remain unchanged during the 1 day holding period, in item 1.4 column (d), for the aggregate of the broad risk categories.

45. The multiplication factor to be reported in item 1.4 column (e) is the summation of the following 3 elements:

- (a) the minimum multiplication factor of 3;
- (b) the “plus” factor ranging from 0 to 1 based on the number of backtesting exceptions (i.e., the larger of item 1.4 column (c) or item 1.4 column (d)) for the past 250 trading days as set out in Table 3 below: and
- (c) any additional “plus” factor as may be prescribed by the Bangko Sentral.

Table 3
“Plus” factor based on the number of
backtesting exceptions for the past 250 trading
days

Zone	Number of exceptions	“Plus” factor
Green zone	0	0.00
	1	0.00
	2	0.00
	3	0.00
	4	0.00
Yellow zone	5	0.40
	6	0.50
	7	0.65
	8	0.75
	9	0.85
Red zone	10 or more	1.00

46. Capital charge for general market risk calculated by internal models reported in item 1.6 is larger of:

(a) Item 1.4 column (a), i.e., VaR for the aggregate of all risk categories, as at the last trading day of the reference quarter; or

(b) Item 1.5, i.e., the average VaR for the last 60 trading days of the reference quarter [(item 1.4 column (b)) times the multiplication factor [(item 1.4 column (e)) set out in paragraph 45 above.

2. Specific risk

47. Capital charge for the specific risk of debt securities and equities is to be reported using either of the following two methods:

(a) For banks which incorporate the specific risk into their models, report the capital charge for the total specific risk calculated by the models in item 1.7 of Part IV.1; or

(b) For banks which do not incorporate the specific risk into their models, report the specific risk of debt securities in Part I.1 according to the instructions in paragraphs 14-18 and 26-27. For equities, report the

specific risk in Part II according to the instructions in paragraphs 32 to 35.

3. Largest daily losses over the quarter

48. Report in this part in descending order (i.e., the largest loss first) the 5 largest daily losses over the reference quarter and their respective VaRs for the risk exposures which are measured by the internal models approach. If the number of daily losses during the quarter is less than 5, report only all such daily losses.

Part V Adjusted Capital Adequacy Ratio

49. The market risk capital charges should be aggregated and converted to a market risk-weighted exposure. The total market risk capital charge is the sum of the capital charges for individual market risk categories computed using either (a) the standardized approach, or (b) the internal models approach. The total capital charges for individual market risk categories using the standardized approach should be multiplied by 125% (to be consistent with the higher capital charge for credit risk, i.e., 10% as opposed to the BIS recommended 8%.)

50. The total market risk-weighted exposures is computed by multiplying the total market risk capital charges by 10. (The multiplier 10 is the reciprocal of the Bangko Sentral required minimum capital ratio for credit risk of 10%.) The qualifying capital and total credit risk weighted exposures are extracted from Part V.A and Part V.B, respectively, of the Report on the Computation of Risk-Based Capital Adequacy Ratio covering credit risk.

51. For on-balance-sheet debt securities and equities in the trading book included in Parts I, II and IV of this Report, the credit

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risk-weighted exposures reported in Part II of the Report on the Computation of the Risk-Based Capital Adequacy Ratio covering credit risk should be excluded in calculating the adjusted ratio covering combined credit risk and market risk. The market risk capital

charges for these positions calculated in this Report cover all the capital requirements for absorbing potential losses arising from carrying such positions.
(As amended by Circular Nos. 890 dated 02 November 2015 and 827 dated 28 February 2015)

Suppose as at 31 December, 200X, ABC Bank Corporation has the following trading book positions:

- (1) Long position in US Treasury Bond (7.5% annual coupon) with face value equivalent to PHP507.000MM and residual maturity of 8 years.
Market value based on quoted price: PHP518.914MM equivalent
- (2) Long position in an unrated floating rate note (6.25% current annual coupon) issued by a US corporate with face value equivalent of PHP260.000MM and next repricing 9 months after.
Market value based on quoted price: PHP264.758MM equivalent
- (3) Forward foreign exchange position of EUR5.000MM (long) against PHP250.000MM equivalent maturing in 3 months.
- (4) Long 1000 shares of a US listed company with current market price of PHP715.000MM equivalent.

Treatments:

- (1) Report market value (PHP518.914MM) of the long position in Part I.1, item I.2 and

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Part I.2, USD ladder, 7 to 10 years time band.

- (2) Report market value (PHP264.758MM) of the long position in Part I.1, item 1.9 and Part I.2, USD ladder, 6 to 12 months time band.

- (3) Report a long 3 months zero coupon security in Part I.2, EUR ladder, 1 to 3 months time band and a short 3 months zero coupon security in the Peso ladder, 1 to 3 months time band.

Assume 3 months EUR cash rate at 3.25%, 3-month Peso zero-coupon yield at 5.63% and spot exchange rate is 46.

PV of the EUR leg (i.e. receive side)

EUR = EUR5.000MM/(1 + 0.0325 x 0.25)
= P228.146MM equivalent

PV of the PHP leg (i.e. pay side)

PHP = P250.000MM/(1 + 0.0563 x 0.25)
= P246.530MM

(For simplicity Part III of the report is not presented in this example.)

- (4) Report market value in Part II, item 1 (US column).

PROCEDURES TO BE OBSERVED BY UNIVERSAL AND
COMMERCIAL BANKS APPLYING FOR BANGKO SENTRAL
RECOGNITION OF THEIR OWN INTERNAL MODELS FOR
CALCULATING MARKET RISK CAPITAL
[Appendix to Subsec. 1115.2 (2008 - 1116.5)]

A. Bank’s own self-assessment

A bank intending to use its own internal Value-at-Risk (VaR) models, in lieu of the standardized approach, for calculating market risk capital charge should conduct a self-assessment of its compliance with the requirements for the use of such models as prescribed in *Appendix 46*, using the attached questionnaire in Annex A.

B. Offsite assessment by BSP

If a bank believes that it is in compliance with the abovementioned requirements for the use of internal models, it should submit a written application to the appropriate supervision and examination department of the BSP, together with the following:

1. Accomplished questionnaire;
2. A listing of the products to be included in the risk models;
3. Details as of end of the preceding quarter, by each product listed above, of:
 - a. The size of positions in terms of market value; and
 - b. The currencies in which it is traded;
4. Organizational structure and personnel;

The bank should submit latest organizational chart showing the names, reporting lines, and responsibilities of key personnel in-charge of trading, and of functions supporting the trading operations such as risk control, back office, internal audit, etc., and those at board level to whom they report. For those responsible for trading, the bank should provide details of their relevant qualifications and experience in the area of trading. For those responsible for risk control, the bank should provide details of their relevant qualifications and experience, particularly on the use of bank’s models.

The bank should also provide information on the number of staff within the risk control unit¹, their internal reporting structure, responsibilities, qualifications and experience.

5. Full technical description of the model, indicating, among others, the following:
 - a. the type of VaR model used (e.g., variance-covariance matrix, historical simulation or Monte Carlo simulation);
 - b. the parameters which are integral to the VaR calculations, including assumptions regarding:
 - (1) confidence interval;
 - (2) holding period;
 - (3) length of historical data used to calculate volatility parameters;
 - (4) scaling factors applied to VaR numbers to convert shorter holding periods to longer holding periods;
 - (5) weighting scheme applied to historical data (e.g., giving recent observations more weight than less recent observations);
 - (6) probability distribution functions of input variables to the Monte Carlo simulation model;
 - (7) the frequency of input data updates (e.g., how often are historical data series updated, when are variance-covariance matrices revised, etc.);
 - (8) the other models which are used as inputs to the VaR model (e.g., option pricing models, interest rate sensitivity models, etc.) and how they interface with the model; and
 - (9) the frequency of VaR calculation;
 - c. an outline of the VaR risk measurement calculation and processes, including, where necessary, mathematical formulae. This should also include:

¹ Referring generally to the risk management group functions in the BAP Financial Markets Risk Reference Manual.

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(1) the manner in which non-linear products, like options, are incorporated in the model;

(2) the extent to which correlation is allowed both within and across risk categories (i.e., interest rates, equity prices, exchange rates); and

(3) the means by which specific risk is addressed within the VaR framework, if appropriate, and the explanation of the techniques by which this is achieved.

6. Policies and procedures for backtesting;

The bank should describe the methods of backtesting employed, including the treatment of intra-day trading profits and loss and fee income within the daily profit and loss figures. While the formal implementation of the BSP prescribed backtesting program should begin on the quarter following the date of BSP's recognition of the bank's internal model and thus implies that the formal accounting of exceptions under the BSP prescribed backtesting program would be a year later, the bank should, at initial assessment, submit at least the latest backtesting result based on its own backtesting program, including the confidence level used in calculating the VaR numbers. The confidence level used shall dictate the number of daily observations on which the backtesting will be applied (e.g., 250 number of observations for a ninety-nine percent (99%) confidence level, and a higher number of observations for a confidence level higher than ninety-nine percent (99%), subject to a minimum of 250 observations.

7. Policies and procedures for stress testing;

8. Internal validation reports which should include the following:

a. the latest review of the overall risk management process by the applicant bank's internal auditors; and

b. the latest validation of the formulae used in the calculation process, as well as for the pricing of options and other complex instruments by a qualified unit which is independent from the trading area; and

9. Validation reports of external auditor.

The bank should stand ready to make a presentation to the BSP on its compliance with the abovementioned requirements for the use of internal models.

C. On-site assessment by BSP

The BSP shall conduct an on-site assessment of the models to review both the technical details of the models and the risk management practices that govern their use.

During the on-site assessment, the bank should give a brief demonstration of how its models work. The demonstration should cover the following:

1. how model inputs are fed into the system including extent of manual inputs;
2. how VaR numbers are calculated;
3. how results are generated and interpreted;
4. accuracy in terms of back testing results;
5. stress testing capability;
6. use of model outputs in risk management; and
7. limitations of the model.

The onsite assessment shall also include interview with the concerned officers and personnel of the bank.

D. Assessment on an ongoing basis by the BSP.

After initial recognition of the models by the BSP, the bank should inform the BSP of any material change to the models, including change in the methodology or scope to cover new products and instruments. The BSP shall determine whether the models remain acceptable for calculating the market risk capital charge.

The BSP shall likewise conduct a periodic assessment of the models and the controls surrounding the models at least annually to ensure that they remain compliant with the minimum qualitative and quantitative requirements prescribed under *Appendix 46* on an ongoing basis. Non-compliance with the minimum requirements shall be ground for disallowing the use of such models.

(Name of Bank)

COMPLIANCE WITH THE REQUIREMENTS FOR THE USE OF INTERNAL MODELS

Criteria	Yes	No	Bank's Explanations ¹
I. General Criteria			
1. Is the bank’s risk management system conceptually sound and implemented with integrity?			
2. Does the bank have sufficient number of staff skilled in the use of sophisticated models not only in the trading area but also in the risk control, audit, and if necessary, back office area?			
3. Do the bank’s models have a proven track record of reasonable accuracy in measuring risk?			
4. Does the bank conduct stress tests along the lines discussed in Item V below?			
II. Qualitative Standards			
1. Does the bank have an independent risk control unit that is responsible for the design and implementation of the bank’s risk management system?			
• Does the unit produce and analyze daily reports on the output of the bank’s risk measurement model, including an evaluation of the relationship between measures of risk exposure and trading limits?			(Cite examples of reports produced by the unit and indicate what time of day these reports are calculated.)
• Is the unit independent from business trading units?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

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Criteria	Yes	No	Bank's Explanations ¹
<ul style="list-style-type: none">Does the unit report directly to senior management of the bank?			
2. Does the risk control unit conduct a regular backtesting program, i.e., an expost comparison of the risk measure generated by the model against actual daily changes in portfolio value over longer periods of time, as well as hypothetical changes based on static positions?			
3. Are the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks) and senior management actively involved in the risk control process?			
<ul style="list-style-type: none">Do the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks) and senior management regard risk control as an essential aspect of the business to which significant resources need to be devoted?			
<ul style="list-style-type: none">Are daily reports prepared by the independent risk control unit reviewed by a level of management with sufficient seniority and authority to enforce both reductions of positions taken by individual traders and reductions in the bank’s overall risk exposure?			
4. Is the bank’s internal risk measurement model closely integrated into the day-to-day risk management process of the bank?			
<ul style="list-style-type: none">Is the output of the internal risk measurement model accordingly an integral part of the process of planning, monitoring and controlling the bank’s market risk profile?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

Criteria	Yes	No	Bank's Explanations ¹
5. Is the risk measurement system used in conjunction with internal trading and exposure limits?			
· Are trading limits related to the bank's risk measurement model in a manner that is consistent over time and that is well-understood by both traders and senior management?			
6. Is a routine and rigorous program of stress testing in place as a supplement to the risk analysis based on day-to-day output of the bank's risk measurement model?			
· Are the results of stress testing exercises reviewed periodically by senior management and reflected in the policies and limits set by management and the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks)?			
· Where stress tests reveal particular vulnerability to a given set of circumstances, are prompt steps taken to manage those risks appropriately (e.g., by hedging against that outcome or reducing the size of the bank's exposures)?			
7. Does the bank have a routine in place for ensuring compliance with a documented set of internal policies, controls and procedures concerning the operation of the risk measurement system?			
· Is the bank's risk measurement system well documented, i.e. through a risk management manual that describes the basic principles of the risk management system and that provides an explanation of the empirical techniques used to measure market risk?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

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Criteria	Yes	No	Bank's Explanations ¹
8. Is an independent review of the risk measurement system carried out regularly in the bank’s own internal auditing process?			
· Does this review include both the activities of the business trading units and of the independent risk control unit?			
· Does the review of the overall risk management process take place at regular intervals (ideally not less than once a year)?			
· Does the review address the following:			
- the adequacy of the documentation of the risk management system and process?			
- the organization of the risk control unit?			
- the integration of market risk measures into daily risk management?			
- the approval process for risk pricing models and valuation systems used by front and back-office personnel?			
- the validation of any significant change in the risk measurement process?			
- the scope of market risks captured by the risk measurement model?			
- the integrity of the management information system?			
- the accuracy and completeness of position data?			
- the verification of the consistency, timeliness and reliability of data sources used to run internal models, including the independence of such data sources?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

Criteria	Yes	No	Bank's Explanations ¹
- the accuracy and appropriateness of volatility and correlation assumptions?			
- the accuracy of valuation and risk transformation calculations?			
- the verification of the model’s accuracy through frequent backtesting as discussed In Item II.2 above?			
III. Specification of Market Risk Factors			
A. Interest Rates			
Is there a set of risk factors corresponding to interest rates in each currency in which the bank has interest rate-sensitive on- or off- balance sheet positions?			
· Does the risk measurement system model the yield curve using one (1) of a number of generally accepted approaches, e.g., by estimating forward rates of zero coupon yields?			
· Is the yield curve divided into various maturity segments in order to capture variation in the volatility of rates along the yield curve, with one (1) risk factor corresponding to each maturity segment?			
· For material exposures to interest rate movements in the major currencies and markets, does the bank model the yield curve using a minimum of six (6) risk factors?			
· Does the risk measurement system incorporate separate risk factors to capture spread risk (e.g., between bonds and swaps)?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

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Criteria	Yes	No	Bank's Explanations ¹
B. Equity Prices			
1. Are there risk factors corresponding to each of the equity markets in which the bank holds significant positions?			
· Is there, at a minimum, a risk factor that is designed to capture market-wide movements in equity prices (e.g., a market index)?			
2. Does the sophistication and nature of the modeling technique for a given market correspond to the bank’s exposure to the overall market as well as its concentration in individual equity issues in that market?			
C. Exchange Rates			
Does the risk measurement system incorporate risk factors corresponding to the individual foreign currencies in which the bank’s positions are denominated, i.e., are there risk factors corresponding to the exchange rate between the Philippine peso and each foreign currency in which the bank has a significant exposure?			
IV. Quantitative Standards			
1. Is “Value-at-risk” (VaR) computed on a daily basis?			
2. Is a 99 th percentile, one-tailed <i>confidence interval</i> used?			
3. Is an instantaneous price shock equivalent to a ten (10) day movement in prices used, i.e., is the minimum “ <i>holding period</i> ” ten (10) trading days?			
· If VaR numbers are calculated according to a shorter holding period, is this scaled up to ten (10) days by the square root of time?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

Criteria	Yes	No	Bank's Explanations ¹
4. Is the <i>historical observation period</i> (sample period) at least one (1) year?			
· If a weighting scheme or other methods for the historical observation period are used, is the “effective” observation period at least one (1) year (that is, the weighted average time lag of the individual observations is not less than six (6) months)?			
5. Are <i>data sets</i> updated no less frequently than once every three (3) months?			
· Are <i>data sets</i> reassessed whenever market prices are subject to material changes?			
6. For banks with option transactions			
· Does the bank’s model capture the <i>non-linear price characteristics</i> of options positions?			
· Is a ten (10)-day price shock applied to options positions or positions that display option-like characteristics?			
· Does the bank’s risk measurement system have a set of risk factors that captures the <i>volatilities of the rates and prices</i> underlying option positions, i.e., vega risk?			
· For banks with relatively large and/or complex options portfolios, does the bank have detailed specifications of the relevant options volatilities, i.e., does the bank measure the volatilities of options positions broken down by different maturities?			
V. Stress Testing			
1. Does the bank have a rigorous and comprehensive stress-testing program in place?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

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Criteria	Yes	No	Bank's Explanations ¹
2. Do the bank’s stress scenarios cover a range of factors that can create extraordinary losses or gains in trading portfolios, or to make the control of risks in those portfolios very difficult, e.g., low-probability events in all major types of risks, including the various components of market, credit, and operational risks?			
· Do the stress scenarios shed light on the impact of such events on positions that display both linear and non-linear price characteristics (i.e. options and instruments that have options-like characteristics)?			
3. Are the bank’s stress tests both of a qualitative and quantitative nature, incorporating both market risk and liquidity aspect of market disturbances?			
· Do quantitative criteria identify plausible stress scenarios to which banks could be exposed?			
4. Are the results of stress testing reviewed periodically by senior management?			
· Are the results of stress testing reflected in the policies and limits set out by management and the board of directors (or equivalent management committee in the case of Philippine branches of foreign banks)?			
· If the bank’s testing reveals particular vulnerability to a given set of circumstances, does the bank take prompt steps to manage those risks appropriately (e.g., by hedging against the outcome or reducing the size of its exposures)?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

Criteria	Yes	No	Bank's Explanations ¹
VI. External Validation			
Is the model accuracy validated by external auditor?			
· If yes, does the validation include -			
- Verification of the internal auditors' report on their review of the bank's overall risk management process?			
- Ensuring that the formula used in the calculation process, as well as for pricing of options and other complex instruments, are validated by a qualified unit, which is independent from the trading area?			
- Checking the adequacy of the structure of the internal models with respect to the bank's activities?			
- Checking the results of the backtesting to ensure that the internal model provides a reliable measure of potential loss over time?			
- Ensuring the transparency and accessibility of the data flows and processes associated with the risk measurement system?			

¹ The questions in this checklist may already be addressed by other materials submitted by the Bank. In such cases, please indicate in this column the appropriate reference document.

**GUIDELINES FOR THE ESTABLISHMENT AND ADMINISTRATION/
MANAGEMENT OF SINKING FUND FOR THE REDEMPTION OF
REDEEMABLE PRIVATE PREFERRED SHARES
(Appendix to Subsec. X126.5)**

Sinking fund shall refer to a fund set aside in order to accumulate the amount necessary for the redemption of redeemable preferred shares.

A. Establishment and Composition

1. Documentation
 - a. A resolution by the bank’s board of directors authorizing the Chief Executive Officer/President of the bank to establish a sinking fund equal to the reserve for retirement of preferred shares for the sole purpose of redemption of redeemable preferred shares at their maturity dates.
 - b. Investment Plan. The plan shall be approved by the board of directors and should indicate the types/classes of investments for the sinking fund. The amount of initial/periodic contributions set forth in the Investment Plan shall be in accordance with Section B par. 1 below. A copy of the Plan shall be submitted to the BSP within thirty (30) calendar days from approval thereof by the bank’s board of directors.
2. Eligible Securities and Investments

The sinking fund may be invested in the following:

 - a. Evidence of indebtedness of the Republic of the Philippines and/or the BSP, or any other evidence of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;
 - b. Evidence of indebtedness or obligation of the central monetary authority of a foreign country, denominated in the national currency of the issuing country, the servicing and repayment of which are fully guaranteed by the government of such country;

- c. Deposits with private and/or government banks to the extent covered by deposit insurance; and
 - d. Such other securities as the Monetary Board may designate from time to time.
- Banks shall refrain from investing sinking fund resources in highly volatile, high-risk commercial instruments.

B. Operation

1. Amount of Annual Investment

The annual contribution to the sinking fund shall be equal to the reserve for retirement set up for the year, equivalent to the amount of redeemable shares issued divided by their respective terms, i.e., number of years from date of issue to date of maturity.
2. Accounting Entries - please refer to Annex “A”.
3. Administration
 - a. Responsible Officer. The sinking fund shall be administered by the Chief Executive Officer or his duly authorized representative, who shall be an employee of the bank with a rank not lower than manager or its equivalent, preferably with experience in treasury operations. The administrator shall be responsible for investment decisions and the maintenance of records of the sinking fund. He shall be responsible for the execution of the Investment Plan, and may deviate from the Plan only upon the approval of the board of directors.
 - In the case of RBs/Coop Banks, the bank president or the general manager or the officer-in-charge shall be designated as the administrator of the sinking fund.
 - b. Sinking Fund Manager. The board of directors shall delegate the management

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of the fund to an independent fund manager, e.g., trust company, where the amount of the fund is equivalent to five percent (5%) or more of the authorized redeemable private preferred shares, in case of UBs and KBs, or when such fund amounts to ₱1.0 million or more in the case of TBs and RBs/Coop Banks: *Provided*, That the sinking fund manager shall invest only in such securities as are prescribed in these guidelines: *Provided, further*, That a bank/financial institution acting as sinking fund manager may not designate the owner of the fund it manages as the sinking fund manager of its own sinking fund established for the same purpose.

c. Reports. The administrator shall submit to the Board a quarterly report on the status of the Fund. The report shall include the to-date balance of the fund, its composition, income earned for the period, a reasonable forecast for the various financial instruments into which the fund

has been placed, and the administrator’s/ fund manager’s recommendations or proposals regarding the fund. In its evaluation of the report the Board shall ascertain the degree of risk that the sinking fund is exposed to and prescribe the appropriate corrective actions.

The report of the administrator/fund manager shall be under oath and made available for examination by the BSP.

d. Review of the Investment Plan. The Board shall conduct an annual evaluation of the Investment Plan and the performance of the administrator/fund manager, and may introduce amendments to or revisions of the Plan, a copy of which shall be submitted to the BSP.

4. Sanctions. Failure to comply with the guidelines shall subject the bank and its directors and officers to the sanctions prescribed in Item “c” of Subsec. X126.5 and Sections 36 and 37 of R.A. No. 7653.

Summary of Pro-Forma Journal Entries to Record Sinking Fund Transactions

- a. Setting up the sinking fund. The initial contribution to the sinking fund shall be recorded as follows:

1. To set up Reserve for Retirement of Preferred Stock

Undivided Profits/Surplus Free	xxx
Other Surplus Reserves – Reserve for Retirement of Preferred Stock	xxx

To transfer from free to restricted Surplus the amount set up as reserve for redemption of preferred shares.

2. To set up the subsidiary account – Sinking Fund (classified as Other Non-Current Assets)

IBODI/Others – Sinking Fund for Redemption of Preferred Shares	xxx
Cash/Due from Banks	xxx

To set up the Sinking Fund for the Redemption of Preferred Shares.
- b. Contributions to the sinking fund

1. To set up the periodic Reserve for Retirement

Undivided Profits/Surplus Free	xxx
Other Surplus Reserves –Reserve for Retirement of Preferred Stock	xxx

To transfer from free to restricted Surplus reserve for redemption of preferred shares.
- c. Income/loss from the sinking fund. The recognition of income/loss from the investments shall follow the existing accounting treatment/procedures prescribed in the Manual of Accounts for Banks

1. To record receipt or accrual of income due to the sinking fund

Cash/Due from Banks/ Accrued Other Income Receivable	xxx
Other Income/Accrued Other Income	xxx

To record income earned from sinking fund assets.

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d. Redemption

1. Liquidation of sinking fund. Any gain or loss realized/incurred from liquidation of the sinking fund investments shall be credited/charged to operations.

Undivided Profits/ Surplus Free		
Cash		xxx
IBODI/Others – Sinking Fund for Redemption of Preferred Shares		xxx
Other Income – Gain on Sale of Sinking Fund Securities		xxx

To record the liquidation of sinking fund assets and recognize income therefrom.

or:

Cash		xxx
Loss from Sale of Sinking Fund Securities		xxx
IBODI/Others – Sinking Fund for Redemption of Preferred Shares		xxx

To record the liquidation of sinking fund assets and loss incurred therefrom.

2. Transfer to Undivided Profits/Surplus Free of the balance of the Restricted Surplus account
- | | |
|--|-----|
| Other Surplus Reserves – Reserve for Retirement of Preferred Stock | xxx |
| Undivided Profits/ Surplus Free | xxx |

To close the restricted surplus account ‘Other Surplus Reserves – Retirement of Preferred Stock’ and to revert the balance of the same to Undivided Profits/Surplus Free.

3. Redemption of preferred shares, declaration of stock dividend equal to amount of preferred shares redeemed and payment of such dividend through the issuance of new shares of stock

- (a)
- | | |
|----------------------------------|-----|
| Capital Stock – Preferred Shares | xxx |
| Cash/Due from Banks | xxx |

To record the redemption of redeemable preferred shares.

- (b)
- | | |
|--------------------------------|-----|
| Undivided Profits/Surplus Free | xxx |
| Dividends Distributable | xxx |

- (c)
- | | |
|--|-----|
| Dividends Distributable | xxx |
| Capital Stock – Common Stock/Preferred Stock | xxx |

To record payment of stock dividend (common stock).

- e. Treatment of changes in the market of the sinking fund portfolio. Gains and losses arising from changes in market values of component securities shall be deferred (not recognized) until the securities are liquidated.

**ACTIVITIES WHICH MAY BE CONSIDERED UNSAFE
AND UNSOUND BANKING PRACTICES**
(Appendix to Secs. X149 and X408)

The following activities are considered only as guidelines and are not irrebutably presumed to be unsafe or unsound. Conversely, not all practices which might under the circumstances be termed unsafe or unsound are mentioned here. The Monetary Board may now and then consider any other acts/omissions as unsafe or unsound practices.

- a. Operating with management whose policies and practices are detrimental to the bank and jeopardize the safety of its deposits.
- b. Operating with total adjusted capital and reserves that are inadequate in relation to the kind and quality of the assets of the bank.
- c. Operating in a way that produces a deficit in net operating income without adequate measures to ensure a surplus in net operating income in the future.
- d. Operating with a serious lack of liquidity, especially in view of the asset and deposit/liability structure of the bank.
- e. Engaging in speculative and hazardous investment policies.
- f. Paying excessive cash dividends in relation to the capital position, earnings capacity and asset quality of the bank.
- g. Excessive reliance on large, high-cost or volatile deposits/borrowings to fund aggressive growth that may be unsustainable.

For this purpose, a bank is considered offering high-cost deposit/borrowings if the effective interest rate paid on said deposits/borrowings and/or non-cash incentives is fifty percent (50%) over the prevailing comparable market median rate for similar bank categories, maturities and currency denomination and accompanied by other circumstance/s such as:

- (1) Undue reliance on solicitation and acceptance of brokered deposits;
- (2) Bank incurs large sum of deposit generation expenses in the form of commissions, referral and solicitation fees and related expenses and/or payment of advance interest on deposits;
- (3) Deferral of the above deposit generation expenses incurred to delay recording of expenses and/or inaccurate amortization of advance interest paid on deposits.
- (4) Deposit packages offered include non-cash incentives disproportionate to the amount of deposits sought which give undue or unwarranted advantage or preference for the bank; and
- (5) Bank markets, solicits and accepts deposits outside the bank premises including branches, unless otherwise authorized by the BSP under Sections X213 or X701.
- h. Excessive reliance on letters of credit either issued by the bank or accepted as collateral to loans advanced.
- i. Excessive amounts of loan participations sold.
- j. Paying interest on participations without advising participating institution that the source of interest was not from the borrower.
- k. Selling participations without disclosing to the purchasers of those participations material, non-public information known to the bank.
- l. Failure to limit, control and document contingent liabilities.
- m. Engaging in hazardous lending and tax collection policies and practices, as evidenced by any of the following circumstances:
 - (1) An excessive volume of loans subject to adverse classification;

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(2) An excessive volume of loans without adequate documentation, including credit information;

(3) Excessive net loan losses;

(4) An excessive volume of loans in relation to the total assets and deposits of the bank;

(5) An excessive volume of weak and self-serving loans to persons connected with the bank, especially if a significant portion of these loans are adversely classified;

(6) Excessive concentrations of credit, especially if a substantial portion of this credit is adversely classified;

(7) Indiscriminate participation in weak and undocumented loans originated by other institutions;

(8) Failing to adopt written loan policies;

(9) An excessive volume of past due or non-performing loans;

(10) Failure to diversify the loan portfolio/asset mix of the institution;

(11) Failure to make provision for an adequate reserve for possible loan losses;

(12) High incidence of spurious and fraudulent loans due to patently inadequate risk management systems and procedures resulting in significant impairment of capital;

(13) Bank's niche mostly consists of borrowers who have impaired or limited credit history, or majority of the loans are either clean/unsecured or backed with minimum collateral values except those underwritten using microfinance technology consistent with Section X361 and other acceptable cash flow-based lending systems; and the bank does not have a robust risk management system in place leaving the bank vulnerable to losses;

(14) Loan rates are excessively higher than market rates to compensate the added or higher risks involved. Excessively higher

rates are those characterized by effective interest rates that are fifty percent (50%) over the prevailing comparable market median rate for similar loan types, maturities and collaterals; and

(15) Assignment of loans on without recourse basis with real estate properties as payment, resulting in total investment in real estate in excess of the prescribed ceiling.

n. Permitting officers to engage in lending practices beyond the scope of their positions.

o. Operating the bank with inadequate internal controls.

p. Failure to keep accurate and updated books and records.

q. Operating the institution with excessive volume of out-of-territory loans.

r. Excessive volume of non-earning assets.

s. Failure to heed warnings and admonitions of the supervisory and regulatory authorities.

t. Continued and flagrant violation of any law, rule, regulation or written agreement between the institution and the Bangko Sentral.

u. Any other action likely to cause insolvency or substantial dissipation of assets or earnings of the institution or likely to seriously weaken its condition or otherwise seriously prejudice the interest of its depositors/investors/clients.

v. Non-observance of the principles and the requirements for managing and monitoring large exposures and credit risk concentrations under Subsec. X178.9.

w. Improper or non-documentation of repurchase agreements covering government securities and commercial papers and other negotiable and non-negotiable securities or instruments.

(As amended by Circular Nos. 903 dated 29 February 2016 and 640 dated 16 January 2009)

CERTIFICATION OF COMPLIANCE WITH
SECTION 55.4 OF REPUBLIC ACT NO. 8791
(Appendix to Subsec. X262.3)

Name of Bank
Address of Head Office
Telefax/Fax Number

The Deputy Governor
Supervision and Examination Sector
Bangko Sentral ng Pilipinas
Manila, Philippines

Sir:

This is to certify that this bank, in the conduct of its business involving bank deposits, does not have in its employ any casual/non-regular personnel or employees/personnel, who are working after the probationary period of six (6) months, are still not being considered regular/permanent employees, personnel of the bank.

This certification is being submitted in compliance with the requirements of Circular No. 336 dated 02 July 2002 and Circular Letter dated 11 November 2003 implementing Section 55.4 of the General Banking Law of 2000.

Very truly yours,

Authorized Officer's Signature
Over Printed Name
Designation

**GUIDELINES ON RETENTION AND DISPOSAL OF
RECORDS OF RURAL AND COOPERATIVE BANKS**
[Appendix to Subsec. 3191.9 (2008 - 3161.9)]

The following guidelines shall govern the retention and disposal of records of RBs/Coop Banks.

A. Classification of Records and Documents	Retention Period
1. Accounting records	
(a) Books of accounts, audited financial/annual reports	10 years
(b) Tickets and supporting papers	10 years
(c) Official receipts (2nd copy)	10 years
2. Organization papers for the establishment of RBs/ Coop Banks, branches/offices (organizational file), special license/authority granted by BSP (e.g. authority to accept demand deposits, government deposits, fringe benefit plan)	Permanent
3. Updated Manual of operations, including compliance system, policies on personnel, security and other related matters	Permanent
4. Stock and transfer book and related records and documents	Permanent
5. Minutes of meeting	
(a) Stockholders/general assembly, board of directors	Permanent
(b) Other committees	10 years
6. Human resource files	
(a) Documents pertaining to members of the board of directors and stockholders	Permanent
(b) Bank officers and staff	5 years from resignation/separation retirement
(c) Officers and staff with derogatory information	Permanent
7. Correspondence (to and from)	
(a) BSP on examination findings/exceptions and directives; rediscounting, loans and advances	10 years except if there is a court case - until the case is finally resolved by the court

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(b) Other government regulatory/supervisory authorities, e.g. PDIC, BIR, DOLE, SSS	5 years or as prescribed by the government institution concerned whichever is longer
(c) All other correspondence	5 years
8. Reports to BSP (financial and non-financial reports)	5 years
9. Reports to other government and non-government	5 years or as prescribed by the institution concerned whichever is longer
10. Records and documents on court cases/complaints	Permanent
11. Documents, certificates of ownership/titles on bank assets	Permanent
12. All other records/documents of all transactions, e.g. loans and investments, disposal of assets, deposit liabilities and borrowings, expenditures and income, disbursements	10 years from dates when accounts were closed/disposed of/settled

Notwithstanding the retention periods herein, RBs/Coop Banks may preserve for a longer period those records/documents they deem necessary.

In cases where specific laws or BSP issuances require a different retention period, the longer retention period shall be observed.

B. Procedural requirements on disposal of banks records and documents

1. No RBs/Coop Banks shall dispose of any records without the prior approval of its board of directors.
2. All records and documents for disposal must be burned or shredded in the presence of a director of the bank duly designated by the board of directors, the Chief Operating Officer or equivalent rank and the Compliance Officer.
3. The designated director, the Chief Operating Officer (or its equivalent) and the Compliance Officer shall execute a joint affidavit (Annex A) attesting to the burning/shredding of the records/documents.

The original copy of the joint affidavit shall be kept permanently by the Treasurer or Cashier and must be made available for inspection by the BSP.

(As amended by Circular 720 dated 06 May 2011)

REPUBLIC OF THE PHILIPPINES)
CITY/MUNICIPALITY OF _____) S.S
PROVINCE OF _____)

JOINT AFFIDAVIT

We, namely: _____, Director; _____, Chief Operating Officer (or equivalent rank); and _____, Compliance Officer, all of legal ages, representing the Rural/ Cooperative Bank of _____, Inc. after having been sworn to in accordance with law do hereby depose and say:

1. That we are the bank officials of the Rural/Cooperative Bank of _____, Inc., duly designated under Board Resolution No. ____ dated _____, to ensure and witness the proper disposal of the following records/documents:

2. That we have witnessed the burning/shredding of the above-mentioned records/documents that took place on _____ 20__ at _____ AM/PM at the premises of the Rural/ Cooperative Bank of _____.
3. That we have executed this Affidavit to attest to the truthfulness of the foregoing and in accordance with the rules prescribed by the Bangko Sentral ng Pilipinas (BSP).

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

SUBSCRIBED AND SWORN TO BEFORE ME, this _____ day of _____ 20__ at _____, the foregoing Affiants, exhibiting their respective valid identification document/s (ID/s), to wit:

Name	Valid ID's	Date Issued	Place Issued
_____	_____	_____	_____
_____	_____	_____	_____

NOTARY PUBLIC
My Commission expires on December 31, 20____
PTR No. _____ issued on _____ 20__ at _____

Doc. No. _____
Book No. _____
Page No. _____
Series of 20____.

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**SWORN CERTIFICATION OF FOREIGN CURRENCY DEPOSIT UNIT/EXPANDED
FOREIGN CURRENCY DEPOSIT UNIT LENDING TO REGULAR BANKING UNIT**

(Please refer to Circular No. 645 dated 13 February 2009)

Sample Computation on Foreign Currency Deposit Unit Lending to
Regular Banking Unit
(Appendix to Item 3.b.1 of Section 72, Circular No. 645 dated 13 February 2009)

FCDU LENDING to RBU
SAMPLE COMPUTATION - 30% CAP
(Amounts in Million USD)

		Average FCDU/EFCDU Deposit Liabilities ^{1/}		Average On- Balance Sheet Forex Trade Asset ^{2/}	Cap for the Week	“Borrowing-FCDU/EFCDU” Account		
		Amount	30%			Debit	Credit	Balance
August	2	140	42	30				
	9	120	36	45				
	12				30		10	10
	13						5	15
	14						5	20
	15						8	28
	16	110	33	36			2	30
	19				36		1	31
	20						2	33
	21						3	36
	22							36
	23	200	60	42				36
	26				33	3 ^{2/}		33
	27							33
Sept	28							33
	29							33
	30	170	51	27				33
	2				42		6	39
	3						2	41
	4					4		37
	5						3	40
	6	250	75	66			2	42
	9				27	15		27
	10					4		23
	11						4	27
	12							

^{1/} Computed using 2-month rolling data (i.e., for week ended 02 August, average of daily data from 03 June to 02 August; week ended 09 August, average of daily data from 10 June to 09 August, etc.).

Average daily balance for each observation period = Sum of daily balances/Total banking days

^{2/} RBU should pay off to reduce outstanding balance to within prescribed limit.

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REVISED IMPLEMENTING RULES AND REGULATIONS
R.A. NO. 9160, AS AMENDED BY R.A. NO. 9194
[Appendix to Sec. X801 (2008 - X691)]

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

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Anti-Money Laundering Council Resolution No. 292

**RULES ON SUBMISSION OF COVERED TRANSACTION REPORTS AND
SUSPICIOUS TRANSACTION REPORTS BY COVERED INSTITUTIONS¹**

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

Anti-Money Laundering Council Resolution No. 10

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

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**CUSTOMER DUE DILIGENCE FOR BANKS AND NON-BANK FINANCIAL
INTERMEDIARIES PERFORMING QUASI-BANKING FUNCTIONS**

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

GENERAL IDENTIFICATION REQUIREMENTS

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

**General Guide to Account Opening and
Customer Identification**

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

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Anti-Money Laundering Council Resolution No. 02
Series of 2005

(Deleted by Circular No. 706 dated 05 January 2011)

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**CERTIFICATION OF COMPLIANCE WITH
ANTI-MONEY LAUNDERING REGULATIONS
(Appendix to Subsec. X801.6)**

(Deleted pursuant to Circular No. 706 dated 05 January 2011)

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**DETAILS ON THE COMPUTATION OF QUARTERLY INTEREST PAYMENTS
CREDITED TO THE DEMAND DEPOSIT ACCOUNTS OF BANKS'
LEGAL RESERVE DEPOSITS WITH BSP
(Appendix to Subsec. X254.3)**

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

SMALL AND MEDIUM ENTERPRISE UNIFIED LENDING OPPORTUNITIES FOR
NATIONAL GROWTH BANK ACCREDITATION APPLICATION FOR RURAL AND
THRIFT BANKS ELIGIBILITY AND DOCUMENTARY REQUIREMENTS
(Appendix to Subsec. X342.15)

Requirements	Documents to be submitted
1. CAMELS rating should be at least “3.0”	Latest report of Bangko Sentral bank examination
2. Compliance with the ten percent (10%) maximum ratio of DOSRI past due loans	Copy of quarterly report submitted to Bangko Sentral
3. No loan with LBP and Bangko Sentral, Quedancor, PBSP, SBGFC, PhilExim, DBP, and SSS in arrears. Rediscounting privileges with Bangko Sentral and LBP not suspended	Credit investigation report by GFI credit and appraisal management unit or department
4. Past due loans and items in litigation is not in excess of the industry average plus two percent (2%) but not to exceed twenty five percent (25%) (based on latest quarterly report of Bangko Sentral)	Copy of the Consolidated Statement of Condition and Income & Expense as submitted to Bangko Sentral
5. Not deficient in loan loss provisions/reserves	Certification from Bangko Sentral
6. Ratio of acquired assets to total assets is not more than industry average plus two percent (2%) but not to exceed fifteen percent (15%)	Copy of the latest computation of the risk-based capital adequacy ratio cover for credit risk under applicable and existing risk-based capital adequacy framework
7. Positive results of operations in the last preceding calendar year. If such is negative, the average income of the past two (2) or three (3) years should at least be positive	Copy of latest interim financial statements as submitted to Bangko Sentral
8. Not deficient in bank reserves for the last six (6) months preceding the filing of application	Copy of weekly report submitted to Bangko Sentral or Bangko Sentral certification
9. Ratio of accrued interest receivables to surplus (free) plus undivided profits is less than 100%	Copy of latest interim financial statements as submitted to Bangko Sentral
10. The bank is owned and managed by the same persons (key officers) at least for the last two (2) years	Applicant’s records
11. No derogatory information gathered on the officers and directors of the bank	GFI Credit and Appraisal Management Unit or Department
12. Compliance with corporate governance	Applicant’s reply to questionnaire on comparison of Bangko Sentral mandated practices with actual practices (As amended by Circular Nos. 890 dated 02 November 2015 and 827 dated 28 February 2014)

SMALL AND MEDIUM ENTERPRISE UNIFIED LENDING OPPORTUNITIES FOR
NATIONAL GROWTH
LENDING FEATURES OF SHORT-TERM LOANS

<u>Loan Purpose</u>	<u>Export Financing (Export Packing Credit)</u>	<u>Credit Line (Temporary Working Capital)</u>
Target Industries	All industries except trading of imported goods, of liquor and cigarettes, extractive industries	All industries except trading of imported goods, of liquor and cigarettes, in extractive industries
Eligible Enterprises	At least sixty percent (60%) Filipino-owned whose assets are not more than P100 million, excluding the value of the land	At least sixty percent (60%) Filipino-owned whose assets are not more than P100 million, excluding the value of the land
Maximum Financing	Seventy percent (70%) of the value of LC/PO; maximum of P5.0 million	Seventy percent (70%) of working capital requirement; maximum of P5.0 million
Interest Rate**	Nine percent (9.00%)	Nine percent (9.00%)
Repayment Term	Maximum of one (1) year	Maximum of one (1) year
Collateral*	Post dated check Registered/Unregistered REM/CHM Assignment of LC or PO Assignment of life insurance Guarantee cover	Post dated check Registered/Unregistered REM/CHM Assignment of life insurance Guarantee cover Corporate Guarantee (if franchisee) Assignment of lease rights (if franchisee)
Evaluation and Service Fees	P2,000 for every P1 million Plus front-end fee of one-half of one percent (½ of 1%) of approved loan	P2,000 for every P1 million Plus front-end fee of one-half of one percent (½ of 1%) of approved loan

Financial Profile of the Borrower:

Debt-Equity Ratio	At most 80:20 after the loan	At most 80:20 after the loan At most 70:30 (if franchisee)
Profitability	Positive income for last year. (If past year’s income is negative, the average income of past two (2) or three (3) years should be positive)	Positive income for last year. (If past year’s income is negative, the average income of past two (2) or three (3) years should be positive)
Other Ratios	Based on industry standards	Based on industry standards

* The Program will not decline a loan only on the basis of inadequate collateral. However, the borrower must be willing to mortgage all available business and personal collateral, including assets to be acquired from the loan to secure the borrowing.

** Applicable to all loan applications with complete requirements received up to 30 June 2003. A GFI committee shall be set up to review the pricing thereafter on a quarterly basis.

SMALL AND MEDIUM ENTERPRISE UNIFIED LENDING OPPORTUNITIES FOR
NATIONAL GROWTH
LENDING FEATURES OF LONG-TERM LOANS

Loan Purpose	a) Purchase of equipment b) Building construction c) Purchase of lot d) Purchase of inventories – permanent working capital
Target Industries	All industries except trading of imported goods, of liquor and cigarettes, in extractive industries and in housing projects
Eligible Enterprises	At least sixty percent (60%) Filipino-owned whose assets are not more than P100.0 million, excluding the value of the land
Maximum Financing	Eighty percent (80%) of the incremental project cost; maximum of P5.0 million
Interest Rate	3-year T-Bond rate + 2% (3-year loan)* 5-year T-Bond rate + 2% (5-year loan)*
Repayment Term	Maximum of five (5) years, inclusive of maximum one (1) year grace period on principal monthly amortization
Collateral**	Post dated check Registered/Unregistered REM/CHM Assignment of life insurance Corporate guarantee (if franchisee) Assignment of lease rights (if franchisee)
Evaluation and Service Fees	P2,000 for every P1.0 million Plus front-end fee of ½ of 1% of approved loan and commitment fee of 125% of unavailed balance

* Based on yield of bonds with three (3) or five (5) year remaining loan tenor as per MART 1 of Bloomberg. As of 22 January 2003, MART 1-Bloomberg, 3-year term loan has a yield of 9.25% and 5 year term loan has a yield of 10.75%. With a premium of 2%, the 3-year rate will be set at 11.25% and the 5-year rate at 12.75%.

** The Program will not decline a loan only on the basis of inadequate collateral. However, the borrower must be willing to mortgage all available business and personal collateral, including assets to be acquired from the loan to secure the borrowing.

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Financial Profile of the Borrower:

Debt-Equity Ratio	At most 80:20 after the loan At most 70:30 (if franchisee)
Profitability	Positive income for last year. (If past year's income is negative, the average income of past two (2) or three (3) years should be positive)
Other Ratios	Based on industry standards

**TRANSFER/SALE OF NON-PERFORMING ASSETS TO A
SPECIAL PURPOSE VEHICLE OR TO AN INDIVIDUAL**
(Appendix to Subsec. X394.10)

The following procedures shall govern the transfer/sale of NPAs to a SPV or to an individual that involves a single family residential unit, or transactions involving *dacion en pago* by the borrower or third party of a non-performing loan (NPL), for the purpose of obtaining the COE which is required to avail of the incentives provided under R.A. No. 9182, as amended by R.A. No. 9343.

a. Prior to the filing of any application for transfer/sale of NPAs, a bank shall coordinate with the BSP through the SDC and the appropriate department of the SES to develop a reconciled and finalized master list of its eligible NPAs.

For this purpose, banks were requested to submit a complete inventory of their NPAs in the format prescribed under Circular Letter dated 07 January 2003. Only NPAs included in the master list that meet the definition of NPA, NPL and ROPA under R.A. No. 9182 may qualify for the COE. The banks shall be provided a copy of their reconciled and finalized master list for their guidance.

Only banks which have not yet submitted their master list of NPAs and intend to avail of the incentives and fee privileges of the SPV Act 2nd Phase implementation are allowed to submit a complete inventory of their NPAs in the format prescribed under Circular Letter dated 07 January 2003. Banks which have already submitted to BSP a master list of NPAs as of 30 June 2002 in the 1st Phase implementation of the SPV Act will not be allowed to submit a new/amended master list.

b. An application for eligibility of specific NPAs shall be filed in writing (hard copy) by the selling bank with the BSP

through the appropriate department of the SES for each proposed transfer of asset/s. Although no specific form is prescribed, the applicant shall describe in sufficient detail its proposed transaction, identifying its counterparty/ies and disclosing the terms, conditions and all material commitments related to the transaction.

c. For applications involving more than ten (10) NPA accounts, the list of NPAs to be transferred/sold shall be submitted in soft copy (by electronic mail or diskette) in excel format using the prescribed data structure/format for NPLs and ROPAs to the appropriate department of the SES of the applicant bank at the following addresses:

SEDI-SPV@bsp.gov.ph
SEDII-SPV@bsp.gov.ph
SEDI-SPV@bsp.gov.ph
SEDIV-SPV@bsp.gov.ph

For applications involving ten (10) NPA accounts or less, it is preferable that the list be submitted also in soft copy. The applicant may opt to submit the list in hard copy, provided all the necessary information shown in the prescribed data structure that are relevant to each NPL or ROPA to be transferred/sold will be indicated. The list to be submitted in hard copy would be ideal for the sale/transfer of NPAs that involve one (1) promissory note and/or one (1) asset item per account.

d. The application shall be accompanied by a written certification signed by a senior officer with a rank of at least senior vice president or equivalent, who is authorized by the board of directors, or by the country head, in the case of foreign banks, that:

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- (1) the assets to be sold/transferred are NPAs as defined under the SPV Act of 2002;
- (2) the proposed sale/transfer of said NPAs is under a true sale;
- (3) the notification requirement to the borrowers has been complied with; and
- (4) the maximum ninety (90)-day period for renegotiation and restructuring has been complied with.

Items "3" and "4" above shall not apply if the NPL has become a ROPA after 30 June 2002.

e. In the case of *dacion en pago* by the borrower or a third party to a bank, the application for COE on the NPL being settled shall be accompanied by a Deed of Dacion executed by the borrower, the third party, the registered owner of the property and the bank.

f. The appropriate department of the SES may conduct an on-site review of the NPLs and ROPAs proposed to be transferred/sold. After the on-site review, the application for transfer/sale shall be submitted to the Deputy Governor, SES for approval and for the issuance of the corresponding COE.

g. Upon the issuance of the SPV Application Number by the BSP, a bank shall be charged a processing fee, as follows:

- (1) 1/100 of one percent (1%) of the book value of NPAs transferred or the

transfer price, whichever is higher, but not below ₱25,000 if the transfer is made to an SPV;

- (2) 1/100 of 1% of the book value of the NPL but not below ₱5,000 in case of a *dacion en pago* arrangement by an individual or corporate borrower;

- (3) ₱5,000 if the transfer involves a single family residential unit to an individual.

h. An SPV that intends to transfer/sell to a third party an NPA that is covered by a COE previously issued by the BSP shall file an application for such transfer/sale with the SEC which shall issue the corresponding COE based on the data base of COEs maintained at the BSP.

An individual who intends to transfer/sell an NPA that involves a single family residential unit he had acquired that is covered by a COE shall file an application for another COE with the BSP through the bank from which the NPA was acquired. The individual shall indicate in his application the previous COE issued for the NPA he had acquired and the name, address and TIN of the transferee/buyer of the NPA. A processing fee of ₱5,000 shall be collected by BSP upon issuance of the SPV Application Number by the BSP.

(As amended by M-2006-001 dated 11 May 2006)

ACCOUNTING GUIDELINES ON THE SALE OF NON-PERFORMING ASSETS TO
SPECIAL PURPOSE VEHICLES AND TO QUALIFIED INDIVIDUALS FOR
HOUSING UNDER “THE SPECIAL PURPOSE VEHICLE ACT OF 2002”
(Appendix to Subsec. X394.10)

General Principles

These guidelines set out alternative regulatory accounting treatment of the sale of non-performing assets (NPAs) by banks and other financial institutions (FIs) under Bangko Sentral supervision to Special Purpose Vehicles (SPVs) and to qualified individuals for housing under R.A. No. 9182, otherwise known as “The Special Purpose Vehicle (SPV) Act of 2002”.

The guidelines recognize that banks/FIs may need temporary regulatory relief, in addition to tax relief under the SPV Law, particularly in the timing of recognition of losses, so that they may be encouraged to maximize the sale of their NPAs even at substantial discounts: *Provided, however,* That in the interest of upholding full transparency and sustaining market discipline, banks/FIs that avail of such regulatory relief shall fully disclose its impact in all relevant financial reports.

The guidelines cover the following areas:

- (1) Derecognition of NPAs sold/transferred to an SPV and initial recognition of financial instruments issued by the SPV to the selling bank/FI as partial or full settlement of the NPAs sold/transferred to the SPV;
- (2) Subsequent measurement of the carrying amount of financial instruments issued by the SPV to the selling bank/FI;
- (3) Capital adequacy ratio (CAR) calculation; and
- (4) Disclosure requirement on the selling bank/FI.

The sale/transfer of NPAs to SPV referred to in these guidelines shall be in the nature of a “true sale” pursuant to

Section 13 of the SPV Law and its Implementing Rules and Regulations.

I. Derecognition of NPAs Sold and Initial Recognition of Financial Instruments Received

A bank/FI should derecognize an NPA in accordance with the provisions of PAS 39 (for financial assets such as loans and securities) and PASs 16 and 40 (for non-financial assets such as land, building and equipment).

A sale of NPA qualifying as a true sale pursuant to Section 13 of the SPV Law and its Implementing Rules and Regulations but not qualifying for derecognition under PASs 39, 16 and 40 may nonetheless, be derecognized. *Provided:* That the bank/FI shall disclose such fact, in addition to all other disclosures provided in this Memorandum.

On derecognition, any excess of the carrying amount of the NPA (i.e., net of specific allowance for probable loss after booking the Bangko Sentral recommended valuation reserve) over the proceeds received in the form of cash and/or financial instruments issued by the SPV represents an actual loss that should be charged to current period’s operations.

However, a bank/FI may use any existing specific allowance for probable losses on NPA sold:

- (1) to cover any unbooked (specific/general) allowance for probable losses; and
- (2) to apply the excess, if any, as additional (specific/general) allowance for probable losses, on remaining assets, in which case the carrying amount of the NPA (which is compared with the proceeds

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received for purposes of determining the actual loss) shall be the gross amount of the NPA: *Provided*, That the use of such existing specific allowance for probable losses on the NPA sold as provisions against remaining assets shall be properly disclosed

The loss may, moreover, be booked under “Deferred Charges” account which should be written down over the next ten (10) years based on the following schedule:

<u>End of Period From</u> <u>Date of Transaction</u>	<u>Cumulative Write-down</u> <u>of Deferred Charges</u>
Year 1	5%
Year 2	10%
Year 3	15%
Year 4	25%
Year 5	35%
Year 6	45%
Year 7	55%
Year 8	70%
Year 9	85%
Year 10	100%

Provided, That the staggered booking of actual loss on sale/transfer of the NPA shall be properly disclosed.

In case the face amounts of the financial instruments exceed the excess of the carrying amount of the NPA over the cash proceeds, the same shall be adjusted by setting up specific allowance for probable losses so that no gain shall be recognized from the transaction.

The carrying amount of the NPA shall be initially assumed to be the NPA's fair value. The excess of the carrying amount of the NPA over the cash proceeds or the face amounts of the financial instruments, whichever is lower, shall then be the initial cost of financial instruments received.

Banks/FIs shall book such financial instruments under the general ledger account "Unquoted Debt Securities Classified as Loans" for debt instruments or "Investments in Non-Marketable Equity

Securities (INMES)" for equity instruments.

Consolidation of SPV with Bank/FI Even if the sale of NPAs to SPV qualifies for derecognition, a bank/FI shall consolidate the SPV in the audited consolidated financial statements when the relationship between the bank/FI and the SPV indicates that the SPV is controlled by the bank/FI in accordance with the provisions of SIC (Standing Interpretations Committee) - 12 Consolidation - Special Purpose Entities."

However, banks which booked their losses from sale/transfer of NPAs to SPV as “deferred charges” are allowed to accelerate in full the remaining unamortized losses to be charged directly to Retained Earnings instead of Profit or Loss, subject to the conditions that this shall be recognized and booked as transaction for the year 2012 or for fiscal year ending 2013, as may be applicable, and that appropriate disclosures shall be made in the audited financial statements, annual reports and published statement of condition.

II. Subsequent Measurement of Financial Instruments Received

(a) A bank/FI should assess at end of each fiscal year or more frequently whether there is any objective evidence or indication based on analysis of expected net cash inflows that the carrying amount of financial instruments issued by an SPV may be impaired. A financial instrument is impaired if its carrying amount (i.e., net of specific allowance for probable loss) is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on the net present value of expected future cash flows discounted at the current market rate of interest for a similar financial instrument.

In applying discounted cash flow analysis, a bank/FI should use the discount rate(s) equal to the prevailing rate of return for financial instruments having substantially the

same terms and characteristics, including the creditworthiness of the issuer.

(b) Alternatively, the estimated recoverable amount of the financial instruments may be determined based on an updated estimate of residual net present value (NPV) of the issuing SPV.

The estimated recoverable amount of the financial instrument shall be the present value of the excess of expected cash inflows (e.g., proceeds from the sale of collaterals and/or ROPAs, which in no case shall exceed the contract price of the NPAs sold/ transferred, interest on the reinvestment of proceeds) over expected cash outflows (e.g., direct costs to sell, administrative expenses, principal and interest payments on senior obligations, interest payments on the financial instruments).

The fair market value of the collateral and/or ROPAs should under this method be considered only under the following conditions:

(1) The appraisal was performed by an independent appraiser acceptable to the Bangko Sentral; and

(2) The valuation of the independent appraiser is based on current market valuation of similar assets in the same locality as underlying collateral rather than other valuation methods such as replacement cost, etc.

The assumptions regarding the timing of sale, the direct cost to sell, administrative expenses, reinvestments rate and current market rate should be disclosed in sufficient detail in the audited financial statements. The applicable discount rate should be based on the implied stripped yield of the Treasury note or bond for the tenor plus an appropriate risk premium.

(c) In case of impairment, the carrying amount of the financial instrument should be reduced to its estimated recoverable amount, through the use of specific allowance for probable losses account that should be charged to current period’s operations.

However, at the end of the fiscal year the sale/ transfer of NPA occurred, such setting up of specific allowance for probable losses account may be booked on a staggered basis over the next ten (10) years based on the following schedule:

End of Period From Date of Transaction	Cumulative Booking of Allowance for Probable Losses
Year 1	5%
Year 2	10%
Year 3	15%
Year 4	25%
Year 5	35%
Year 6	45%
Year 7	55%
Year 8	70%
Year 9	85%
Year 10	100%

Provided, That the staggered booking of impairment, if any, upon remeasurement of financial instruments at end of the fiscal year the sale/transfer of the NPA occurred shall be properly disclosed.

After initially recognizing an impairment loss, the bank/FI should review the financial instruments for future impairment in subsequent financial reporting date.

If in a subsequent period, the estimated recoverable amount of the financial instrument decreases, the bank/FI should immediately book additional allowance for probable losses corresponding to the decrease. However, a bank/FI may stagger the booking of such additional allowance for probable losses in such a way that it catches up and keeps pace with the original deferral schedule (e.g., if the impairment occurred in Year 8, a bank/FI should immediately book seventy percent (70%) at end of Year 8, and thereafter, additional fifteen percent (15%) each at end of Year 9 and Year 10, respectively): *Provided*, That the staggered booking of impairment, if any, upon remeasurement of financial

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instruments shall be properly disclosed.

If in a subsequent period, the estimated recoverable amount of the financial instrument increases exceeding its carrying amount, and the increase can be objectively related to an event occurring after the write-down, the write-down of the financial instruments should be reversed by adjusting the specific allowance for probable losses account. The reversal should not result in a carrying amount of the financial instrument that exceeds what the cost would have been had the impairment not been recognized at the date the write-down of the financial instrument is reversed. The amount of the reversal should be included in the profit for the period.

Illustrative accounting entries for derecognition of NPAs, initial recognition of financial instruments issued by the SPV, and subsequent measurement of the carrying amount of the financial instrument are in Annex A.

III. Capital Adequacy Ratio (CAR) Calculation

Banks/FIs may, for purposes of calculating capital adequacy ratio (CAR), likewise stagger over a period of ten (10) years the recognition of:

(1) actual loss on sale/transfer of NPAs; and

(2) impairment, if any, upon re-measurement of financial instruments, in accordance with the following schedule:

<u>End of Period From Date of Transaction</u>	<u>Cumulative Recognition of Losses/Impairment</u>
Year 1	5 %
Year 2	10 %
Year 3	15 %
Year 4	25 %
Year 5	35 %
Year 6	45 %

Year 7	55%
Year 8	70%
Year 9	85%
Year 10	100%

The financial instruments received by the selling bank/FI shall be risk weighted in accordance with applicable and existing risk-based capital adequacy framework.

A bank/FI may declare cash dividend on common and/or preferred stock notwithstanding deferred recognition of loss duly authorized by the Bangko Sentral.

IV. Disclosure

Banks/FIs should disclose as "Additional Information" in periodic reports submitted to the Bangko Sentral, as well as in published reports and audited financial statements and all relevant financial reports the specific allowance for probable losses on NPAs sold used as provisions against remaining assets, the staggered recognition of actual loss on sale/transfer of NPAs" and/or impairment, if any, on the remeasurement of financial instruments.

In addition, banks/FIs which receive financial instruments issued by the SPVs as partial or full settlement of the NPAs transferred to the SPVs should disclose in the audited financial statements the method used and the significant assumptions applied in estimating the recoverable amount of the financial instruments, including the timing of the sale, the direct cost to sell, administrative expenses, reinvestment rate, current market rate, etc. (The pro-forma disclosure requirements on the staggered recognition of actual loss on sale/transfer of NPAs and/or impairment, if any, on the remeasurement of financial instruments are shown in Annex B.)

(As amended by Circular Nos. 890 dated 02 November 2015, 827 dated 28 February 2014 and M-2012-036 dated 24 July 2012)

ILLUSTRATIVE ACCOUNTING ENTRIES TO RECORD SALE OF NPAs TO SPV UNDER THE SPV LAW OF 2002
UNDER DEFERRED RECOGNITION OF LOSS/IMPAIRMENT OF FINANCIAL INSTRUMENTS

Mode of Payment (Cash, Financial Instruments)					
	Cash Only (30, 0)	Financial Instruments Only (0, 120)	Part Cash, Part Financial Instruments ¹ (30, 100)	Part Cash, Part Financial Instruments ² (30, 90)	Part Cash, Part Financial Instruments (30, 70)
Assumptions:					
Loans/ROPAs, gross	120	120	120	120	120
Allowance for probable losses	20	20	20	20	20
Loans/ROPAs, net	100	100	100	100	100
Cash payment received	30	0	30	30	30
Financial instruments received	0	120	100	90	70
Unbooked valuation reserves on remaining assets	15	15	15	15	15

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Annex A

¹ Face amounts of financial instruments exceed the excess of the gross amount of the NPAs over the cash proceeds.
² Face amounts of financial instruments do not exceed the excess of the gross amount of the NPAs over the cash proceeds.

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Accounting Entries		Cash Only (30, 0)		Financial Instruments Only (0, 120)		Part Cash, Part Financial Instruments ¹ (30, 100)		Part Cash, Part Financial Instruments ² (30, 70)		Part Cash, Part Financial Instruments (30, 90)	
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
1	Allowance for Probable Losses – NPAs sold Allowance For Probable Losses-Remaining Assets <i>(For unbooked provisions)</i> <i>(As additional provisions)</i> To record the reclassification of existing specific allowance for credit losses on NPAs sold as provisions against remaining assets.	20		20		20		20		20	
			15 5		15 5		15 5		15 5		15 5
2	Cash Unquoted Debt Securities Classified as Loans/INMES Deferred Charges Loans/ROPAs Allowance for Credit Losses - Unquoted Debt Securities Classified as Loans/INMES To record the sale of NPAs, receipt of cash and/or financial instruments, and deferred recognition of loss, if any.	30 0 90		0 120 0		30 100 0		30 90 0		30 70 20	
			120		120		120		120		120
			0		0		10		0		0
3	Amortization – Deferred Charges Deferred Charges To record annual write down of deferred charges based on schedule of staggered booking of losses.	xxx		0		0		0		xxx	
			xxx		0		0		0		xxx

¹ Face amounts of financial instruments exceed the excess of the gross amount of the NPAs over the cash proceeds.
² Face amounts of financial instruments do not exceed the excess of the gross amount of the NPAs over the cash proceeds.

Accounting Entries		Cash Only (30, 0)		Financial Instruments Only (0, 120)		Part Cash, Part Financial Instruments ¹ (30, 100)		Part Cash, Part Financial Instruments ² (30, 70)		Part Cash, Part Financial Instruments (30, 90)	
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
4	Provision for Credit Losses Unquoted Debt Securities Classified as Loans/INMES	0		xxx		xxx		xxx		xxx	
	Allowance for Credit Losses – Unquoted Debt Securities Classified as Loans/INMES		0		xxx		xxx		xxx		xxx
To record annual build up of allowance for credit losses on financial instruments based on schedule of staggered booking of allowance for credit losses.											

¹ Face amounts of financial instruments exceed the excess of the gross amount of the NPAs over the cash proceeds.
² Face amounts of financial instruments do not exceed the excess of the gross amount of the NPAs over the cash proceeds.

PRO-FORMA DISCLOSURE REQUIREMENT

A. Statement of Condition

Particulars	Amount		
	Qualified for Derecognition Under PFRS/PAS	Not Qualified for Derecognition Under PFRS/PAS	Total
Additional Information:			
NPAs sold, gross	xxx	xxx	xxx
Allowance for credit losses (specific) on NPAs sold	xxx	xxx	xxx
Allowance for credit losses (specific) on NPAs sold applied to:			
Unbooked allowance for credit losses:			
Specific	xxx	xxx	xxx
General	xxx	xxx	xxx
Additional allowance for credit losses			
Specific	xxx	xxx	xxx
General	xxx	xxx	xxx
Cash received			
Financial instruments received, gross	xxx	xxx	xxx
Less: Allowance for credit losses (specific)	xxx	xxx	xxx
Carrying amount of financial instruments received	xxx	xxx	xxx
Less: Unbooked allowance for credit losses (specific)	xxx	xxx	xxx
Adj. carrying amount of financial instruments received	xxx	xxx	xxx
Deferred charges, gross	xxx	xxx	xxx
Less: Deferred charges written down	xxx	xxx	xxx
Carrying amount of deferred charges	xxx	xxx	xxx

B. Statement of Income and Expenses

Particulars	Amount		
	Qualified for Derecognition Under PFRS/PAS	Not Qualified for Derecognition Under PFRS/PAS	Total
Additional Information:			
Net income after income tax (with regulatory relief)			xxx
Less: Deferred charges not yet written down	xxx	xxx	xxx
Unbooked allowance for credit losses (specific) on financial instruments received	xxx	xxx	xxx
Total deduction	xxx	xxx	xxx
less: Deferred tax liability, if applicable	xxx	xxx	xxx
Net deductions	xxx	xxx	xxx
Net income/loss after income tax (without regulatory relief)			

**SIGNIFICANT TIMELINES RELATIVE TO THE IMPLEMENTATION OF
R.A. NO. 9182, ALSO KNOWN AS THE “SPECIAL PURPOSE VEHICLE ACT”,
AS AMENDED BY R.A. NO. 9343
(Appendix to Subsec. X394.10)**

Timelines of Implementation Expired as follows:

Expired on

First Leg Transactions : 1st phase - 08 April 2005
2nd phase - 14 May 2008

Second Leg Transactions: 14 May 2013

**GUIDELINES ON REQUESTS FOR MONETARY BOARD OPINION ON THE MONETARY
AND BALANCE OF PAYMENTS IMPLICATIONS OF PROPOSED DOMESTIC
BORROWINGS BY LOCAL GOVERNMENT UNITS (LGUs) PURSUANT TO SECTION 123
OF REPUBLIC ACT NO. 7653
(Appendix to Sec. X398.1)**

Pursuant to Monetary Board Resolution No. 1125 dated 22 June 2016, the following guidelines shall govern the domestic borrowings of local government units (LGUs) in line with R.A. 7653 (The New Central Bank Act), as well as other pertinent laws/regulations.

I. Coverage

This shall govern domestic borrowings of LGUs within the Philippines, the procedures to be observed and the documentary requirements to be submitted, relative to the request for Monetary Board opinion on the probable effects of the proposed credit operation on monetary aggregates, the price level and the balance of payments (BOP), pursuant to Section 123 of R.A. No. 7653.

II. Procedures

1. The LGU shall submit a written request to the Bangko Sentral for Monetary Board opinion on the monetary and BOP implications of its proposed borrowing prior to the loan release. The request shall be accompanied by the required documents and information listed in Section III of this Appendix.

2. The Bangko Sentral shall acknowledge receipt of the request, with an initial evaluation of the documents/information submitted. No request will be processed should there be any deficiency or inconsistency found in the documents/information submitted.

3. Once the LGU has submitted the complete set of required documents/

information, the matter shall be elevated to the Monetary Board for an opinion on the probable monetary and BOP implications of the proposed loan.

4. The LGU shall be informed in writing of the Monetary Board's decision on its request for opinion and shall contain the following conditions:

a. The loan proceeds shall only be released by the lending institution to the LGU subject to the submission of a duly executed ordinance approving the proposed borrowing, its purpose, terms and conditions, as well as the provincial/city/municipal validation of the ordinance, as applicable;

b. The opinion of the Monetary Board is limited to the assessment of the monetary and BOP implications of the proposed borrowing, pursuant to Section 123 of R.A. No. 7653. The said opinion is based on: (i) the information contained in the documents submitted; and (ii) the assumption that the proceeds of the borrowing will be used for the intended purpose described in the documents submitted;

c. The Monetary Board opinion is valid only for one (1) year from the date of issue. The validity period refers to the time within which the proposed loan is to be released in part or in full. It commences on the date of the Bangko Sentral letter transmitting the said Monetary Board opinion on the monetary and BOP implications of the LGU's proposed loan;

d. The LGU shall submit to Bangko Sentral a post-borrowing report on the final

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terms and conditions and on the utilization of the proceeds of the borrowing within thirty (30) days after the final disbursement of the loan proceeds; and

e. The Monetary Board opinion should not in any way be construed as exempting the borrowing LGU from the applicable requirements and/or prohibitions under existing laws, rules and regulations.

5. No opinion will be issued by the Monetary Board in case the LGU loan has already been partially or fully disbursed.

6. For LGU loans with amounts that exceed the borrowing capacity, as indicated in the certification on the borrowing and debt service capacity issued by the Bureau of Local Government Finance (BLGF), the Monetary Board opinion will refer only to the amount that is within the borrowing capacity.

7. The LGU shall request a new Monetary Board opinion should there be any increase in the loan amount in excess of ten percent (10%), or a change in the manner of acquisition of the project/s to be funded (i.e., whether for importation or local purchase) after a Monetary Board opinion has been issued: *Provided*, That no release has been made of the loan.

8. LGUs that are unable to avail of their loan during the one (1) year validity period shall request for a new Monetary Board opinion on their proposed loan. They shall submit to Bangko Sentral the required documents and information under Item "1" of Section III of this Appendix. However, the LGU would only need to submit the required documents under Items "a" to "c" of Item "2" under Section III of this Appendix to the lending institution if there are changes to the previously submitted documents.

III. Required Documents and Information

1. Request for Monetary Board opinion. To support the request for Monetary Board opinion, the LGU must submit the following documents/information to Bangko Sentral:

a. Letter from the LGU requesting for Monetary Board opinion on its proposed loan (use the prescribed form attached as *Annex 1*). The letter should contain:

i. Information on the loan amount, purpose with breakdown of specific project/s to be funded and corresponding cost/s, manner of acquisition (i.e., whether through importation or local purchase), name of lending institution, interest rate, term/tenor, fees and other charges, lending institution's source of fund for the loan, and name of designated contact person responsible for coordinating with the Bangko Sentral along with contact information;

ii. Statement certifying that no disbursement, in full or partial amounts, has been made on the loan; and

iii. The names and signatures of the LGU's chief executive and the lending institution's authorized representative.

b. Valid BLGF certification on the borrowing and debt service capacity of the LGU; and

c. Information on the LGU's year-to-date outstanding loans (use the prescribed form attached as *Annex 2*).

2. Release of loan proceeds. The lending institution shall require the submission of the Monetary Board opinion on monetary and BOP implications prior to the release of the loan proceeds or the release of the first tranche, in case of loans with multiple tranches. In addition, lending institutions may release the loan proceeds only upon receipt from the LGU of the following documents/information:

a. Ordinance approving the proposed loan terms and conditions as well as the specific purpose and corresponding amount/s of the project/s to be funded (sample copy attached as *Annex 3*);

b. Other applicable requirements under R.A. No. 7160, such as the provincial/city/municipal validation of the ordinance, as applicable.

c. Waiver on the confidentiality of investment and bank deposits, whether in peso or foreign currency, duly executed by the governor/mayor/barangay chairman, as the case may be, and supported by a “waiver resolution” (sample copy attached as *Annex 4*).

3. The Bangko Sentral may request for additional documents and information from the LGU or the lending institution, as may be deemed necessary, to support the request for Monetary Board opinion.

4. LGUs requesting for Monetary Board opinion on proposed borrowings to be obtained from lending institutions other than BSP-supervised financial institutions (BSFIs), shall submit to Bangko Sentral a written request accompanied by the required documents/information enumerated above.

IV. Reportorial requirements

1. *Post-Borrowing Report (PBR)*. The borrowing LGU shall submit to Bangko Sentral, through a letter addressed to the Director, Department of Economic Research or through electronic mail addressed to mbopinion_der@bsp.gov.ph, a post-borrowing report (PBR) that will indicate the actual amount of loan, the final terms and conditions, and utilization of the proceeds of the borrowing within thirty (30) calendar days after the final release of loan

proceeds (use the prescribed form attached as *Annex 5/5.1*).

2. *Post-Loan Release Report (PLRR)*. The lending institutions shall submit to Bangko Sentral, through a letter addressed to the Director, Department of Economic Research or through electronic mail addressed to mbopinion_der@bsp.gov.ph, a semestral post-loan release report on LGU loans granted in full within the last six (6) months that will indicate the actual amount of loan released as well as the final terms and conditions thereof, within thirty (30) calendar days after the end of each semester (use the prescribed form attached as *Annex 6*).

3. *Sworn certification on lendings to local government units (LGUs)*. The BSFIs shall submit, through a letter addressed to the appropriate department of the SES, within fifteen (15) banking days after every semester, a duly notarized certification on loan releases to LGUs signed by the president or an officer of equivalent rank and the chief compliance officer. Such certification shall be considered as a *Category A-2* report for purposes of imposing fines on the delayed submission of required reports pursuant to existing regulations. (Use the prescribed form attached as *Annex 7*).

(Circular No. 402 dated 04 September 2003, as amended by Circular Nos. 926 dated 13 September 2016, 819 dated 12 November 2013 and 769 dated 26 September 2012)

(Name of LGU)
(Complete address)
(Contact number/s: telephone and facsimile)

Date: _____

The Governor
Bangko Sentral ng Pilipinas
A. Mabini cor. P. Ocampo Streets,
Malate Manila, Philippines 1004

LGU REQUEST FOR MONETARY BOARD OPINION

Dear Governor:

Pursuant to Section 123 of R.A. No. 7653 (The New Central Bank Act), may we request for the opinion of the Monetary Board on the monetary and balance of payments implications of our proposed loan, details of which are provided below.

For term loans:

Details of proposed loan ^{1/}	
a. Name of lending institution	
b. Total loan amount (in Php million)	
c. Purpose/s	<div>Please provide breakdown of specific projects, including cost and mode of acquisition:^{2/}</div> <div>Project 1: (Project title/details) (Cost in Php million) (Mode of acquisition)</div> <div>Project 2: (Project title/details) (Cost in Php million) (Mode of acquisition)</div> <div>...</div>
d. Interest rate (in percent per annum)	Please provide indicative rate and indicate if fixed or floating
e. Term/tenor (in no. of years)	
f. Repayment terms and conditions	
g. Lending institution's source of fund for the loan	
h. Borrowing capacity (in Php million)	

^{1/} Loan information should be validated with the lending institution.
^{2/} For mode of acquisition, please indicate whether for importation or local purchase; for acquisition of heavy equipment, please provide list of equipment to be purchased.

For bond flotation:

Details of proposed bond flotation	
a. Lender/Investor	
b. Trustee bank	
c. Amount (in Php million)	
d. Bond name/label	
e. Purpose/s	Please provide breakdown of specific projects, including cost and mode of acquisition
f. Interest rate (in percent per annum)	
g. Term/tenor (in no. of years)	
h. Collateral/security	
i. Fees and charges	
j. Payment terms and condition	
k. Borrowing capacity (in Php million)	
l. Financial advisor	
m. Underwriter	
n. Guarantor	

Relative to this, we would like to certify that no disbursement, in part or in full, has been made on the proposed loan.

Please find attached documents and information in support of our request, as follows:

1. Latest DOF-BLGF certification on the net debt service ceiling and borrowing capacity; and
2. Information on the LGU's year-to-date outstanding loans *(use the form attached as Annex 2 of Appendix 57)*.

Also, please find below the name/s and details of our designated contact person/s whom you may coordinate with relative to this request for Monetary Board opinion:

1. (Name); (telephone/facsimile/mobile nos.); and (email address); ...

Very truly yours,

Name and signature
Governor/Mayor/Brgy. Chairman

Name and signature
Lending institution's authorized representative¹

¹ The signature of the lending institution's authorized representative is required only for loan availments.

Please attach accomplished form in the letter of request for Monetary Board opinion on the LGU's proposed loan.

(Name of LGU)

LIST OF OUTSTANDING LOANS AS OF (dd/mm/yyyy)

Lending institution	Loan amount (in Php million)	Loan purpose	Date of first release	Amount released to date (in Php million), indicate if "partial" or "full" release	For loans with Monetary Boad opinion rendered, indicate Resolution no. and date

For loans that have been fully released, please attach Post-Borrowing Report (use as template Annex 5/5.1 of Appendix 57).

Certified true and correct:

Name and signature of
Governor/Mayor/Brgy. Chairman

*Sample LGU Ordinance for
Proposed borrowing (loan)*

Republic of the Philippines
Province of _____
Municipality/City of _____

OFFICE OF THE SANGGUNIANG BAYAN/PANLUNGSOD/PANLALAWIGAN

ORDINANCE¹ NO. _____
Series of _____

ORDINANCE AUTHORIZING THE PROPOSED BORROWING OF THE CITY/
MUNICIPALITY/PROVINCE OF _____, IN THE AMOUNT OF _____
(P_____) TO FUND THE _____.

BE IT ENACTED, as it is hereby ENACTED, by the Sangguniang Bayan/Panlungsod/
Panlalawigan of _____, in session assembled that:

SECTION 1. The Municipal/City Mayor/Provincial Governor, in representation of
the Municipality/City/Province, hereinafter referred to as the "Municipality"/"City"/
"Province", is hereby authorized to enter into Name of loan agreement/credit facility with
name of lender in accordance with Section 297 of R.A. No. 7160 or the Local Government
Code, in the amount of _____ (P_____) under the terms and conditions
herein set forth and such other terms and conditions as may be agreed upon with any person,
corporation or entity for the purpose of funding priority project/s, and subject to the
requirements under Section 123 of R.A. No. 7653 as implemented by the Bangko Sentral
Circular No. 402. In this connection, the Municipal/City Mayor/Provincial Governor shall
have full power and authority to represent the Municipality/City/Province in negotiating the
terms and conditions for the said borrowing and in signing, executing and delivering such
agreements, contracts, deeds, papers, and documents as may be necessary and proper for the
full and total implementation of the authority herein granted;

SECTION 2. The said priority project/s herein specified as the _____ is/are
hereby certified to be a local infrastructure and/or other socio-economic development projects
in accordance with² the approved local development plan and public investment program for
the period _____ or for the current year _____ of the Municipality/City/Province of
_____ and is supported by a final feasibility study prepared by _____ which is
also hereby approved/has been approved under the Sanggunian Bayan/Panlungsod/
Panlalawigan Resolution No. ____ dated _____.

¹ Based on the Local Government Code [e.g., Sections 305 (a) and 55 (b)].
² Sections 296 and 297 of the Local Government Code.

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SECTION 3. Consistent with the covering _____ contract, deeds and assignment, mortgage contracts, and such other agreements as maybe entered into by the Municipality/City/Province in connection with the borrowing, the features, terms and conditions shall be as follows and are hereby approved:

3.1 Project Name

Borrower
Amount
Purpose/s ¹
Item 1 or Project A - (description, amount)
Sub-item a-(description, sub-amount)
Sub-item b-(description, sub-amount)
Sub-item c-(description, sub-amount)
...
Item 2 or Project A - (description, amount)
Sub-item a-(description, sub-amount)
Sub-item b-(description, sub-amount)
Sub-item c-(description, sub-amount)
...
Term
Manner of Payment
Interest
Principal
Interest rate
Collateral/Guarantee/Security:
Front-end Fee
Commitment Fee
Guarantor
Guarantee Fee
Sinking Fund (if applicable) or other Funding Arrangements

SECTION 4. The Municipality/City/Province hereby appropriates the entire proceeds of the borrowing exclusively to finance the _____ and other financial obligations relative thereto.

SECTION 5. Any Ordinance or parts thereof, inconsitent with this enactment is hereby repealed or amended accordingly.

SECTION 6. This Ordinance shall take effect upon its publication and compliance with all procedures required under R.A. No. 7160 of an ordinance for its validity, including the affixation of signatures of the Sanggunian Bayan/Panlungsod/Panlalawigan members, in concurrence thereto, composing at least a majority thereof, out of the total of _____ members, on all the pages of this Ordinance.²

¹ Please indicate the specific project/s, and a basic/simple breakdown into the cost/components of each project, if there is more than one project. Include borrowing cost items, if any will be included in the loan.
² In particular, but not limited to, Sections 54-56, 58-59. This includes the mayor's/governor's/local chief executive's signature on all pages.

Ordinance No. _____, page 3 of 3

SO ORDAINED/ENACTED.

RESOLVED FURTHER, that copies of this Ordinance be furnished the Honorable Governor/Mayor (as the case may be), the Municipal/City/Provincial Accountant, and the Municipal/City/Provincial Auditor, all of this Municipality/City/Province of _____, the _____ and the Bangko Sentral for their information and appropriate action.

ADOPTED this ____ day of _____ 201_.

SANGGUNIAN MEMBERS:

Hon. _____	Hon. _____
Hon. _____	Hon. _____
Hon. _____	Hon. _____
Hon. _____	Hon. _____

CERTIFIED TRUE AND CORRECT:

SB/SP Secretary

ATTESTED:

Municipal/City Vice Mayor, or
Vice Governor or Presiding Officer

APPROVED: _____ Date Approved: _____

Municipal/City Mayor/Provincial Governor

VALIDATED AS CONSISTENT WITH LAW:¹

Sangguniang Panlalawigan Secretary

Provincial Governor

Date Validated: _____

¹ An ordinance passed by a municipality or component city has to be validated as consistent with law thru a review by the Sangguniang Panlalawigan (Sec. 56 of LGC). For such case, the ordinance should likewise be signed by the appropriate officers of the Sangguniang Panlalawigan on all pages, or otherwise validated through a separate document. Similarly, Sec. 57 provides for the review of Barangay Ordinances by the Sangguniang Panlungsod or Sangguniang Bayan. Other provinces issue a separate certification or resolution on said provincial review, if applicable.

(Name of LGU)
(Complete address)
(Tel. Nos./Fax/Email)

Date: _____

The Governor
Bangko Sentral ng Pilipinas

Dear Governor:

This has reference to our request for the opinion of the Monetary Board on the probable effects on monetary aggregates, price level and balance of payments of the proposed borrowing amounting to _____ by the Province/City/Municipality of _____.

Pursuant to the provisions of Sections 2 and 3 of R.A. No. 1405 and other laws relating to the secrecy of bank deposits, Resolution No. ____ dated _____ (certified true copy attached) was passed by the Province/City/Municipality of _____ waiving our rights to confidentiality of information by authorizing _____, our lending/trustee bank and all banks or financial institutions with which we have transactions to disclose to the Bangko Sentral all information pertaining to the deposits, investments, loans or other transactions including the history or status of our dealings with said banks or financial institutions and for the Bangko Sentral to make all inquiries as may be necessary regarding the same. The Bangko Sentral is likewise authorized to disclose and share any such information furnished or obtained from said banks or financial institutions to the Department of Finance in relation to the performance by said Department of its functions.

Thank you.

Very truly yours,

Name and signature
Governor/Mayor/Chairman

For submission to the Bangko Sentral, through registered mail to the Director, Department of Economic Research, Bangko Sentral ng Pilipinas, A. Mabini St. cor. P. Ocampo St. Malate, Manila, 1004, or by electronic mail to mbopinion_der@bsp.gov.ph

POST BORROWING REPORT

Name of Borrower	
Monetary Board Resolution No.	
Date of Monetary Board Opinion	
Amount of Proposed Loan	
Lending Institution	
Final Terms and Conditions	
Name of Facility	
Actual Amount of Loan*	
Purpose	
Interest Rate (Actual) If floating, please indicate base and spread	
Availment/Drawdown date*	
Term (In Years)	
Maturity Date	
Grace Period	
Interest Payment (Frequency/Date)	
Principal Payment (Frequency/Date)	
National Government Guarantee	
Collateral Guarantee/Security	
Breakdown of fees and other related costs	
Other relevant terms and conditions	

* Please indicate if on a staggered basis

Annex 5.1

For submission to the Bangko Sentral, through registered mail to the Director, Department of Economic Research, Bangko Sentral ng Pilipinas, A. Mabini St. cor. P. Ocampo St. Malate, Manila, 1004, or by electronic mail to mbopinion_der@bsp.gov.ph

POST BOND FLOTATION REPORT

Name of Issuer	
Monetary Board Resolution No.	
Date of Monetary Board Opinion	
Amount of Proposed Bond Flotation	
Final Terms and Conditions	
Bond Name/Label	
Amount of Bonds Actually Sold	
Purpose of Bonds	
Issue Price	
Coupon Rate	
Date of Flotation	
Term (In Years)	
Maturity Date/Grace Period	
Denomination	
Medium of Sale	
Interest Payment (Frequency/Date)	
Principal Payment (Frequency/Date)	
Collateral Guarantee/Security	
Trustee Bank	
Fiscal Agent	
Underwriter	
Guarantor	
Financial Advisor, if any	
Breakdown of fees and other charges:	
Trustee Fee	
Underwriting Fee	
Guarantee Fee	
Financial Advisor Fee	
Other Fees	
List of Investors/Amount Purchased	
Settlement Mode	

For submission to the Bangko Sentral, through registered mail to the Director, Department of Economic Research, Bangko Sentral ng Pilipinas, A. Mabini St. cor. P. Ocampo St. Malate, Manila, 1004, or by electronic mail to mbopinion_der@bsp.gov.ph

POST-LOAN RELEASE REPORT ON LOANS

Name of BSFI/lending institution: _____
Period covered, for the six (6) months ending (mm/dd/yyyy) _____

A. Loans granted in full for the semester

(1) Name of local government unit (LGU)	(2) Loan amount applied for (in Php million)	(3) Monetary Board Resolution no. and date	(4) Actual loan amount released (in Php million)	(5) Final terms and conditions ^{1/}	(6) Date of initial loan release (mm/dd/yyyy)	(7) Date of final loan release (mm/dd/yyyy)	(8) Explanation for variance between loan applied and granted

B. Past-due loans for the semester

(1) Total no. of local government units (LGUs) with payment due	(2) LGUs with delayed payment	(3) Loan Amount	(4) Loan Maturity (Years)	(5) Interest Rate	(6) Mode of Payment

^{1/}Should at least include information on the maturity date, interest rate, and payment terms.

Deadline: 15 banking days after end
of reference semester

SWORN CERTIFICATION ON LENDINGS TO
LOCAL GOVERNMENT UNITS

(Name of BSFI)

Pursuant to the requirements under Subsecs. X398.1, X398.3 and X398.5, we hereby
certify¹ that for the 6-month period ending <state reporting semester>:

- ☐ There were no loans released to local government units (LGUs) by <Name of BSFI>
- ☐ <Name of BSFI> had released loans to LGUs and that -

☐ EXCEPT for loans in the attached list, loans released to LGUs were covered with Monetary Board opinions on the borrowings' probable effects on monetary aggregates, the price level and the balance of payments, pursuant to Section 123 of R.A. No. 7653, otherwise known as "The New Central Bank Act"

☐ ALL loans released to LGUs were covered with Monetary Board opinions on the borrowings' probable effects on monetary aggregates, the price level and the balance of payments, pursuant to Section 123 of R.A. No. 7653.

To the best of our knowledge, the foregoing statements are true and correct.

President or Officer of Equivalent Rank
TIN:
Com. Tax Cert. No:
Issued on:
Issued at:

Chief Compliance Officer
TIN:
Com. Tax Cert. No:
Issued on:
Issued at:

SUBSCRIBED AND SWORN to before me, on this ____ day of _____, at _____, exhibiting their respective Community Tax Certificate as indicated above.

NOTARY PUBLIC

Doc. No. ____;
Page No: ____;
Book No. ____;
Series of ____.

¹ Check appropriate box.

LOANS RELEASED TO
LGUs WITHOUT THE REQUISITE MONETARY BOARD OPINION

(Name of BSFI)

LGU	Amount Released	Date of Release	Justifications/explanation for the loan release without the requisite Monetary Board opinion

GUIDELINES ON REQUESTS FOR MONETARY BOARD OPINION ON THE MONETARY AND BALANCE OF PAYMENTS IMPLICATIONS OF PROPOSED DOMESTIC BORROWINGS BY GOVERNMENT-OWNED AND/OR -CONTROLLED CORPORATIONS (GOCCs), LOCAL WATER DISTRICTS (LWDs) AND STATE UNIVERSITIES AND COLLEGES (SUCs) PURSUANT TO SECTION 123 OF R.A. NO. 7653
(Appendix to Subsection X398.3)

Pursuant to Monetary Board Resolution No. 1125 dated 22 June 2016, the following guidelines shall govern the domestic borrowings of Government-Owned and/or Controlled Corporations (GOCCs), Local Water Districts (LWDs) and State Universities and Colleges (SUCs), in line with R.A. No. 7653 (The New Central Bank Act), as well as other pertinent laws/regulations.

I. Coverage

This shall govern domestic borrowings¹ of GOCCs,² LWDs, and SUCs, herein collectively referred to as “borrowing government entities” (“BGEs”), within the Philippines, the procedures to be observed and the documentary requirements to be submitted, relative to the request for Monetary Board opinion on the probable effects of their proposed credit operation on monetary aggregates, the price level and the balance of payments (BOP), pursuant to Section 123 of Republic Act No. 7653.

I. Procedures

1. The BGE shall submit a written request to the Bangko Sentral for Monetary Board opinion on the monetary and BOP implications of its proposed borrowing prior to the loan release. The request shall be accompanied by the required documents and information listed in Section III of this Appendix.

2. The Bangko Sentral shall acknowledge receipt of the request, with an initial evaluation of the documents/information submitted. No request will be

processed should there be any deficiency or inconsistency found in the documents/information submitted.

3. Once the BGE has submitted the complete set of required documents/information, the matter shall be elevated to the Monetary Board for an opinion on the probable monetary and BOP implications of the proposed loan.

4. The BGE shall be informed in writing of the Monetary Board’s decision on its request for opinion and shall contain the following conditions:

a. The opinion of the Monetary Board is limited to the assessment of the monetary and BOP implications of the proposed borrowing, pursuant to Section 123 of R.A. No. 7653. The said opinion is based on: (i) the information contained in the documents submitted; and (ii) the assumption that the proceeds of the borrowing will be used for the intended purpose described in the documents submitted;

b. The Monetary Board opinion is valid only for one (1) year from the date of issue. The validity period refers to the time within which the proposed loan is to be released in part or in full. It commences on the date of the Bangko Sentral letter transmitting the Monetary Board opinion on the monetary and BOP implications of the BGE’s proposed loan;

c. The BGE shall submit to Bangko Sentral a post-borrowing report on the final terms and conditions and on the utilization of the proceeds of the borrowing within thirty (30) days after the full release of the

¹ The term '*borrowings*' shall include credit lines of BGEs.
² GOCCs shall cover agencies/institutions classified as such by the GOCC Governance Commission (GCG).

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loan proceeds or final availment of the credit facility; and

d. The Monetary Board opinion should not in any way be construed as exempting the BGE from the applicable requirements and/or prohibitions under existing laws, rules and regulations.

5. No opinion will be issued by the Monetary Board in case the borrowing has already been partially or fully disbursed.

6. The BGE shall request a new Monetary Board opinion should there be any increase in the loan amount in excess of ten percent (10%) or a change in the manner of acquisition of the project/s to be funded (i.e., whether for importation or local purchase) after a Monetary Board opinion has been issued: *Provided*, That no release has been made of the term loan/credit line. The BGE shall likewise request for new Monetary Board opinion for the renewal of credit line/s.

7. BGEs that are unable to avail of their loan during the one (1) year validity period shall request for a new Monetary Board opinion on their proposed loan. They shall submit to the Bangko Sentral the required documents and information under Item "1" of Section III of this Appendix.

8. BGEs need not request a Monetary Board opinion for a one-time short-term borrowing, but if the borrowing is a revolving credit line, the BGEs shall request said Monetary Board opinion.¹

III. Required documents and information

1. *Request for Monetary Board opinion.* To support the request for Monetary Board opinion, the BGE must submit the following documents/information to Bangko Sentral:

a. *For GOCCs*

i. Letter from the GOCC requesting Monetary Board opinion on its proposed loan (use the prescribed letter format attached as *Annex 1*). The letter should contain information on the following: loan

amount; name of lending institution; for credit line/facility: type, purpose and date of expiry; for term loan: breakdown of specific project/s to be funded, cost and mode of acquisition (i.e., whether through importation or local purchase); interest rate; term/tenor; date of maturity; fees and other charges; lending institution's source of fund for the loan; and name/s of designated contact person/s responsible for coordinating with the Bangko Sentral along with contact information. The letter should certify that no disbursement, in full or partial amounts, has been made on the loan.

ii. Copy of the specific provision in the GOCC's charter or its equivalent for GOCC's without original charters (which may pertain to the GOCC's Articles of Incorporation duly registered with the SEC), indicating its authority to borrow, including the borrowing limit, if any.

iii. Board Resolution approving the proposed loan, its purpose, terms and conditions (pro-forma Board Resolution attached as *Annex 2*) or Corporate Secretary's certificate on the corresponding Board Resolution (pro-forma Corporate Secretary's certificate attached as *Annex 3*).

iv. Department of Finance (DOF) comments on the proposed loan.

v. Endorsement/clearance of the proposed loan by the head of the line department or government agency with oversight functions over the borrowing entity, as applicable.

vi. Information on outstanding loans (use the prescribed form attached as *Annex 4*).

b. *For LWDs*

i. Letter from the LWD requesting for Monetary Board opinion on the proposed loan (use the prescribed letter format attached as *Annex 1*). The letter should contain information on the following: loan amount, lending institution; purpose with

¹ *Short-term borrowings* refer to those with tenors of ninety (90) days or less.

breakdown of specific project/s to be funded, cost, and manner of acquisition (i.e., whether through importation or local purchase); interest rate; term/tenor; fees and other charges; lending institution's source of fund for the loan; name/s of designated contact person/s responsible for coordinating with the Bangko Sentral along with contact information. The letter should certify that no disbursement, in full or partial amounts, has been made on the loan.

ii. Board Resolution approving the proposed loan, its purpose and terms and conditions (pro-forma Board Resolution attached as *Annex 2*) or Corporate Secretary's certificate on the corresponding Board Resolution (pro-forma Corporate Secretary's certificate attached as *Annex 3*).

iii. Endorsement/clearance of the proposed loan from the Local Water Utilities Administration (LWUA).

iv. Information on outstanding loans (use the prescribed form attached as *Annex 4*).

c. *For SUCs*

i. Letter from the SUC requesting for Monetary Board opinion on the proposed loan (use the prescribed letter format attached as *Annex 1*). The letter should contain information on the following: loan amount, lending institution; purpose with breakdown of specific project/s to be funded, cost, and manner of acquisition (i.e., whether through importation or local purchase); interest rate; term/tenor; fees and other charges; lending institution's source of fund for the loan; name/s of designated contact person/s responsible for coordinating with the Bangko Sentral along with contact information. The letter should certify that no disbursement, in full or partial amounts, has been made on the loan.

ii. Board Resolution approving the proposed loan, its purpose and terms and conditions (pro-forma Board Resolution attached as *Annex 2*) or Corporate Secretary's certificate on the corresponding

Board Resolution (pro-forma Corporate Secretary's certificate attached as *Annex 3*).

iii. Endorsement/clearance of the proposed borrowing from the Commission on Higher Education (CHED).

iv. Information on outstanding loans (use the prescribed form attached as *Annex 4*).

The Bangko Sentral may request additional documents and information from the BGE or the lending institution, as may be deemed necessary, to support the request for Monetary Board opinion.

BGEs requesting Monetary Board opinion on proposed borrowings to be obtained from lending institutions other than BSP-supervised financial institutions (BSFIs), shall submit to Bangko Sentral a written request accompanied by the required documents/information enumerated above.

2. *Release of loan proceeds*. The lending institution shall require the submission of the Monetary Board opinion on monetary and BOP implications prior to the release of the loan proceeds or the release of the first tranche, in case of loans with multiple tranches.

IV. Reportorial Requirements

1. *Post-Borrowing Report (PBR)*. The BGE shall submit to Bangko Sentral, through registered mail addressed to the Director, Department of Economic Research (DER) or through electronic mail addressed to mbopinion_der@bsp.gov.ph, a post-borrowing report that will indicate, among others the actual amount of the loan availed as well as the final terms and conditions thereof within thirty (30) calendar days from the date of the full release of the loan proceeds or final availment of the credit facility (use the prescribed form attached as *Annex 5*).

2. *Post-Loan Release Report (PLRR)*. The lending institutions shall submit to Bangko Sentral, through a letter addressed to the Director, DER or through electronic mail

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addressed to mbopinion_der@bsp.gov.ph, a semestral post-loan release report on GOCC/LWD/SUC loans granted in full within the last six (6) months that will indicate the actual amount of loan released as well as the final terms and conditions thereof, within thirty (30) calendar days after the end of each semester (use the prescribed form attached as Annex 6).

3. *Sworn Certification on Lendings to BGEs.* The BSFIs shall submit, through a letter addressed to the

appropriate department of the SES, within fifteen (15) banking days after every semester, a duly notarized certification on loan releases to BGEs signed by the president or an officer of equivalent rank and the chief compliance officer. Such certification shall be considered as a *Category A-2* report for purposes of imposing fines on the delayed submission of required reports pursuant to existing regulation. (Use the prescribed form attached as Annex 7).

(Circular No. 926 dated 13 September 2016)

(Name of GOCC/LWD/SUC)
(Complete address)
(Contact number/s: telephone and facsimile)

Date:_____

The Governor
Bangko Sentral ng Pilipinas
A. Mabini cor. P. Ocampo Streets,
Malate Manila, Philippines 1004

GOCC/LWD/SUC
REQUEST FOR MONETARY BOARD OPINION

Dear Governor,

Pursuant to Section 123 of Republic Act No. 7653 (The New Central Bank Act), may we request for the opinion of the Monetary Board on the monetary and balance of payments implications of our proposed loan, details of which are provided below.

For line/s of credit:

Details of proposed loan ¹	
a. Name of lending institution	
b. Total loan amount (in Php million)	
c. Type of credit line/s	Please provide details: Facility 1: (Type of credit facility) (Amount in Php million) (Purpose) Facility 1: (Type of credit facility) (Amount in Php million) (Purpose) ...
d. Interest rate (in percent per annum)	Please indicate if fixed or floating
e. Term/tenor (in no. of years)	
f. Availability and expiry dates	
g. Repayment terms and conditions	
h. Lending institution's source of fund for the loan	

¹Information for Items "d" to "g" should be validated with the lending bank/institution.

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b. For term loan/s:

Details of proposed loan ¹	
a. Name of lending institution	
b. Total loan amount (in Php million)	
c. Purpose/s	<i>Please provide breakdown of specific projects, including cost and mode of acquisition:²</i> Project 1: <u>(Project title/details)</u> <u>(Cost in Php million)</u> <u>(Mode of acquisition)</u> Project 2: <u>(Project title/details)</u> <u>(Cost in Php million)</u> <u>(Mode of acquisition)</u> ...
d. Interest rate (in percent per annum)	<i>Please indicate if fixed or floating</i>
e. Term/tenor (in no. of years)	
f. Repayment terms and conditions	
g. Lending institution's source of fund for the loan	

c. For bond flotation:

Details of proposed bond flotation	
a. Lender/investor	
b. Trustee bank	
c. Amount (in Php million)	
d. Bond name/label	
e. Purpose/s	<i>Please provide breakdown of specific projects, including cost and mode of acquisition</i>
f. Interest rate (in percent per annum)	
g. Term/tenor (in no. of years)	
h. Collateral/security	
i. Fees and charges	
j. Payment terms and conditions	
k. Borrowing capacity (in Php million)	
l. Financial advisor	
m. Underwriter	
n. Guarantor	

¹Information for Items "d" to "g" should be validated with the lending bank/institution.
² For mode of acquisition, please indicate whether for importation or local purchase; for acquisition or heavy equipment, please provide list of equipment.

Relative to this, we would like to certify that no disbursement, in part or in full, has been made on the proposed loan.

Please find attached documents and information in support of our request, as follows:

For GOCCs:

1. Board Resolution approving the proposed loan, its purpose, terms and conditions (Annex 2.Pro-forma Board Resolution) or Corporate Secretary's certificate on the corresponding Board Resolution (Annex 3.Pro-forma Corporate Secretary certificate);
2. Data on the year-to-date outstanding borrowings (Annex 4.Pro-forma report on outstanding loans);
3. DOF comments on the proposed loan; and
4. Endorsement/clearance of the proposed loan by the head of the line department or government agency with the oversight functions over the borrowing entity, as applicable.

For LWDs:

1. Board Resolution approving the proposed loan, its purpose, terms and conditions (Annex 2.Pro-forma Board Resolution) or Corporate Secretary's certificate on the corresponding Board Resolution (Annex 3.Pro-forma Corporate Secretary certificate);
2. Data on the year-to-date outstanding borrowings(Annex 4.Pro-forma report on outstanding loans); and
3. LWUA endorsement/clearance of the proposed loan.

For SUCs:

1. Board Resolution approving the proposed loan, its purpose, terms and conditions (Annex 2.Pro-forma Board Resolution) or Corporate Secretary's certificate on the corresponding Board Resolution (Annex 3.Pro-forma Corporate Secretary certificate);
2. Data on the year-to-date outstanding borrowings (Annex 4.Pro-forma report on outstanding loans); and
3. CHEd endorsement/clearance of the proposed loan.

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Also, please find below the name/s and details of our designated contact person/s whom you may coordinate with relative to this request for Monetary Board opinion:

1. (Name); (telephone/facsimile/mobile nos.); and (email address); ..

Very truly yours,

Name and signature
Head of GOCC/LWD/SUC

Name and signature
Lending institution's authorized
representative¹

¹The signature of the lending institution's authorized representative is required only for loan availments.

Form No. _____

BOARD MEMBERS' RESOLUTION

WE: _____,
_____, of legal age, after first being duly sworn in accordance with law,
hereby depose and state:

That we are the members of the Board of Directors of _____, with
office and principal place of business at _____.

That in a special meeting of the said Board of Directors of the aforesaid office held at
_____ on _____ at which majority of the directors were present
and acted throughout, the following resolution was unanimously passed and approved:

RESOLUTION No. XXX
Series of 20XX

"RESOLVED, that the (borrowing) with the (lending institution) is hereby APPROVED
under the following terms and conditions:

Facility:	_____
Amount:	_____
Purpose:	_____
Term:	_____
Interest rate:	_____
Repayment terms:	_____
Security:	_____
Availability/expiry date:	_____
(other items in the list of terms and conditions)	

"RESOLVED, FURTHER, that the authority of the President and CEO to sign,
countersign, execute and deliver any and all documents or papers necessary in order to effect
the renewal of the aforesaid credit line be, as it hereby APPROVED."

WE HEREBY CERTIFY that the above-quoted Board Resolution, a certified true copy
of which is attached, is existing and has not been amended in whole or in part.¹

¹This sworn statement/certification executed by the approving members of the board should have exactly the
same provisions as the actual Board Resolution. The said sworn statement is not necessary if a copy of the actual
Board Resolution could be submitted which shows the original signatures of approval of the majority of the
board members. In any case, the document submitted should explicitly authorize the borrowing transaction. It
should likewise declare the particular purpose/s and respective costs involved, presenting these within the main
body of the text of the document (not as attachment thereto) together with the other items of the terms and conditions.

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IN WITNESS WHEREOF, WE have hereunto set our hands this _____ day of _____, 20XX, in _____, Philippines.

(MEMBERS' NAMES AND SIGNATURES OF APPROVAL)

_____	_____	_____
_____	_____	_____
_____	_____	_____

SUBSCRIBED AND SWORN to before me this _____ day of _____, 20XX, affiant exhibiting to me their Community Tax Certificate:

Member's Name	CTC No.	Date issued:	Place issued:
_____	_____	_____	_____
_____	_____	_____	_____

Notary Public

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

Form No. _____

CORPORATE SECRETARY'S CERTIFICATE

I: _____,
_____, of legal age, after first being duly sworn in accordance with law,
hereby depose and state:

That in a special meeting of the said Board of Directors of the aforesaid corporation/office
held at _____ on _____ at which majority of the directors
were present and acted throughout, the following resolution was passed and approved
unanimously/by a majority:

RESOLUTION NO. XXX
Series of 20XX

"RESOLVED, that the (borrowing) with the (lending institution) is hereby APPROVED
under the following terms and conditions:

Facility:	_____
Amount:	_____
Purpose:	_____
Term:	_____
Interest rate:	_____
Repayment terms:	_____
Security:	_____
Availability/expiry date:	_____
(other items in the list of terms and conditions)	

"RESOLVED, FURTHER, that the authority of the President and CEO to sign,
countersign, execute and deliver any and all documents or papers necessary in order to effect
the renewal of the aforesaid credit line be, as it hereby APPROVED."

I HEREBY CERTIFY that the above-quoted Board Resolution, a certified true copy of
which is attached, is existing and has not been amended in whole or in part.¹

¹This certification executed should have exactly the same provisions as actual Board Resolution. This is not necessary if a copy of the actual Board Resolution could be submitted which shows the original signatures of approval of the majority of the board members. In any case, the document submitted should explicitly authorize the borrowing transaction. It should likewise declare the particular purpose/s and respective costs involved, presenting these within the main body of the text of the document (not as attachment thereto) together with the other items of the terms and conditions.

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(NAME OF SECRETARY, SIGNATURE AND DATE)

"IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____
20XX, in _____, Philippines.

(NAME OF CHAIRMAN/PRESIDENT, SIGNATURE OF APPROVAL AND DATE)

SUBSCRIBED AND SWORN to before me this _____ day of _____, 20XX, affiant
exhibiting to me their Community Tax Certificate:

Secretary's Name	CTC No.	Date issued:	Place issued:
_____	_____	_____	_____

Notary Public

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

Please attach accomplished form in the letter of request for Monetary Board opinion on borrowing government entity's proposed loan.

(Name of GOCC/LWD/SUC)

LIST OF OUTSTANDING LOANS AS OF (dd/mm/yyyy)

Lending institution	Loan amount (in Php million)	Loan purpose	Date of first release	Amount released to date (in Php million) indicate if "partial" or "full release"	For loans with MB opinion rendered, indicate Resolution No. and date

For loans that have been fully released, please attach Post-Borrowing Report (use as template Annex 5 of Appendix 57a.

Certified true and correct:

Name and signature of
Head of GOCC/LWD/SUC

For submission to the Bangko Sentral, through registered mail to the Director, Department of Economic Research, Bangko Sentral ng Pilipinas, A. Mabini St. cor. P. Ocampo St. Malate, Manila, 1004, or by electronic mail to mbopinion_der@bsp.gov.ph

POST BORROWING REPORT

Name of Borrower	
Monetary Board Resolution No.	
Date of Monetary Board Opinion	
Amount of Proposed Bond Loan	
Lending Institution	
Final Terms and Conditions	
Name of Facility	
Actual Amount of Loan*	
Purpose	
Interest Rate (Actual)	
If floating, please indicate base and spread	
Availment/Drawdown date ¹	
Term (In Years)	
Maturity Date	
Grace Period	
Interest Payment (Frequency/Date)	
Principal Payment (Frequency/Date)	
National Government Guarantee	
Collateral Guarantee/Security	
Breakdown of fees and other related costs	
Other relevant terms and conditions	

¹Please indicate if on a staggered basis

For submission to the Bangko Sentral, through registered mail to the Director, Department of Economic Research, Bangko Sentral ng Pilipinas, A. Mabini St. cor. P. Ocampo St. Malate, Manila, 1004, or by electronic mail to mbopinion_der@bsp.gov.ph

POST-LOAN RELEASE REPORT ON LOANS

Name of BSFI/lending institution: _____
Period covered, for the six (6) months ending (mm/dd/yyyy) _____

A. Loans granted in full for the semester

(1) Name of borrowing government entity (BGE)	(2) Loan amount applied for (in Php million)	(3) Monetary Board Resolution No. and date	(4) Actual loan amount released (in Php million)	(5) Final terms and conditions ¹	(6) Date of initial loan release (mm/dd/yyyy)	(7) Date of final loan release (mm/dd/yyyy)	(8) Explanation for variance between loan applied and granted

B. Past-due loans for the semester

(1) Total no. of borrowing BGEs with payment due	(2) GOCCs/WDs/SUCs with delayed payment	(3) Loan Amount	(4) Loan Maturity (Years)	(5) Interest Rate	(6) Mode of Payment

¹Should at least include information on the maturity date, interest rate, and payment terms.

Deadline: 15 banking days after end
of reference semester

SWORN CERTIFICATION ON LENDINGS TO
BORROWING GOVERNMENT ENTITIES

(Name of BSFI)

Pursuant to the requirements under Subsecs. X398.1, X398.3 and X398.5, we hereby
certify¹ that for the six (6)-month period ending < state reporting semester > :

- ☐ There were no loans released to borrowing government entities (BGEs) by <Name of BSFI>
- ☐ <Name of BSFI> had released loans to BGEs and that -

☐ EXCEPT for loans in the attached list, loans released to BGEs were covered with Monetary Board opinions on the borrowings' probable effects on monetary aggregates, the price level and the balance of payments, pursuant to Section 123 of R.A. No. 7653, otherwise known as "The New Central Bank Act"

☐ ALL loans released to BGEs were covered with Monetary Board opinions on the borrowings' probable effects on monetary aggregates, the price level and the balance of payments, pursuant to Section 123 of R.A. No. 7653.

To the best of our knowledge, the foregoing statements are true and correct.

President or Officer of Equivalent Rank
TIN:
Com. Tax Cert. No:
Issued on:
Issued at:

Chief Compliance Officer
TIN:
Com. Tax Cert. No:
Issued on:
Issued at:

SUBSCRIBED AND SWORN to before me, on this ____ day of _____, at _____, exhibiting their respective Community Tax Certificate as indicated above.

NOTARY PUBLIC

Doc. No. ____;
Page No: ____;
Book No. ____;
Series of ____.

¹ Check appropriate box.

LOANS RELEASED TO
BGEs WITHOUT THE REQUISITE MONETARY BOARD OPINION

(Name of BSFI)

BGE	Amount Released	Date of Release	Justifications/explanation for the loan release without the requisite Monetary Board opinion

**GUIDELINES AND MINIMUM DOCUMENTARY REQUIREMENTS FOR
FOREIGN EXCHANGE FORWARD AND SWAP TRANSACTIONS**
[Appendix to Subsecs. X625.3, X625.4 and X625.6 (2008 - X602.16 – X602.18)]

The following is a list of minimum documentary requirements for FX forward and swap transactions. Unless otherwise indicated, original documents* shall be presented on or before deal date to banks.

A. FORWARD SALE OF FX TO COVER OBLIGATIONS – DELIVERABLE AND NON-DELIVERABLE

1. FORWARD SALE OF FX – TRADE

1.1 Trade transactions

1.1.1 Under Letters of Credit (LC)

- a. Copy of LC opened; and
- b. Accepted draft, or commercial invoice/Bill of Lading

1.1.2 Under Documents against Acceptances (DA)/Open Account (OA) arrangements

- a. Certification of reporting bank on the details of DA/OA under Schedule 10 (Import Letters of Credits Opened and DA/OA Import Availments and Extensions) of FX Form 1 (Consolidated Report on Foreign Exchange Assets and Liabilities); and

- b. Copy of commercial invoice;

In addition to the above requirements, the bank shall require the customer to submit a Letter of Undertaking that:

- (i) Before or at maturity date of the forward contract, it (the importer) shall comply with the documentation requirements on sale of FX for trade transactions under existing regulations; and

- (ii) No double hedging has been obtained by the customer for the covered transactions.

1.1.3 Direct Remittance

Original shipping documents indicated in Item "II.a" of Circular Letter dated 24 January 2002.

2. NON-TRADE TRANSACTIONS

Only non-trade transactions with specific due dates shall be eligible for forward contracts, and shall be subject to the same documentation requirements under Circular No. 388 dated 26 May 2003 with the following additional guidelines for foreign currency loans and investments.

2.1 Foreign Currency Loans owed to non-residents or AABs

2.1.1 Deliverable Forwards

The maturing portion of the outstanding eligible obligation, i.e., those that are registered with the BSP registration letter, may be covered by a deliverable forward subject to the documentary requirements under Circular No. 388. A copy of the creditor's billing statement may be submitted only on or before the maturity date of the contract.

2.1.2 NDFs

The outstanding eligible obligation, i.e., those that are registered with the BSP, including interests and fees thereon as indicated in the BSP registration letter may be covered by a NDF, subject to the documentary requirements under Circular No. 388, except for the creditor's billing statement which need not be submitted.

The amount of the forward contract shall not exceed the outstanding amount of the underlying obligation during the term of the contract.

2.2 Inward Foreign Investments

The unremitted amount of sales/maturity proceeds due for repatriation to non-resident investors pertaining to BSP - registered investments in the following instruments issued by a Philippine resident:

- a. shares of stock listed in the PSE;
- b. government securities;

* If copy is indicated, it shall mean photocopy, electronic copy or facsimile of original.

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c. money market instruments; and
d. peso time deposits with a minimum tenor of ninety (90) days may be covered by FX forward contracts subject to the presentation of the original BSRD on or before deal date. However, for Item "2.2.a" above, original BSRD or BSRD Letter-Advice, together with the broker's sales invoice, shall be presented on or before maturity date of the FX forward contract, which date coincides with the settlement date of the PSE transaction.

Sales proceeds of BSP-registered investments in shares of stock that are not listed in the PSE may be covered by a deliverable FX forward contract only if determined to be outstanding as of the deal date for the contract and payable on a specific future date as may be indicated in the Contract To Sell/Deed of Absolute Sale and subject to the same documentary requirements under Circular No. 388.

B. FORWARD SALE OF FX TO COVER EXPOSURES– DELIVERABLE AND NON-DELIVERABLE

1. TRADE (DELIVERABLE AND NON-DELIVERABLE)

1.1 Under LC

- a. Copy of LC opened; and
- b. Proforma Invoice, or Sales Contract/Purchase Order

1.2 Under DA/OA, Documents Against Payment (DP) or Direct Remittance (DR)

Any of the following where delivery or shipment shall be made not later than one (1) year from deal date:

- a. Sales Contract
- b. Confirmed Purchase Order
- c. Accepted Proforma Invoice
- d. Shipment/Import Advice of the Supplier

In addition to the above requirements, the bank shall require the customer to submit a Letter of Undertaking that:

(i) At maturity of the forward contract, it shall comply with the documentation requirements on the sale of FX for trade transactions under Circular-Letter dated 24 January 2002, as amended; and

(ii) No double hedging has been obtained by the customer for the covered transactions.

2. NON-TRADE (NON-DELIVERABLE)

The outstanding balance of BSP-registered foreign investments without specific repatriation date, appearing in the covering BSRD may only be covered by an NDF contract, based on its market/book value on deal date, subject to prior BSP approval and if already with BSRD presentation of the covering BSRD and the proof that the investment still exists (e.g., stock certificate, or broker's buy invoice, or confirmation of sale, or certificate of investment in money market instruments, or certificate of peso time deposits). Hedging for permanently assigned capital of Philippine branches of foreign banks/firms is not allowed.

C. FORWARD PURCHASE OF FX

Such FX forward contracts shall be subject to the bank's "Know Your Customer" policy and existing regulations on anti-money laundering. In addition, counterparties must be limited to those that are manifestly eligible to engage in FX forwards as part of the normal course of their operations and which satisfy the bank's suitability and eligibility rules for such transactions.

D. FX SWAP TRANSACTIONS

1. FX SALE (first leg)/FORWARD FX PURCHASE (second leg)

The same minimum documentary requirements for sale of FX under BSP

Circular No. 388 for non-trade transactions, and Circular-Letter dated 24 January 2002, as amended, for trade transactions, shall be presented on or before deal date.

2. *FX PURCHASE (first leg)/FORWARD FX SALE (second leg)*

The first leg of the swap will be subject to the bank’s “Know Your Customer”

policy and existing regulations on anti-money laundering. The second leg of the swap transaction will be subject to the swap contract between the counterparties.

Swap contracts of this type intended to fund peso loans to be extended by non-residents in favor of residents shall require prior BSP approval.

(As amended by Circular No. 591 dated 15 October 2007)

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**CONVERSION/TRANSFER OF FOREIGN CURRENCY DEPOSIT UNIT
LOANS TO REGULAR BANKING UNIT**

(Please refer to Circular No. 645 dated 13 February 2009)

RULES AND REGULATIONS ON COMMON TRUST FUNDS¹
(Appendix to Sec. X410)

1. The administration of CTFs shall be subject to the provisions of Subsecs. X409.1 up to X409.6 and to the following regulations.

As an alternative compliance with the required prior authority and disclosure under Subsecs. X409.2 and X409.3, a list which shall be updated quarterly of prospective and/or outstanding investment outlets may be made available by the trustee for the review of all CTF clients. (Sec. X410).

2. Establishment of common trust funds. A bank authorized to engage in trust business may establish, administer and maintain one (1) or more CTFs. (Subsec. X410.1).

3. Minimum documentary requirements for common trust funds. In addition to the trust agreement or indenture required under Subsec. X409.1, each CTF shall be established, administered and maintained in accordance with a written declaration of trust referred to as the *plan*, which shall be approved by the board of directors of the trustee and a copy submitted to the appropriate supervising and examining department of the BSP within thirty (30) banking days prior to its implementation.

The plan shall make provisions on the following matters:

- a. Title of the plan;
- b. Manner in which the plan is to be operated;
- c. Investment powers of the trustee with respect to the plan, including the character and kind of investments which may be purchased;

d. Allocation, apportionment, distribution dates of income, profit and losses;

e. Terms and conditions governing the admission or withdrawal as well as expansion or contraction of participation in the plan including the minimum initial placement and account balance to be maintained by the trustor;

f. Auditing and settlement of accounts of the trustee with respect to the plan;

g. Detailed information on the basis, frequency, and method of valuing and accounting of CTF assets and each participation in the fund;

h. Basis upon which the plan may be terminated;

i. Liability clause of the trustee;

j. Schedule of fees and commissions which shall be uniformly applied to all participants in a fund and which shall not be changed between valuation dates; and

k. Such other matters as may be necessary or proper to define clearly the rights of participants under the plan.

The legal capacity of the bank administering a CTF shall be indicated in the plan and other related agreements or contracts as trustee of the fund and not in any other capacity such as *fund manager*, *financial manager*, or like terms.

The provisions of the plan shall control all participations in the fund and the rights and benefits of all parties in interest.

The plan may be amended by resolution of the board of directors of the trustee: *Provided, however,* That participants in the fund shall be immediately notified of such amendments and shall be allowed to withdraw their participation if they are not in conformity with the amendments made: *Provided, further,* That amendments to the

¹ The rules and regulations on common trust funds (CTFs) were previously under Sec. X410 and the Subsections enclosed in parentheses. The UIT Funds regulations which are now in said section/subsections took effect on 01 October 2004 (effectivity of Circular 447 dated 03 September 2004).

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plan shall be submitted to the appropriate supervising and examining department of the BSP within ten (10) banking days from approval of the amendments by the board of directors.

A copy of the plan shall be available at the principal office of the trustee during regular office hours for inspection by any person having an interest in a trust whose funds are invested in the plan or by his authorized representative. Upon request, a copy of the plan shall be furnished such person. (*Subsec. X410.2*)

4. Management of common trust funds. The trustee shall have the exclusive management and control of each CTF administered by it, and the sole right at any time to sell, convert, reinvest, exchange, transfer or otherwise change or dispose of the assets comprising the fund.

The trustee shall designate clearly in its records the trust accounts owning participation in the CTF and the extent of the interests of such account. The trustee shall not negotiate nor assign the trustor's beneficial interest in the CTF without prior written consent of the trustor or beneficiary. No trust account holding a participation in a CTF shall have or be deemed to have any ownership or interest in any particular asset or investment in the CTF but shall have only its proportionate beneficial interest in the fund as a whole. (*Subsec. X410.3*)

5. Trustee as participant in common trust funds. A trustee administering a CTF shall not have any interest in such fund other than in its capacity as trustee of the CTF nor grant any loan on the security of a participation in such fund: That a trustee which administers funds representing employee benefit plans under trust or investment management may invest funds in the CTF: *Provided, further,* That in the case of employee benefit plans under trust

belonging to employees of entities other than that of the trustee, the trustee may invest such funds in its own CTF only on a temporary basis in accordance with Subsec. X409.5. (*Subsec. X410.4*)

6. Exposure limit of common trust fund to a single person or entity. No investment for a CTF shall be made in stocks, bonds, bank deposits or other obligations of any one (1) person, firm or corporation, if as a result of such investment the total amount invested in stocks, bonds, bank deposits or other obligations issued or guaranteed by such person, firm or corporation shall aggregate to an amount in excess of fifteen percent (15%) of the market value of the CTF: *Provided,* That this limitation shall not apply to investments in government securities or other evidences of indebtedness of the Republic of the Philippines and of the BSP, and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines. (*Subsec. X410.5*)

7. Operating and accounting methodology. By its inherent nature, a CTF shall be operated and accounted for in accordance with the following:

a. The trustee shall have exclusive management and control of each CTF administered by it and the sole right at any time to sell, convert, reinvest, exchange, transfer or otherwise change or dispose of the assets comprising the fund;

b. The total assets and accountabilities of each fund shall be accounted for as a single account referred to as *pooled-fund accounting*;

c. Contributions to each fund by clients shall always be through participation in the fund;

d. All such participations shall be pooled and invested as one (1) account (referred to as collective investments); and

e. The interest of each participant shall be determined by a formal method of participation valuation established in the written plan of the CTF, and no participation shall be admitted to, or withdrawn from, the fund except on the basis of such valuation. (Subsec. X410.6)

8. Tax-exempt common trust funds

The following shall be the features/requirements of CTFs which may qualify for exemption from the twenty percent (20%) final tax under Section 24(B)(1) of R.A. No. 8424 (The Tax Reform Act of 1997):

a. The tax exemption shall apply to CTFs established on or after January 3, 2000;

b. The CTF indenture or plan as well as evidences of participation shall clearly indicate that the participants shall be limited to individual trustors/investors who are Filipino citizens or resident aliens and that participation is non-negotiable and non-transferable;

c. The date of contributions to the CTF shall be clearly indicated in the evidence of participation to serve as basis for the trustee-bank to determine the period of participation for tax exemption purposes;

d. The CTF indenture/plan as well as the evidence of participation shall indicate that pursuant to Section 24(B)(1) of R.A. No. 8424, interest income of the CTF derived from investments in interest-bearing instruments (e.g., time deposits, government securities, loans and other debt instruments) which are otherwise subject to

the twenty percent (20%) final tax, shall be exempt from said final tax provided participation in the CTF is for a period of at least five (5) years. If participation is for a period less than five (5) years, interest income shall be subject to a final tax which shall be deducted and withheld based on the following schedule –

Participation 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 date of contribution shall be clearly indicated in the evidence of participation which shall serve as basis for determining the participation period of each participant; and

e. Tax-exempt CTFs established under this Subsection shall be subject to the provisions of Subsecs. X409.1(c), X409.2 up to X409.7, and Items “2 to 7” of this Appendix.

Regarding the required prior authority and disclosure under Subsecs. X409.2 and X409.3, a list of prospective and/or outstanding investment outlets that is made available by the trustee for the review of all CTF clients may serve as an alternative compliance, which list shall be updated quarterly. (Subsec. X410.7)

9. Custody of securities. Investments in securities of all existing CTFs shall be delivered to a BSP-accredited third party custodian not later than 31 October 2004.

**CHECKLIST OF BANGKO SENTRAL REQUIREMENTS IN THE SUBMISSION OF
FINANCIAL AUDIT REPORT, ANNUAL AUDIT REPORT AND REPORTS
REQUIRED UNDER APPENDIX 43
*[Appendix to Subsec. X190.1 (2008 - X166.1)]***

The external auditor (Included in the List of Bangko Sentral Selected External Auditors) shall start the audit not later than thirty (30) calendar days after the close of the calendar/fiscal year adopted by the bank. AFS of banks with subsidiaries shall be presented side by side on a solo basis and on a consolidated basis (banks and subsidiaries). The FAR shall be submitted by the bank to the appropriate department of the SES not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank, together with the following:

<u>Information/Data required</u>	<u>Deadline for submission</u>
A. Financial Audit Report	
1. Certification by the external auditor on the following:	For submission together with the FAR not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.
a. The dates of commencement and termination of audit.	
b. The date when the FAR and certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank were submitted to the bank's board of directors or country head, in the case of foreign bank branches; and	
c. That the external auditor, partners, associates, auditor-in-charge of the engagement and the members of their immediate family do not have any direct or indirect financial interest with the bank, its subsidiaries and affiliates and that their independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for CPA.	
2. Reconciliation statement for the differences in amounts between the audited and the submitted Balance Sheet and Income Statement for bank proper	For submission together with the FAR not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.

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<u>Information/Data required</u>	<u>Deadline for submission</u>
<p>(regular and FCDU) and trust department, including copies of adjusting entries on the reconciling items.</p> <p>Note: Please see pro-forma comparative analysis (Annex A).</p>	
<p>3. LOC indicating the external auditor's findings and comments on the material weakness noted in the internal control and risk management systems and other aspects of operations.</p> <p>In case no material weakness is noted to warrant the issuance of an LOC, a certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank shall be submitted by the external auditor.</p>	<p>Within thirty (30) calendar days after the submission of the FAR.</p> <p>For submission together with the FAR not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.</p>
<p>4. Copies of the board resolutions showing the:</p> <p>a. Action taken on the FAR and, where applicable, on the certification under oath including the names of the directors present and absent, among other things; and</p> <p>b. Action taken on the findings and recommendations in the LOC, and the names of the directors present and absent, among other things.</p>	<p>Within thirty (30) banking days after the receipts of the financial audit report and certification under oath by the board of directors.</p> <p>Within thirty (30) banking days after the receipt of the LOC by the board of directors.</p>
<p>5. In case of foreign banks with branches in the Philippines, in lieu of the board resolution:</p> <p>a. A report by the country head on the action taken by management (head office, regional or country) on the FAR and, where applicable, on the certification under oath stating that no</p>	<p>Within thirty (30) calendar days after the receipt of the FAR and certification under oath by the country head.</p>

<u>Information/Data required</u>	<u>Deadline for submission</u>
material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank.	
b. A report by the country head on the action taken by management (head office, regional or country) on the LOC.	Within thirty (30) banking days after the receipt of the LOC by the country head.
6. Certification of the external auditor on the date when the LOC was submitted to the board of directors or country head.	Within thirty (30) banking days after the receipt of the LOC by the board of directors or country head.
7. All the required disclosures in the AFS provided under Subsec. X190.4.	For submission together with the FAR not later than 120 calendar days after the close of the calendar year or fiscal year adopted by the bank.
8. Reports required to be submitted by the external auditor under <i>Appendix 43</i> :	
a. To enable the Bangko Sentral to take timely and appropriate remedial action, the external auditor must report to the Bangko Sentral, the following cases: (1) Any material finding involving fraud or dishonesty (including cases that were resolved during the period of audit); and (2) Any potential losses the aggregate of which amounts to at least one percent (1%) of the capital.	Within thirty (30) calendar days after the discovery.
b. The external auditor shall report directly to the Bangko Sentral the following: (1) Termination or resignation as external auditor and stating the reason therefore; (2) Discovery of a material breach of laws or Bangko Sentral rules and regulations such as, but not limited to:	Within fifteen (15) calendar days after the occurrence/discovery.

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Information/Data required	<u>Deadline for submission</u>
<div>a. CAR; and</div> <div>b. Loans and other risk assets review and classification.</div> <div>(3) Findings on matters of corporate governance that may require urgent action by the Bangko Sentral.</div> <div>c. In case there are no matters to report (e.g., fraud, dishonesty, breach of laws, etc.) a notarized certification that there is none to report.</div> <div>B. AAR– For banks under the concurrent jurisdiction of the Bangko Sentral and COA.</div> <div>1. Copy of the AAR accompanied by the:</div> <div>a. Certification by the institution concerned on the date of receipt of the AAR by the board of directors;</div> <div>b. Reconciliation statement between the AFS in the AAR and the balance sheet and income statement of bank proper (Regular and FCDU) and trust department submitted to the Bangko Sentral, including copies of adjusting entries on the reconciling items; and</div> <div>c. Other information that may be required by the Bangko Sentral.</div> <div>2. Copy of the board resolution showing the action taken on the AAR, as well as on the comments and observations, including the names of the directors present and absent, among other things.</div>	<div>Within fifteen (15) calendar days after the closing of the audit engagement.</div> <div>Within forty (40) calendar days after receipt of the AAR by the board of directors.</div> <div>Within thirty (30) banking days after receipt of the AAR by the board of directors.</div>

(As amended by Circular Nos. 911 dated 02 May 2016, 554 dated 22 December 2006 and 540 dated 09 August 2006)

GUIDE IN PREPARING THE KEY INFORMATION AND INVESTMENT DISCLOSURE
STATEMENT FOR UNIT INVESTMENT TRUST FUNDS
(Appendix to Subsec. X410.7)

1. The Key Information and Investment Disclosure Statement (KIIDS) is a document intended to provide unit investment trust fund (UITF) participants with key information and disclosures to facilitate better understanding and comparison of UITFs offered by trust entities (TEs).

2. The KIIDS is, preferably a one-sheet document with back-to-back information. The text shall be written in Arial style with font size 10 or its equivalent while the disclosures enumerated below shall be in capital letter and in bold font:

- **THE UIT FUND IS NOT A DEPOSIT AND IS NOT INSURED BY THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC).**
- **RETURNS CANNOT BE GUARANTEED AND HISTORICAL NAVPu IS FOR ILLUSTRATION OF NAVPu MOVEMENTS/FLUCTUATIONS ONLY.**
- **WHEN REDEEMING, THE PROCEEDS MAY BE WORTH LESS THAN THE ORIGINAL INVESTMENT AND ANY LOSSES SHALL BE SOLELY FOR THE ACCOUNT OF THE CLIENT.**
- **THE TRUSTEE IS NOT LIABLE FOR ANY LOSS UNLESS UPON WILLFUL DEFAULT, BAD FAITH OR GROSS NEGLIGENCE.**

3. The attached format serves as a standard template in preparing the KIIDS. The headings, lay-outs and disclosures inside the boxes shall be strictly followed; nonetheless, the trustee may opt to add sub-headings provided that these additions shall result to clearer disclosure of key information.

4. The trustee shall use clear and plain language to ensure that the participants can easily understand the disclosures contained therein.

5. The use of diagrams such as graphs, charts, flowcharts, tables or numerical explanations is highly encouraged.

6. The trustee is advised to be judicious in deciding the information to be disclosed. The KIIDS shall give a fair and balanced view of the investments and shall ensure that no material information is omitted if such omission would make the KIIDS to be misleading. Examples are presented for illustration purposes only and are not meant to be prescribed or exhaustive.

7. The trustee shall include a web address for online access of other disclosure documents, educational resources or explanatory materials. However, key information shall be clearly disclosed in the KIIDS and not merely referred to other sources.

(As amended by Circular Nos. 876 dated 20 April 2015, 852 dated 21 October 2014 and 593 dated 08 January 2008)

(Name of Bank)

(Name of UIT Fund)

KEY INFORMATION AND INVESTMENT DISCLOSURE STATEMENT
(Reporting Period)

FUND FACTS

Classification:	Net Asset value per unit (NAVPu):
Launch Date:	Total Fund NAV:
Minimum Investment:	Dealing Day:
Additional Investment:	Redemption Settlement:
Minimum Holding Period:	Early Redemption Charge:

FEES*(Indicate trustee fees and special reimbursable expenses, as necessary)

Trustee Fees: _____% (Name of Trustee)	Custodianship Fees: _____% (Name of Custodian)	External Auditor Fees: _____% (Name of External Auditor)	Other Fees: ____% (Please specify)
--	--	--	---------------------------------------

* As a percentage of average daily NAV for the quarter valued at _____.

INVESTMENT OBJECTIVE AND STRATEGY [Indicate the investment objective of the fund and the strategies on how to attain the said objective]

Example:

The Fund intends to achieve for its participants long-term capital growth by investing into the extent possible, equity securities issued by Philippine domiciled companies which have a value style bias. The Fund aims to provide returns in excess of the return of the Philippine Stock Exchange Index (PSEI).

CLIENT SUITABILITY

A client profiling process shall be performed prior to participating in the Fund to guide the prospective investor if the Fund is suited to his/her investment objectives and risk tolerance. Clients are advised to read the Declaration of Trust/Plan Rules of the Fund, which may be obtained from the Trustee, before deciding to invest.

- The (Name of the Fund) is suitable only for investors who:
 - o [Indicate the risk profile of the target investors/participants]
 - o [Indicate if the principal will be at risk]
 - o [Indicate the recommended investment horizon of a participant]
 - o [Indicate other key characteristics of the fund which can help investors determine if it is suitable for them]

Example

- The Equity Fund is suitable only for investors who:
 - o Have aggressive risk appetite
 - o Are comfortable with the greater volatility and risks of an equity fund
- Participants are recommended to stay invested in an equity fund for three (3) years

KEY RISKS AND RISK MANAGEMENT (Disclose the key risks of the Fund and provide short illustrations/explanations which are stated in plain and simple language, and the risk management process employed in managing the Fund, as necessary)

You should not invest in this Fund if you do not understand or are not comfortable with the accompanying risks.

Example:

- Market risks. You have greater exposure to market risks as this is an equity fund since equities usually have greater volatility than bonds and other fixed income securities.
- The Fund employs a risk management policy based on duration. Duration measures the sensitivity of NAVPu to interest rate movements. As interest rates rise, bond prices fall. The higher the duration, the more NAVPu will fluctuate in relation to changes in interest rates.

- **THE UIT FUND IS NOT A DEPOSIT AND IS NOT INSURED BY THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC).**
- **RETURNS CANNOT BE GUARANTEED AND HISTORICAL NAVPu IS FOR ILLUSTRATION OF NAVPu MOVEMENTS/FLUCTUATIONS ONLY.**
- **WHEN REDEEMING, THE PROCEEDS MAY BE WORTH LESS THAN THE ORIGINAL INVESTMENT AND ANY LOSSES WILL BE SOLELY FOR THE ACCOUNT OF THE CLIENT.**
- **THE TRUSTEE IS NOT LIABLE FOR ANY LOSS UNLESS UPON WILLFUL DEFAULT, BAD FAITH OR GROSS NEGLIGENCE.**

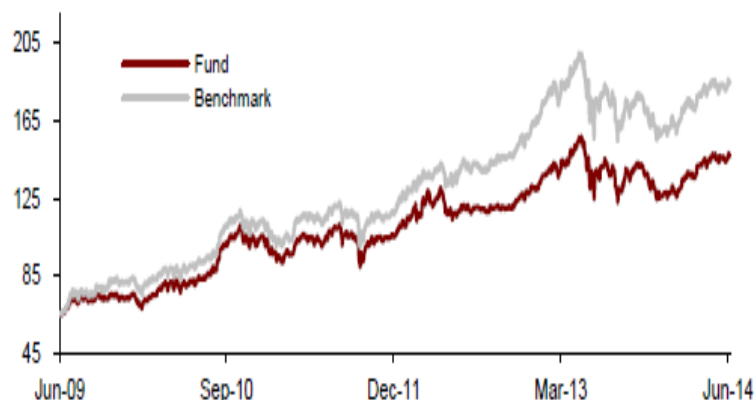
(Indicate contact details of the trustee which investors can use if they have queries, include a website address, e-mail address and telephone number)

FUND PERFORMANCE AND STATISTICS AS OF JUNE 30, 2014

(Purely for reference purposes and is not a guarantee of future results)

NAVPu Graph [Include graph showing the NAVPu trend vis-à-vis the benchmark]

Example:

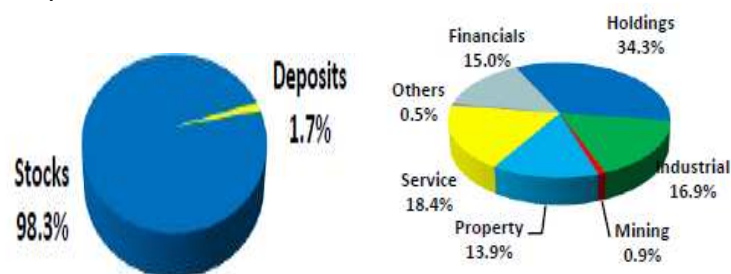


Cumulative Performance (%)

Period	1 mo	3 mos	6 mos	1 yr	3 yrs
Fund	xx.xx	xx.xx	xx.xx	xx.xx	xx.xx
Benchmark	xx.xx	xx.xx	xx.xx	xx.xx	xx.xx

Portfolio Composition [Illustrate/describe the composition of the Fund as a percentage of the NAV as of the reference quarter in terms of asset class, maturity profile, and credit rating of trustees, as applicable; use of graphs/charts/tables are highly recommended]

Example:



NAVPu over the past 12 months

Highest	xx
Lowest	xx

Statistics [Fill in the information, as necessary]

Weighted Ave. Duration	xx
Volatility, Past 1 Year *	xx%
Sharpe Ratio **	xx
Information Ratio ***	xx

*Volatility measures the degree to which the Fund fluctuates vis-à-vis its average return over a period of time.

**Sharpe Ratio is used to characterize how well the return of a Fund compensates the investor for the level of risk taken. The higher the number, the better.

*** Information Ratio measures reward-to-risk efficiency of the portfolio relative to the benchmark. The higher the number, the higher the reward per unit of risk.

Top Ten Holdings (%)

ABC Co.	xx.x
DEF Co.	xx.x
XYZ	xx.x
AB & J	xx.x
KYLPN Co.	xx.x
GJ Investments	xx.x
JK Corp.	xx.x
Bank OP	xx.x
FKH Group	xx.x
ANGL Corp.	xx.x
Total	xx.x

OTHER DISCLOSURES [Indicate RELATED PARTY TRANSACTIONS, prospective investments and other disclosures deemed necessary or relevant] [This heading may be changed as appropriate]

Example:

RELATED PARTY TRANSACTIONS

The Fund has deposits with the Bank Proper and investments in ABC Co., a wholly-owned subsidiary of the Bank, amounting to Pxxx and Pxxx, respectively, which were approved by the Board of Directors. Likewise, all related party transactions are conducted on an arm's length basis.

OUTLOOK AND STRATEGY

The Fund took advantage of the pockets of rallies supported by the substantial liquidity in the system. It took profit on its bond holdings across the curve in anticipation of increased volatility in the months ahead. Market corrections are likewise seen as opportunities to reposition in the more liquid and tradable bonds. Nonetheless, amidst prospects of further SDA rate hikes, we maintain our overall defensive stance. The Fund's prospective investments include xxx.

(NAME OF TRUST ENTITY)-(TRUST BANKING GROUP/TRUST DEPARTMENT)
Unit Investment Trust Funds
RISK DISCLOSURE STATEMENT

Prior to making an investment in any of the (Name of Trust Entity) Unit Investment Trust Funds (UITFs), (Name of Trust Entity) is hereby informing you of the nature of the UITFs and the risks involved in investing therein. As investments in UITFs carry different degrees of risk, it is necessary that before you participate/invest in these funds, you should have: 1. Fully understood the nature of the investment in UITFs and the extent of your exposure to risks; 2. Read this Risk disclosure Statement completely; and 3. Independently determined that the investment in the UITFs is appropriate for you.

There are risks involved in investing in the UITFs because the value of your investment is based on the Net Asset Value per unit (NAVpu) of the Fund which uses a marked-to-market valuation and therefore may fluctuate daily. The NAVpu is computed by dividing the Net Asset Value (NAV) of the Fund by the number of outstanding units. The NAV is derived from the summation of the market value of the underlying securities of the Fund plus accrued interest income less liabilities and qualified expenses.

Investment in the UITF does not provide guaranteed returns even if invested in government securities and high-grade prime investment outlets. Your principal and earnings from investment in the Fund can be lost in whole or in part when the NAVpu at the time of redemption is lower than the NAVpu at the time of participation. Gains from investment is realized when the NAVpu at the time of redemption is higher than the NAVpu at the time of participation.

Your investment in any of the (Name of Trust Entity) UITFs exposes you to the various types of risks enumerated and defined hereunder:

Interest Rate Risk. This is the possibility for an investor to experience losses due to changes in interest rates. The purchase and sale of a debt instrument may result in profit or loss because the value of a debt instrument changes inversely with prevailing interest rates.

The UITF portfolio, being market-to-market, is affected by changes in interest rates thereby affecting the value of fixed income investments such as bonds. Interest rate changes may affect the prices of fixed income securities inversely, i.e., as interest rates rise, bond prices fall and when interest rates decline, bond prices rise. As the prices of bonds in a Fund adjust to a rise in interest rates, the Fund’s unit price may decline.

Market/Price Risk. This is the possibility for an investor to experience losses due to changes in market prices of securities (e.g., bonds and equities). It is the exposure to the uncertain market value of a portfolio due to price fluctuations.

It is the risk of the UITF to lose value due to a decline in securities prices, which may sometimes happen rapidly or unpredictably. The value of investments fluctuates over a given time period because of general market conditions, economic changes or other events that impact large portions of the market such as political events, natural calamities, etc. As a result, the NAVpu may increase to make profit or decrease to incur loss.

Liquidity Risk. This is the possibility for an investor to experience losses due to the inability to sell or convert assets into cash immediately or in instances where conversion to

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cash is possible but at a loss. These may be caused by different reasons such as trading in securities with small or few outstanding issues, absence of buyers, limited buy/sell activity or underdeveloped capital market.

Liquidity risk occurs when certain securities in the UITF portfolio may be difficult or impossible to sell at a particular time which may prevent the redemption of investment in UITF until its assets can be converted to cash. Even government securities which are the most liquid of fixed income securities may be subjected to liquidity risk particularly if a sizeable volume is involved.

Credit Risk/Default Risk. This is the possibility for an investor to experience losses due to a borrower's failure to pay principal and/or interest in a timely manner on instruments such as bonds, loans, or other forms of security which the borrower issued. This inability of the borrower to make good on its financial obligations may have resulted from adverse changes in its financial condition thus, lowering credit quality of the security, and consequently lowering the price (market/price risk) which contributes to the difficulty in selling such security. It also includes risk on a counterparty (a party the UITF Manager trades with) defaulting on a contract to deliver its obligation either in cash or securities.

This is the risk of losing value in the UITF portfolio in the event the borrower defaults on his obligation or in the case of a counterparty, when it fails to deliver on the agreed trade. This decline in the value of the UITF happens because the default/failure would make the price of the security go down and may make the security difficult to sell. As these happen, the UITFs NAVpu will be affected by a decline in value.

Reinvestment Risks. This is the risk associated with the possibility of having lower returns or earnings when maturing funds or the interest earnings of funds are reinvested.

Investors in the UITF who redeem and realize their gains run the risk of reinvesting their funds in an alternative investment outlet with lower yields. Similarly, the UITF manager is faced with the risk of not being able to find good or better alternative investment outlets as some of the securities in the fund matures.

In case of a foreign-currency denominated UITF or a peso denominated UITF allowed to invest in securities denominated in currencies other than its base currency, the UITF is also exposed to the following risks:

Foreign Exchange Risk. This is the possibility for an investor to experience losses due to fluctuations in foreign exchange rates. The exchange rates depend upon a variety of global and local factors, e.g., interest rates, economic performance, and political developments.

It is the risk of the UITF to currency fluctuations when the value of investments in securities denominated in currencies other than the base currency of the UITF depreciates. Conversely, it is the risk of the UITF to lose value when the base currency of the UITF appreciates. The NAVpu of a peso-denominated UITF invested in foreign currency-denominated securities may decrease to incur loss when the peso appreciates.

Country Risk. This is the possibility for an investor to experience losses arising from investments in securities issued by/in foreign countries due to the political, economic and social structures of such countries. There are risks in foreign investments due to the possible internal and external conflicts, currency devaluations, foreign ownership limitations and tax increases of the foreign country involved which are difficult to predict but must be taken into account in making such investments.

Likewise, brokerage commissions and other fees may be higher in foreign securities. Government supervision and regulation of foreign stock exchanges, currency markets, trading systems and brokers may be less than those in the Philippines. The procedures and rules governing foreign transactions and custody of securities may also involve delays in payment, delivery or recovery of investments.

Other Risks. Your participation in the UITFs may be further exposed to the risk of any actual or potential conflicts of interest in the handling of in-house or related party transactions by (Name of Trust Entity). These transactions may include own-bank deposits; purchase of own-institution or affiliate obligations (stock, mortgages); purchase of assets from or sales to own institution, directors, officers, subsidiaries, affiliates or other related interests/parties; or purchases or sales between fiduciary/managed accounts.

I/we have completely read and fully understood this risk disclosure statement and the same was clearly explained to me/us by a (Name of Trust Entity) UIT marketing personnel before I/we affixed my/our signature/s herein. I/we hereby voluntarily and willingly agree to comply with any and all laws, regulations, the plan rules, terms and conditions governing my/our investment in the (Name of Trust Entity) UITFs.

Signature over Printed Name

Date

I acknowledge that I have (1) advised the client to read this Risk Disclosure Statement, (2) encouraged the client to ask questions on matters contained in this Risk Disclosure Statement, and (3) fully explained the same to the client.

Signature over Printed Name/
Position of UIT Marketing Personnel

Date

(Circular No. 593 dated 08 January 2008)

**IMPLEMENTATION PLANS UNDER THE NEW INTERNATIONAL CAPITAL
STANDARDS AS CONTAINED IN THE BASEL COMMITTEE ON BANKING
SUPERVISION DOCUMENT INTERNATIONAL CONVERGENCE OF CAPITAL
MEASUREMENT AND CAPITAL STANDARDS**
(Appendix to Sec. X115)

A. *General approach*

UBs/KBs are expected to comply with the standardized approach for credit risk, and the basic indicator or standardized approaches for operational risk by 2007. By 2010, these banks may move to the foundation internal ratings based (IRB) or advanced IRB approaches for credit risk, and advanced measurement approaches for operational risk.

TBs, on the other hand, are classified into two (2). TBs are generally expected to be subject to an enhanced Basel 1-type approach by 2007. However, TBs affiliated with UBs/KBs should use the same approach used by the UBs/KBs.

RBs/Coop banks, meanwhile, are expected to be subject to an enhanced Basel 1-type approach also by 2007.

An enhanced Basel 1-type approach is basically the same as the current framework (Sec. X116) but with certain elements of Basel 2 already incorporated such as higher risk weight for past due accounts, and expanded disclosures.

B. *Timetable*

Between 2004 and 2007, certain provisions of Basel 2 will be gradually incorporated into the current risk-based capital adequacy framework. These would include:

- (1) Giving lower risk weights for highly-rated corporate exposures;
- (2) Giving higher risk weights for past due claims (net of specific provisions);
- (3) Adopting the standardized approach for investments in securitization structures (i.e., risk weights would depend on external ratings);

(4) Implementing a standard computation of liquidity risk and interest rate risk in the banking book; and

(5) Issuing broad guidelines on operational risk management.

The rest of the provisions of Basel 2 standardized approach for credit risk, and basic indicator and standardized approaches for operational risk will be implemented by 2007. Under the standardized approach for credit risk, risk weights would mainly depend on the external rating of the counterparty. Under the basic indicator approach for operational risk, capital charge is fifteen percent (15%) of the 3-year average of a bank's gross income. Under the standardized approach for operational risk, on the other hand, banks will compute capital charge separately for each business line. Business line operational risk charge is a fraction (between 12%-18%) of the 3-year average of a business line's gross income. Total operational risk charge is the sum of the operational risk charges for all business lines.

The expanded disclosure requirements prescribed under Basel 2, as may be appropriate, will also be implemented by 2007.

The draft implementation guidelines containing all these provisions will be exposed for comment by the Bangko Sentral in the first quarter of 2005. The final implementation guidelines are expected to be issued by end-December 2005.

By 2010, banks may already be allowed to use the advanced approaches prescribed under Basel 2. For credit risk, banks may use the internal ratings based (IRB) approach, where the credit risk capital charge would

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depend on banks’ internal rating of the counterparty, including estimates of probability of default, loss given default, and other risk parameters. For operational risk, banks may use statistical modeling and other advanced measurement tools in determining the capital charge.

To facilitate a successful implementation of Basel 2, the Bangko Sentral will continue to engage the banking community, particularly through the BAP’s Risk Management Committee, in its preparations

especially those involving the eventual implementation of the advanced approaches by 2010. The Bangko Sentral likewise strongly encourages banks to assess the likely impact of this shift in risk-based capital framework on their capital adequacy ratio. Banks needing assistance in performing this self-analysis may contact the Office of the Assistant Governor, Supervision and Examination Sector at email address sd_c_stat@bsp.gov.ph.

(As amended by Circular Nos. 890 dated 02 November 2015 and 827 dated 28 February 2014)

**QUALIFYING CAPITAL UNDER THE RISK BASED CAPITAL ADEQUACY
FRAMEWORK**
[Appendix to Subsec. X116.2 and X119.4 (2008 - X116.1 and X119.4)]

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

**RISK-BASED CAPITAL ADEQUACY FRAMEWORK
FOR THE PHILIPPINE BANKING SYSTEM
(Appendix to Section X115)**

Introduction

This Appendix outlines the Bangko Sentral implementing guidelines of the revised *International Convergence of Capital Measurement and Capital Standards*, popularly known as Basel II, and the reforms introduced in *Basel III: A global regulatory framework for more resilient banks and banking systems*. Basel II and Basel III comprise the international capital standards set by the Basel Committee on Banking Supervision (BCBS)¹.

The guidelines revise the risk-based capital adequacy framework for UBs and KBs, as well as their subsidiary banks and QBs. TBs and RBs as well as QBs that are not subsidiaries of UBs and KBs shall be subject to a different set of guidelines except the criteria for eligibility as qualifying capital.

The guidelines shall take effect on 01 January 2014.

(As amended by Circular Nos. 822 dated 13 December 2013, 781 dated 15 January 2013 and M-2006-022 dated 24 November 2006)

Part I. Risk-based capital adequacy ratio (CAR)

1. UBs and KBs and their subsidiary banks and QBs shall be subject to the following risk-based CARs:

- a. Common Equity Tier (CET1) must be at least six percent (6%) of risk-weighted assets at all times;
- b. Tier 1 capital must be at least seven and a half percent (7.5%) of risk-weighted assets at all times; and

c. Qualifying capital (Tier 1 plus Tier 2 capital) must be at least ten percent (10%) of risk-weighted assets at all times.

2. CET1 capital, Tier 1 capital and qualifying capital are computed in accordance with the provisions of Part II. Risk-weighted assets is the sum of (1) credit-risk weighted assets (Parts IV, V and VI), (2) market risk-weighted assets (Parts VI and VII), and (3) operational risk-weighted assets (Part VIII).

3. The CAR requirement will be applied to all UBs and KBs and their subsidiary banks, and QBs on both solo² and consolidated³ bases. The application of the requirement on a consolidated basis is the best means to preserve the integrity of capital in banks with subsidiaries by eliminating double gearing. However, as one of the principal objectives of supervision is the protection of depositors, it is essential to ensure that capital recognized in capital adequacy measures is readily available for those depositors. Accordingly, individual banks should likewise be adequately capitalized on a stand-alone basis.

4. To the greatest extent possible, all banking and other relevant financial activities (both regulated and unregulated) conducted by a bank and its subsidiaries will be captured through consolidation. Thus, majority-owned or -controlled financial allied undertakings should be fully consolidated on a line by line basis. Exemptions from consolidation shall only

¹ The Basel Committee on Banking Supervision is a committee of banking supervisory authorities that was established by the central bank governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. It usually meets at the Bank for International Settlements in Basel, Switzerland where its permanent Secretariat is located.

² Pertains to the reporting entity's head office and branches

³ Pertains to the reporting entity and its financial allied subsidiaries except insurance companies that are required to be consolidated on a line-by-line basis for the purpose of preparing consolidated financial statements

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be made in cases where such holdings are acquired through debt previously contracted and held on a temporary basis, are subject to different regulation¹, or where non-consolidation for regulatory capital purposes is otherwise required by law. All cases of exemption from consolidation must be made with prior clearance from the Bangko Sentral.

5. Banks shall comply with the minimum CARs at all times notwithstanding that supervisory reporting shall only be on quarterly basis. Any breach, even if only temporary, shall be reported to the bank’s Board of Directors and to Bangko Sentral, SES within three (3) banking days. For this purpose, banks shall develop an appropriate system to properly monitor their compliance.

6. The Bangko Sentral reserves the right, upon authority of the Deputy Governor, SES, to conduct on-site inspection outside of regular or special examination, for the purpose of ascertaining the accuracy of CAR calculations as well as the integrity of CAR monitoring and reporting systems.

Part II. Qualifying capital

- 1. Qualifying capital consists of the sum of the following elements, net of required deductions:
 - a. Tier 1 capital (going concern capital) is composed of:
 - i. CET1; and
 - ii. Additional Tier 1 (AT1) capital; and
 - b. Tier 2 (gone-concern) capital.
- 2. A bank must ensure that any

component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included.

Section A. Domestic banks

CET1 capital

- 3. CET1 capital consists of:
 - a. Paid up common stock issued by the bank that meet the eligibility criteria in “App. 63b Annex A”;
 - b. Common stock dividends distributable;
 - c. Additional paid-in capital resulting from the issuance of common stock included in CET1 capital;
 - d. Deposit for common stock subscription;
 - e. Retained earnings;
 - f. Undivided profits;²
 - g. Other comprehensive income;
 - (1) Net unrealized gains or losses on AFS securities³;
 - (2) Cumulative foreign currency translation;
 - (3) Remeasurement of Net Defined Benefit Liability/(Asset);
 - (4) Gains/(Losses) on Fair Value Adjustments of Hedging Instruments:
 - (a) Cash Flow Hedge; and
 - (b) Hedge of a Net Investment in Foreign Operations; and
 - (5) Others (indicate the nature and amount of the accounts lodged)
 - h. Minority interest in subsidiary banks which are less than wholly-owned:⁴ *Provided*, That the minority interest arises

¹ These currently pertain to insurance companies and securities brokers/dealers
² For early adopters of PFRS 9, this account should include the net unrealized gains/losses on available-for-sale (AFS) debt securities;
³ For early adopters of PFRS 9, this account shall refer only to “Net Unrealized gains(losses) on AFS equity securities; For AFS debt securities, refer to Footnote No.5. In view of the continuing evaluation by the Basel Committee on the appropriate treatment of unrealized gains/losses with respect to the evolution of the accounting framework, the Bangko Sentral will revise its relevant regulation once the treatment of fair value adjustments in the calculation of CET1 has been determined.
⁴ Minority interest in a subsidiary that is a bank is strictly excluded from the parent bank’s common equity if the parent bank or affiliate has entered into any arrangements to fund directly or indirectly minority investment in the subsidiary whether through an SPV or through another vehicle or arrangement. The treatment of minority interest set out above is strictly available where all minority investments in the bank subsidiary solely represent genuine third party common equity contributions to the subsidiary.

from issuances of common stock which, if issued by the bank itself, would meet all of the criteria for classification as CET1 capital: *Provided, further*, That the amount to be included as minority interest shall be reduced by the surplus CET 1 of the subsidiary attributable to minority shareholders: *Provided, furthermore*, That the surplus CET 1 capital of the subsidiary attributable to minority shareholders is computed as the available CET1 capital minus the lower of: (1) the minimum CET1 capital requirement of the subsidiary and (2) the portion of the consolidated minimum CET1 requirement that is attributable to the subsidiary, multiplied by the percentage of CET1 held by minority shareholders.

Illustrative computation is in App. 63b Annex D.

(As amended by Circular No. 934 dated 23 December 2016)

Regulatory adjustment to CET1 capital

4. The following must be deducted from/(added to) CET1 capital:

- a. Common stock treasury shares¹ including shares that the bank could be contractually obliged to purchase;
- b. Gains (Losses) resulting from designating financial liabilities at fair value through profit or loss that are due to changes in its own credit worthiness;²
- c. Unbooked valuation reserves and other capital adjustments based on the latest report of examination as approved by the Monetary Board;
- d. Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI;
- e. Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;
- f. Total outstanding loans, other credit

accommodations and guarantees granted to related parties that are not at arm’s length terms as determined by the appropriate supervising department of the Bangko Sentral;

g. Deferred tax assets that rely on future profitability of the bank to be realized, net of any (1) allowance for impairment and (2) associated deferred tax liability, if and only if the conditions cited in PAS 12 are met: *Provided*, That, if the resulting figure is a net deferred tax liability, such excess cannot be added to Tier 1 capital;

h. Goodwill, net of any allowance for impairment and any associated deferred tax liability which would be extinguished upon impairment or derecognition, including that relating to unconsolidated subsidiary banks, financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies) (on solo basis) and unconsolidated subsidiary securities dealers/brokers, insurance companies and non-financial allied undertakings (on solo and consolidated bases);

i. Other intangible assets, net of any allowance for impairment and any associated deferred tax liability which would be extinguished upon impairment or derecognition;

j. Gain on sale resulting from a securitization transaction;

k. Defined benefit pension fund assets (liabilities);³

l. Investments in equity of unconsolidated subsidiary banks and QBs, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis);

¹ Treasury shares are: (1) shares of the parent bank held by a subsidiary financial allied undertaking in a consolidated statement of condition, or (2) the reacquired shares of a subsidiary bank/QB that is required to compute its capital adequacy ratio in accordance with this framework.

² This adjustment shall only apply to banks/non-banks which would not early adopt the provisions of PFRS 9 and recognize the gains/losses (relative to changes in own credit worthiness) in undivided profits.

³ The adjustment pertains to the defined benefit asset or liability that is recognized in the balance sheet. Such that CET1 cannot be increased by derecognizing the liabilities, in the same manner, any asset recognized in the balance sheet should be deducted from CET1 capital;

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m. Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases);

n. Significant minority investments (10%-50% of voting stock) in banks and QBs, and other financial allied undertakings (for both solo and consolidated bases);

o. Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

p. Minority investments (below 10% of voting stock) in banks and QBs, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for both solo and consolidated bases);

q. Minority investments (below 10% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

For equity investments in financial entities (Items “k” to “p”), total investments include:

i. common equity exposures in both the banking and trading book; and

ii. underwriting positions in equity and other capital instruments held for more than five (5) days:

Provided, That should the instrument of the entity in which the bank has invested does not meet the criteria for CET1 capital of the bank, the capital is to be considered common shares and thus deducted from CET1.

r. Other equity investments in non-financial allied undertakings and non-allied undertakings;

s. Capital shortfalls of unconsolidated subsidiary securities dealers/brokers and insurance companies (for both solo and consolidated bases);

t. Reciprocal investments in common stock of other banks/QBs and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

u. Materiality thresholds in credit derivative contracts purchased;

v. Credit-linked notes and other similar products in the banking book with issue ratings below investment grade;

w. Securitization tranches and structured products which are rated below investment grade or are unrated; and

x. Credit enhancing interest only strips in relation to a securitization structure, net of the amount of “gain-on-sale” that must be deducted from CET1 capital.

(As amended by Circular No. 914 dated 23 June 2016)

Additional Tier 1 (AT1) capital

5. AT1 capital consists of the following:

a. Instruments issued by the bank that are not included in CET1 capital that meet the following:

i. criteria for inclusion in AT1 capital as set out in “App. 63b Annex B”;

ii. required loss absorbency features for instruments classified as liabilities for accounting purposes. The loss absorbency requirements are provided in “App. 63b Annex E”; and

iii. required loss absorbency feature at point of non-viability as set out in “App. 63b Annex F.”

b. Additional paid-in capital resulting from the issuance of instruments included in AT1 capital;

c. Deposit for subscription of AT1 capital instruments;

d. Minority interest in subsidiary banks which are less than wholly-owned:¹ *Provided*, That the minority interest arises from issuances of Tier 1 instruments, if issued by the bank itself, would meet all of the criteria for classification as Tier 1 capital: *Provided, further*, That the amount to be included as minority interest shall be

¹ Same footnote as in Part II, Item “3.g.2.a”.

reduced by the surplus Tier 1 capital of the subsidiary attributable to minority shareholders: *Provided, furthermore*, That the surplus Tier 1 capital of the subsidiary attributable to minority shareholders is computed as the available Tier 1 capital minus the lower of: (1) the minimum Tier 1 capital requirement of the subsidiary and (2) the portion of the consolidated minimum Tier 1 requirement that is attributable to the subsidiary, multiplied by the percentage of Tier 1 held by minority shareholders: *Provided, finally*, That the amount of Tier 1 capital to be recognized in AT1 capital will exclude amounts recognized in CET1 capital.

Illustrative computation is in *App. 63b Annex D*.

Regulatory adjustments to AT1 capital

6. The following are the adjustments to AT1 capital:
- a. AT1 instruments treasury shares¹, including shares that the bank could be contractually obliged to purchase;
 - b. Investments in equity of unconsolidated subsidiary banks and QBs, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis);
 - c. Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases);
 - d. Significant minority investments (10%-50% of voting stock) in banks and QBs, and other financial allied undertakings (for both solo and consolidated bases);
 - e. Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

f. Minority investments (below 10% of voting stock) in banks and QBs, and other financial allied undertakings (for both solo and consolidated bases);

g. Minority investments (below 10% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases).

For equity investments in financial entities (Items “b” to “g”), total investments include:

- i. other capital instruments in both the banking and trading book; and
- ii. underwriting positions in equity and other capital instruments held for more than five (5) days:

Provided, That should the instrument of the entity in which the bank has invested does not meet the criteria for AT1 capital of the bank, the capital is to be considered common shares and thus deducted from CET1 capital.

h. Reciprocal investments in AT1 capital instruments of other banks/QBs and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

Tier 2 capital

7. Tier 2 capital is composed of the following:
- a. Instruments issued by the bank (and are not included in AT1 capital) that meet the following:
 - i. criteria for inclusion in Tier 2 capital as set out in “*App. 63b Annex C*”; and
 - ii. required loss absorbency feature at point of non-viability as set out in “*App. 63b Annex F*”.
 - b. Deposit for subscription of T2 capital;
 - c. Appraisal increment reserve – bank premises, as authorized by the Monetary Board;
 - d. General loan loss provision, limited to a maximum of one percent (1.00%) of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio;

¹ Same footnote as in Part II, Item “4.a”

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e. Minority interest in subsidiary banks which are less than wholly-owned:¹ *Provided*, That the minority interest arises from issuances of capital instruments, if issued by the bank itself, would meet all of the criteria for classification as Tier 1 or Tier 2 capital: *Provided, further*, That the amount to be included as minority interest shall be reduced by the surplus total capital of the subsidiary attributable to minority shareholders: *Provided, furthermore*, That the surplus total capital of the subsidiary attributable to minority shareholders is computed as the available total capital minus the lower of: (1) the minimum total capital requirement of the subsidiary and (2) the portion of the consolidated minimum total capital requirement that is attributable to the subsidiary, multiplied by the percentage of total capital held by minority shareholders. *Provided, finally*, That the total capital that will be recognized in Tier 2 will exclude amounts recognized in CET1 and AT1 capital.

Illustrative computation in *App. 63b Annex D*.

Regulatory adjustments to Tier 2 capital

8. The following adjustments shall be charged against Tier 2 capital:

a. Tier 2 instruments treasury shares², including shares that the bank could be contractually obliged to purchase;

b. Investments in equity of unconsolidated subsidiary banks and QBs, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis);

c. Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases);

d. Significant minority investments (10%-50% of voting stock) in banks and QBs, and

other financial allied undertakings (for both solo and consolidated bases);

e. Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

f. Minority investments (below 10% of voting stock) in banks and QBs, and other financial allied undertakings (for both solo and consolidated bases);

g. Minority investments (below 10% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases);

For equity investments in financial entities (Items “b” to “g”), total investments include:

i. other capital instruments in both the banking and trading book; and

ii. underwriting positions in equity and other capital instruments held for more than five (5) days:

Provided, That should the instrument of the entity in which the bank has invested does not meet the criteria for T2 capital of the bank, the capital is to be considered common shares and thus deducted from CET1 capital.

h. Sinking fund for the redemption of T2 capital instruments; and

i. Reciprocal investments in T2 capital instruments of other banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases).

9. Any asset deducted from qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

Section B. Branches of Foreign Banks

CET1 capital

10. CET1 Capital shall be comprised of:

¹ Same footnote as in Part II, Item "3.g.2.a"

² Same footnote in Part II, Item "4.a"

- a. Permanently assigned capital¹;
 - b. Undivided profits;
 - c. Retained earnings;
 - d. Accumulated net earnings²;
 - e. Other comprehensive income
 - (1) Net unrealized gains or losses on AFS securities³;
 - (2) Cumulative foreign currency translation;
 - (3) Remeasurement of Net Defined Benefit Liability/(Asset);
 - (4) Gains/(Losses) on Fair Value Adjustments of Hedging Instruments:
 - (a) Cash Flow Hedge; and
 - (b) Hedge of a Net Investment in Foreign Operations; and
 - (5) Others (indicate the nature and amount of the accounts lodged)
- (As amended by Circular No. 934 dated 23 December 2016)

Regulatory adjustments to CET1 capital

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

In addition, any balance in the *Net due from account*⁴ shall be deducted from CET1 capital.

Additional Tier 1 (AT1) capital

Tier 2 Capital

12. Tier 2 capital shall consist of general loan loss provision, limited to a maximum of one percent (1%) of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the risk-weighted assets in computing the denominator of the risk-based capital ratio.

Regulatory adjustments to Tier 2 capital

13. The regulatory adjustments to T2 capital for branches of foreign banks are provided in paragraph 8, as applicable.

14. Any asset deducted from qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

Part III. Capital conservation buffer

1. A capital conservation buffer of two and a half percent (2.5%) of risk-weighted assets, comprised of CET1 capital, shall be required of UBs/KBs (both domestic and branches of foreign banks) and their subsidiary banks and QBs.
2. This buffer is meant to promote the conservation of capital and build up of adequate cushion that can be drawn down by banks to absorb losses during periods of financial and economic stress.
3. Where a bank does not have positive earnings, has CET1 of not more than eight and a half percent (8.5%) (CET1 ratio of six percent (6%) plus conservation buffer of two and a half percent (2.5%) and has not complied with the ten percent (10%) minimum CAR, it would be restricted from making positive distributions, as illustrated below:
- | Level of CET 1 capital | Restriction on Distributions |
|------------------------|---|
| < 6.0% | No distribution |
| 6.0%-7.25% | No distribution until more than 7.25% CET1 capital is met |
| > 7.25%-8.5% | 50% of earnings may be distributed |
| > 8.5% | No restriction on distribution |
4. Elements subject to the restriction on distributions include dividends, profit remittance, in the case of foreign bank branches, share buybacks, discretionary payments on other Tier 1 capital instruments, and discretionary bonus payments to staff.

¹ Shall include unremitted earnings elected by the branch to be part of assigned capital.

² Pertains to the unremitted profits not yet cleared by the Bangko Sentral for outward remittance, net losses in operation of Philippine branch of foreign banks.

³ For early adopters of PFRS 9, this account shall refer only to Net Unrealized gains (losses) on AFS equity securities. For AFS debt securities, refer to footnote in Part II, Item "3f" In view of the continuing evaluation by the Basel Committee on the appropriate treatment of unrealized gains/losses with respect to the evolution of the accounting framework, the Bangko Sentral will revise its relevant regulation once the treatment of fair value adjustments in the calculation of CET1 has been determined.

⁴ The balance of *Net due from account* shall exclude accumulated earnings/losses that were included as part of CET 1 capital.

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5. Payments which do not result in the depletion of CET1 are not considered distributions.

6. Earnings refer to distributable profits calculated prior to the deduction of elements subject to the restriction on distributions. The earnings is computed after the tax which would have been reported had none of the distributable items been paid.

7. The framework shall be applied on both solo and consolidated basis. The distribution constraints when applied to solo basis (individual bank level) would allow conservation of resources in specific parts of the group.

8. Drawdowns on the capital conservation buffers are generally allowed, subject to certain restrictions on distributions. However, UBs/KBs and their subsidiary banks and QBs shall be subject to a capital restoration plan within the timeframe determined by the Bangko Sentral. This restoration plan shall likewise

be required for banks under the PCA framework.

9. While banks are not prohibited from raising capital from private sector in case they wish to distribute in excess of the constraints, this matter should be discussed with the Bangko Sentral and included in the capital planning process.

Part IV. Credit risk-weighted assets

A. Risk-weighting

1. Banking book exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit assessment institutions listed in Part IV.C.

The table below sets out the mapping of external credit assessments with the corresponding risk weights for banking book exposures. Exposures related to credit derivatives and securitizations are dealt with in Parts V and VI, respectively. Exposures should be risk-weighted net of specific provisions.

STANDARDIZED CREDIT RISK WEIGHTS								
Credit Assessment ¹	AAA	AA+ to	A +	BBB+ to	BB+ to			
B +	Below	AA-	to A-	BBB-	BB-	to B-	B-	Unrated
Sovereigns	0%	0%	20%	50%	100%	100%	150%	100%
MDBs	0%	20%	50%	50%	100%	100%	150%	100%
Banks	20%	20%	50%	50%	100%	100%	150%	100% ²
Interbank call loans	20%							
Local government units	20%	20%	50%	50%	100%	100%	150%	100% ²
Government corporations	20%	20%	50%	100%	100%	150%	150%	100% ²
Corporates	20%	20%	50%	100%	100%	150%	150%	100% ²
Housing loans	50%							
MSME qualified portfolio	75%							
Defaulted exposures								
Housing loans	100%							
Others	150%							
ROPA	150%							
All other assets	100%							

¹The notations follow the rating symbols used by Standard & Poor’s. The mapping of ratings of all recognized external rating agencies is in Part IV.C

² Or risk weight applicable to sovereign of incorporation, whichever is higher

Sovereign Exposures

2. These include all exposures to central governments and central banks. All Philippine peso (Php) denominated exposures to the Philippine National Government (NG) and the Bangko Sentral shall be risk-weighted at zero percent (0%). Foreign currency denominated exposures to the NG and the Bangko Sentral, however, shall be risk-weighted according to the table above: *Provided*, That only one-third (1/3) of the applicable risk weight shall be applied from 01 July 2007, two-thirds (2/3) from 01 January 2008, and the full risk weight from 01 January 2009¹. Exposures to the Bank for International Settlements (BIS), the International Monetary Fund (IMF), and the European Central Bank (ECB) and the European Community (EC) shall also receive zero percent (0%) risk weight.
(As amended by Circular No. 588 dated 11 December 2007)

Multilateral Development Bank (MDB) Exposures

3. These include all exposures to multilateral development banks. Exposures to the World Bank Group comprised of the IBRD and the IFC, the ADB, the AfDB, the EBRD, the IADB, the EIB, the European Investment Fund (EIF), the NIB, the CDB, the Islamic Development Bank (IDB), and the CEDB currently receive zero percent (0%) risk weight. However, it is the responsibility of the bank to monitor the external credit assessments of multilateral development banks to which they have an exposure to reflect in the risk weights any change therein.

Bank Exposures

4. These include all exposures to Philippine-incorporated banks/QBs, as well as foreign-incorporated banks.

Interbank Call Loans

5. Interbank call loans refer to interbank loans that pass through the Interbank Call

Loan Funds Transfer System of the Bangko Sentral, the BAP, and the PCHC.

Exposures to Local Government Units

6. These include all exposures to non-central government public sector entities.
(As amended by Circular No. 717 dated 25 March 2011)

Exposures to Government Corporations

7. These include all exposures to commercial undertakings owned by central or local governments. Exposures to Philippine GOCCs that are not explicitly guaranteed by the Philippine NG are also included in this category.

Corporate Exposures

8. These include all exposures to business entities, which are not considered as micro, small, or medium enterprises (MSME), whether in the form of a corporation, partnership, or sole proprietorship. These also include all exposures to FIs, including securities dealers/brokers and insurance companies, not falling under the definition of *Bank* in paragraph 4.

Housing Loans

9. These include all current loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower².
(As amended by M-2008-015 dated 19 March 2008)

Micro, Small, and Medium Enterprises (MSME)

10. An exposure must meet the following criteria to be considered as an MSME exposure:

- a) The exposure must be to an MSME as defined under existing Bangko Sentral regulations; and
- b) The exposure must be in the form of direct loans, or unavailed portion of committed credit lines and other business facilities such as outstanding guarantees

¹ The capital treatment of banks holdings of ROP Global Bonds paired with Warrants under the Bangko Sentral's revised risk-based capital adequacy framework is contained in *Appendix 63b-1*.
² Includes housing microfinance loans under Sec. X361.5

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issued and unused letters of credit: *Provided*, That the credit equivalent amounts thereof shall be determined in accordance with the methodology for off-balance sheet items.

Qualified portfolio

11. For a bank's portfolio of MSME exposures to be considered as *qualified*, it must be a highly diversified portfolio, i.e., it has at least 500 borrowers that are distributed over a number of industries. In addition, all MSME exposures in the qualified portfolio must be current exposures. All non-current MSME exposures are excluded from count and are to be treated as ordinary non-performing loans. Current MSME exposures not qualifying under highly diversified MSME portfolio will be riskweighted based on external rating and shall be risk-weighted in the same manner as corporate exposures.

Defaulted Exposures

12. A default is considered to have occurred in the following cases:

- a) If a credit obligation is considered non-performing under existing rules and regulations. For non-performing debt securities, they shall be defined as follows:
 - i. For zero-coupon debt securities, and debt securities with quarterly, semi-annual, or annual coupon payments, they shall be considered non-performing when principal and/or coupon payment, as may be applicable, is unpaid for thirty (30) days or more after due date; and
 - ii. For debt securities with monthly coupon payments, they shall be considered non-performing when three (3) or more coupon payments are in arrears: *Provided, however*, That when the total amount of arrearages reaches twenty percent (20%) of the total outstanding balance of the debt security, the total outstanding balance of the debt security shall be considered as non-performing.
- b) If a borrower/obligor has sought or

has been placed in bankruptcy, has been found insolvent, or has ceased operations in the case of businesses;

c) If the bank sells a credit obligation at a material credit-related loss, i.e., excluding gains and losses due to interest rate movements. Banks' board-approved internal policies must specifically define when a material credit-related loss occurs; and

d) If a credit obligation of a borrower/obligor is considered to be in default, all credit obligations of the borrower/obligor with the same bank shall also be considered to be in default.

Housing loans

13. These include all loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower, which are considered to be in default in accordance with paragraph 12.

Others

14. These include the total amounts or portions of all other defaulted exposures, which are not secured by eligible collateral or guarantee as defined in Part IV.B.

ROPA

15. All real and other properties acquired and classified as such under existing regulations.

Other Assets

16. The standard risk weight for all other assets, including bank premises, furniture, fixtures and equipment, will be 100%, except in the following cases:

- a) Cash on hand and gold, which shall be risk-weighted at zero percent (0%);
- b) Checks and other cash items, which shall be risk-weighted at twenty percent (20%); and
- c) Loans to small farmer and fisherfolk engaged in palay and/or food production

projects/activities to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008, which shall be risk weighted at twenty percent (20%): *Provided*, That a separate fund is maintained to guarantee the loans originated by banks: *Provided, further*, That the maximum allowable leveraging ratio of the fund maintained to guarantee bank loans shall be three (3), i.e., the maximum amount of loans guaranteed by the fund is thrice the amount of money in the fund: *Provided, furthermore*, That the fund maintained to guarantee bank loans is invested in assets that are zero percent (0%) risk-weighted under this risk-based capital adequacy framework.

(As amended by Circular Nos. 750 dated 01 March 2012 and 713 dated 14 February 2011)

Accruals on a claim shall be classified and risk-weighted in the same way as the claim. Bills purchased shall be classified and risk-weighted as claims on the drawee bank. The treatments of credit derivatives and securitization exposures are presented separately in Parts V and VI, respectively. Investments in equity or other regulatory capital instruments issued by banks or other financial/non-financial allied/non-allied undertakings will be risk-weighted at 100%, unless deductible from the capital base as required in Part II.

Off-balance sheet items

17. For off-balance sheet items, the risk-weighted amount shall be calculated using a two-step process. First, the credit equivalent amount of an off-balance sheet item shall be determined by multiplying its notional principal amount by the appropriate credit conversion factor, as follows:

a) *100% credit conversion factor* - this shall apply to direct credit substitutes, e.g., general guarantees of indebtedness (including standby letters of credit serving

as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances), and shall include:

i. Guarantees issued other than shipside bonds/airway bills;

ii. Financial standby letters of credit

b) *Fifty percent (50%) credit conversion factor* – this shall apply to certain transaction-related contingent items, e.g., performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions, and shall include:

i. Performance standby letters of credit (net of margin deposit), established as a guarantee that a business transaction will be performed;

This shall also apply to –

i. Note issuance facilities and revolving underwriting facilities; and

ii. Other commitments, e.g., formal standby facilities and credit lines with an original maturity of more than one (1) year, and this shall also include Underwritten Accounts Unsold.

c) *Twenty percent (20%) credit conversion factor* – this shall apply to short term, self-liquidating trade-related contingencies arising from movement of goods, e.g., documentary credits collateralized by the underlying shipments, and shall include:

i. Trade-related guarantees:

- Shipperside bonds/airway bills

- Letters of credit – confirmed

ii. Sight letters of credit outstanding (net of margin deposit);

iii. Usance letters of credit outstanding (net of margin deposit);

iv. Deferred letters of credit (net of margin deposit); and

v. Revolving letters of credit (net of margin deposit) arising from movement of goods and/or services;

This shall also apply to commitments with an original maturity of up to one (1)

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year, and shall include Committed Credit Line for Commercial Paper Issued.

d) *Zero percent (0%) credit conversion factor* – this shall apply to commitments which can be unconditionally cancelled at any time by the bank without prior notice, and shall include Credit Card Lines.

This shall also apply to those not involving credit risk, and shall include:

- i. Late deposits/payments received;
- ii. Inward bills for collection;
- iii. Outward bills for collection;
- iv. Travelers’ checks unsold;
- v. Trust department accounts;
- vi. Items held for safekeeping/custodianship;
- vii. Items held as collaterals;
- viii. Deficiency claims receivable; and
- ix. Others.

18. For derivative contracts, the credit equivalent amount shall be the sum of the current credit exposure (or replacement cost) and an estimate of the potential future credit exposure (or add-on). However, the following shall not be included in the computation:

a) Instruments which are traded in an exchange where they are subject to daily receipt and payment of cash variation margin; and

b) Exchange rate contract with original maturity of fourteen (14) calendar days or less.

19. The current credit exposure shall be the positive mark-to-market value of the contract (or zero if the mark-to-market value is zero or negative). The potential future credit exposure shall be the product of the notional principal amount of the contract multiplied by the appropriate potential future credit conversion factor, as indicated below:

Residual Maturity	Interest Exchange		
	Rate Contract	Rate Contract	Equity Contract
One (1) year or less	0.0%	1.0%	6.0%
Over one (1) year to five (5) years	0.5%	5.0%	8.0%
Over five (5) years	1.5%	7.5%	10.0%

Provided, That:

a) For contracts with multiple exchanges of principal, the factors are to be multiplied by the number of remaining payments in the contract;

b) For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date, and in the case of interest rate contracts with remaining maturities of more than one (1) year that meet these criteria, the potential future credit conversion factor is subject to a floor of one-half percent (1/2%); and

c) No potential future credit exposure shall be calculated for single currency floating/floating interest rate swaps, i.e., the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

20. The credit equivalent amount shall be treated like any on-balance sheet asset, and shall be assigned the appropriate risk weight, i.e., according to the third party credit assessment of the counterparty exposure.

B. Credit risk mitigation (CRM)

21. Banks use a number of techniques to mitigate the credit risks to which they are exposed. For example, exposures may be collateralized by first priority claims, in whole or in part with cash or securities, or a loan exposure may be guaranteed by a third party. Physical collateral, such as real estate, buildings, machineries, and inventories are not recognized at this time for credit risk mitigation purposes in line with Basel II recommendations.

22. In order for banks to obtain capital relief for any use of CRM techniques, all documentation used in collateralized transactions and for documenting guarantees must be binding on all parties and legally enforceable in all relevant

jurisdictions. Banks must have conducted sufficient legal review to verify this and have a well-founded legal basis to reach this conclusion, and undertake such further review as necessary to ensure continuing enforceability.

23. The effects of CRM will not be double counted. Therefore, no additional supervisory recognition of CRM for regulatory capital purposes will be granted on claims for which an issue-specific rating is used that already reflects that CRM. Principal-only ratings will not be allowed within the framework of CRM.

24. While the use of CRM techniques reduces or transfers credit risk, it simultaneously may increase other risks (residual risks). Residual risks include legal, operational, liquidity and market risks. Therefore, it is imperative that banks employ robust procedures and processes to control these risks, including strategy; consideration of the underlying credit; valuation; policies and procedures; systems; control of roll-off risks; and management of concentration risk arising from the bank's use of CRM techniques and its interaction with the bank's overall credit risk profile.

25. The disclosure requirements under Part IX of this document must also be observed for banks to obtain capital relief (i.e., adjustments in the risk weights of collateralized or guaranteed exposures) in respect of any CRM techniques.

Collateralized transactions

26. A collateralized transaction is one in which:

- a) banks have a credit exposure or potential credit exposure; and
- b) that credit exposure or potential credit exposure is hedged in whole or in part by collateral posted by a counterparty¹ or by a third party in behalf of the counterparty.

27. In addition to the general requirement for legal certainty set out in paragraph 22, the legal mechanism by

which collateral is pledged or transferred must ensure that the bank has the right to liquidate or take legal possession of it, in a timely manner, in the event of default, insolvency or bankruptcy (or one or more otherwise defined credit events set out in the transaction documentation) of the counterparty (and, where applicable, of the custodian holding the collateral). Furthermore, banks must take all steps necessary to fulfill those requirements under the law applicable to the bank's interest in the collateral for obtaining and maintaining an enforceable security interest, e.g., by registering it with a registrar, or for exercising a right to net or set off in relation to title transfer collateral.

28. In order for collateral to provide protection, the credit quality of the counterparty and the value of the collateral must not have a material positive correlation. For example, securities issued by the counterparty – or by any related group entity – would provide little protection and so would be ineligible.

29. Banks must have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed, and that collateral can be liquidated promptly.

30. Where the collateral is required to be held by a custodian, the Bangko Sentral will only recognize the collateral for regulatory capital purposes if it is held by BSP-authorized third party custodians.

31. A capital requirement will be applied to a bank on either side of the collateralized transaction: for example, both repos and reverse repos will be subject to capital requirements. Likewise, both sides of a securities lending and borrowing transaction will be subject to explicit capital charges, as will the posting of securities in connection with a derivative exposure or other borrowing.

¹ Counterparty refers to a party to whom a bank has an on- or off-balance sheet credit exposure or a potential credit exposure.

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Banking book

32. Where banks take eligible collateral, as listed in paragraph 34, and satisfies the requirements under paragraphs 27 to 31, they are allowed to apply the risk weight of the collateral to the collateralized portion of the credit exposure (equivalent to the fair market value of recognized collateral), subject to a floor of twenty percent (20%). The twenty percent (20%) floor shall not apply and a zero percent (0%) risk weight can be applied when the exposure and the collateral are denominated in the same currency, and either:

- a) The collateral is cash as defined in paragraph 34.a; or
- b) The collateral is a sovereign debt security eligible for zero percent (0%) risk weight, or a Php-denominated debt obligation issued by the Philippine NG or the Bangko Sentral, which fair market value has been discounted by twenty percent (20%).

33. For collateral to be recognized, however, the collateral must be pledged for at least the life of the exposure and it must be marked to market and revalued with a minimum frequency of every six (6) months.

34. The following are the eligible collateral instruments:

- a) Cash (as well as certificates of deposit or comparable instruments issued by the lending bank) on deposit with the bank which is incurring the counterparty exposure;
- b) Gold;
- c) Debt obligations issued by the Philippine NG or the Bangko Sentral;
- d) Debt securities issued by central governments and central banks (and PSEs treated as sovereigns) of foreign countries as well as MDBs with at least investment grade external credit ratings;
- e) Other debt securities with external credit ratings of at least BBB- or its equivalent;

f) Unrated senior debt securities issued by banks with an issuer rating of at least BBB- or its equivalent, or with other debt issues of the same seniority with a rating of at least BBB- or its equivalent;

g) Equities included in the main index of an organized exchange; and

h) Investments in Unit Investment Trust Funds (UITF) and the Asian Bond Fund 2 (ABF2) duly approved by the Bangko Sentral.

Trading book

35. A credit risk capital requirement should also be applied to banks' counterparty exposures in the trading book (e.g., repo-style transactions, OTC derivatives contracts). Where banks take eligible collateral for these trading book transactions, as listed in paragraph 34, and satisfies the requirements under paragraphs 27 to 31, they are to compute for the credit risk capital requirement according to the following paragraphs: *Provided, That*, for repo-style transactions in the trading book, all instruments which are included in the trading book may be used as eligible collateral.

36. For collateralized transactions in the trading book, the exposure amount after risk mitigation is calculated as follows:

$$E^* = \max \{0, [E \times (1 + H_e) - C \times (1 - H_c - H_{fx})]\}$$

Where:

E* = the exposure value after risk mitigation

E = the current value of the exposure

He = haircut appropriate to the exposure

C = the current value of the collateral received

Hc = haircut appropriate to the collateral

Hfx = haircut appropriate for currency mismatch between the collateral and exposure set at 8% (based on a 10-business day holding period and daily marking to market)

37. The treatment of transactions where there is a maturity mismatch between the maturity of the counterparty exposure and the collateral is given in paragraphs 50 to 54.

38. These are the haircuts to be used (based on a 10-business day holding period, daily marking to market and daily remargining), expressed as percentages:

Issue rating for debt securities ¹	Residual maturity	Haircut	
		Sovereign (and PSEs treated as sovereign) and MDB (with 0% risk weight) issuers	Other Issuers
Php – denominated securities issued by the Philippine NG and Bangko Sentral	< 1 year	0.5	
	> 1 yr. to < 5 yrs.	2	
	> 5 years	4	
AAA to AA-	< 1 year	0.5	1
	> 1 yr. to < 5 yrs.	2	4
	> 5 years	4	8
A+ to BBB-/ Unrated bank debt securities as defined in paragraph 34.f	< 1 year	1	2
	> 1 yr. to < 5 yrs.	3	6
	> 5 years	6	12
Equities included in the main index and gold		15	
UITF and ABF2		Highest haircut applicable to any security in which the fund can invest	
Cash per paragraph 34.a in the same currency		0	
Other financial instruments in the trading book (applies to repostyle transactions in the trading book only)		25	

39. Where the collateral is a basket of assets, the haircut on the basket will be $H = \sum a_i H_i$, where a_i is the weight of the asset in the basket and H_i is the haircut applicable to that asset.

40. For collateralized OTC derivatives transactions in the trading book, the credit

equivalent amount will be computed according to paragraphs 18 to 19, but adjusted by deducting the volatility adjusted collateral amount as computed according to paragraphs 36 to 39.

41. The exposure amount after risk mitigation will be multiplied by the risk weight of the counterparty to obtain the riskweighted asset amount for the collateralized transaction.

Guarantees

42. Where guarantees are direct, explicit, irrevocable and unconditional, banks may be allowed to take account of such credit protection in calculating capital requirements.

43. A guarantee must represent a direct claim on the protection provider and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible. Other than non-payment by a protection purchaser of money due in respect of the credit protection contract, the guarantee must be irrevocable; there must be no clause in the contract that would allow the protection provider unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. It must also be unconditional; there should be no clause in the protection contract outside the direct control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.

44. In addition to the legal certainty requirement in paragraph 22, in order for a guarantee to be recognized, the following conditions must be satisfied:

- a) On the qualifying default/non-payment of the counterparty, the bank may

¹ The notations follow the rating symbols used by Standard & Poor's. The mapping of ratings of all recognized external rating agencies is in Part IV.C

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in a timely manner pursue the guarantor for any monies outstanding under the documentation governing the transaction. The guarantor may make one lump sum payment of all monies under such documentation to the bank, or the guarantor may assume the future payment obligations of the counterparty covered by the guarantee. The bank must have the right to receive any such payments from the guarantor without first having to take legal actions in order to pursue the counterparty for payment;

b) The guarantee is an explicitly documented obligation assumed by the guarantor; and

c) The guarantee must cover all types of payments the underlying obligor is expected to make under the documentation governing the transaction, for example, notional amount, margin payments, etc. Where a guarantee covers payment of principal only, interests and other uncovered payments should be treated as an unsecured amount.

45. Where the bank’s exposure is guaranteed by an eligible guarantor, as listed in paragraph 47, and satisfies the requirements under paragraphs 42 to 44, the bank is allowed to apply the risk weight of the guarantor to the guaranteed portion of the credit exposure.

46. The treatment of transactions where there is a mismatch between the maturity of the counterparty exposure and the guarantee is given in paragraphs 50 to 54.

47. The following are the eligible guarantors:

- a) Philippine NG and the Bangko Sentral;
- b) Central governments and central banks and PSEs of foreign countries as well as MDBs with a lower risk weight than the counterparty;
- c) Banks with a lower risk weight than the counterparty;
- d) Other entities with external credit assessment of at least A- or its equivalent; and

e) The Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008.

(As amended by Circular No. 713 dated 14 February 2011)

48. Where a bank provides a credit protection to another bank in the form of a guarantee that a third party will perform on its obligations, the risk to the guarantor bank is the same as if the bank had entered into the transaction as a principal. In such circumstances, the guarantor bank will be required to calculate capital requirement on the guaranteed amount according to the risk weight corresponding to the third party exposure. In this instance, and provided the credit protection is deemed to be legally effective, the credit risk is considered transferred to the bank providing credit protection. However, the bank receiving credit protection on its exposure to a third party shall recognize a corresponding risk-weighted credit exposure to the bank providing credit protection.

49. An exposure that is covered by a guarantee that is counter-guaranteed by the Philippine NG or Bangko Sentral, may be considered as covered by the guarantee of the Philippine NG or Bangko Sentral: *Provided, That:*

- a) the counter-guarantee covers all credit risk element of the exposure;
- b) both the original guarantee and the counter-guarantee meet all operational requirements for guarantees, except that the counter guarantee need not be direct and explicit to the original exposure; and
- c) the cover is robust and that no historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct guarantee of the Philippine NG and Bangko Sentral.

Currently, Php-denominated exposures to the extent guaranteed by Industrial Guarantee and Loan Fund (IGLF), Home Guaranty Corporation (HGC)¹⁾, and Trade and Investment Development Corporation

¹⁾ Housing microfinance loans under Sec. X361.5 to the extent guaranteed by the HGC, shall be subject to a zero percent (0%) risk weight.

of the Philippines (TIDCORP), which guarantees are counter-guaranteed by the Philippine NG receive zero percent (0%) risk weight.
(As amended by M-2008-015 dated 19 March 2008)

Maturity mismatch

50. For collateralized transactions in the trading book and guaranteed transactions, the credit risk mitigating effects of such transactions will still be recognized even if a maturity mismatch occurs between the hedge and the underlying exposure, subject to appropriate adjustments.

51. For purposes of calculating risk-weighted assets, a maturity mismatch occurs when the residual maturity of a hedge is less than that of the underlying exposure.

52. The maturity of the hedge and the maturity of the underlying exposure should both be defined conservatively. For the hedge, embedded options which may reduce the term of the hedge should be taken into account so that the shortest possible effective maturity is used. Where a call is at the discretion of the guarantor/protection seller, the maturity will always be at the first call date. If the call is at the discretion of the protection buying bank but the terms of the arrangement at origination of the hedge contain a positive incentive for the bank to call the transaction before contractual maturity, the remaining time to the first call date will be deemed to be the effective maturity. For example, where there is a step-up in cost in conjunction with a call feature or where the effective cost of cover increases over time even if credit quality remains the same or increases, the effective maturity will be the remaining time to the first call. The effective maturity of the underlying, on the other hand, should be gauged as the longest remaining time before the counterparty is scheduled to fulfill its obligation, taking into account any

applicable grace period.

53. Hedges with maturity mismatches are only recognized when their original maturities are greater than or equal to one year. As a result, the maturity of hedges for exposures with original maturities of less than one (1) year must be matched to be recognized. In all cases, hedges will no longer be recognized when they have a residual maturity of three months or less.

54. When there is a maturity mismatch with recognized credit risk mitigants, the following adjustment will be applied.

$$Pa = P \times (t - 0.25) / (T - 0.25)$$

Where:

- Pa = value of the credit protection adjusted for maturity mismatch
- P = credit protection (e.g., collateral amount, guarantee amount) adjusted for any haircuts
- t = min (T, residual maturity of the credit protection arrangement) expressed in years
- T = min (5, residual maturity of the exposure) expressed in years

C. Use of third party credit assessments

55. The following third party credit assessment agencies are recognized by the Bangko Sentral for regulatory capital purposes:

International credit assessment agencies:

- a) Standard & Poor’s;
- b) Moody’s;
- c) Fitch Ratings; and
- d) Such other rating agencies as may be approved by the Monetary Board.

Domestic credit assessment agencies:

- a) PhilRatings; and
- b) Such other rating agencies as may be approved by the Monetary Board.

56. The tables below set out the mapping of ratings given by the recognized credit assessment agencies for purposes of determining the appropriate risk weights: exclusively for use in the 57.

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Agency	INTERNATIONAL RATINGS						
S&P	AAA	AA +	AA	AA-	A +	A	A-
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3
Fitch	AAA	AA +	AA	AA-	A +	A	A-

Agency	DOMESTIC RATINGS						
PhilRatings	AAA	Aa +	Aa	Aa-	A +	A	A-

Agency	INTERNATIONAL RATINGS						
S&P	BBB +	BBB	BBB-	BB +	BB	BB-	B +
Moody's	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1
Fitch	BBB +	BBB	BBB-	BB +	BB	BB-	B +

Agency	DOMESTIC RATINGS						
PhilRatings	Baa +	Baa	Baa-	Ba +	Ba	Ba-	B +

Agency	INTERNATIONAL RATINGS		
S&P	B	B-	
Moody's	B2	B3	
Fitch	B	B-	

Agency	DOMESTIC RATINGS		
PhilRatings	B	B-	

57. The Bangko Sentral will issue the mapping of ratings of other rating agencies as soon as it is recognized by the Bangko Sentral for regulatory capital purposes.

National rating systems

58. With prior Bangko Sentral approval, international credit rating agencies may have national rating systems developed exclusively for use in the Philippines using the Philippines using the Philippine sovereign as reference highest credit quality anchor.

Multiple assessments

59. If an exposure has only one rating by any of the Bangko Sentral recognized credit assessment agencies, that rating shall be used to determine the risk weight of the exposure; in cases where there are two or more ratings which map into different risk

weights, the higher of the two lowest risk weights should be used.

Issuer versus issue assessments

60. Any reference to credit rating shall refer to issue-specific rating; the issuer rating may be used only if the exposure being risk-weighted is:

- a) an unsecured senior obligation of the issuer and is of the same denomination applicable to the issuer rating (e.g., local currency issuer rating may be used for risk weighting local currency denominated senior claims);
- b) short-term; and
- c) in cases of guarantees.

61. For loans, risk weighting shall depend on either the rating of the borrower or the rating of the unsecured senior obligation of the borrower: *Provided*, That

in case of the latter, the loan is of the same currency denomination as the unsecured senior obligation.

Domestic versus international debt issuances

62. Domestic debt issuances may be rated by Bangko Sentral-recognized domestic credit assessment agencies or by international credit assessment agencies which have developed a national rating system acceptable to the Bangko Sentral. Internationally-issued debt obligations shall be rated by Bangko Sentral-recognized international credit assessment agencies only.

Level of application of the assessment

63. External credit assessments for one entity within a corporate group cannot be used to proxy for the credit assessment of other entities within the same group. Such other entities should secure their own ratings.

Part V. Credit Derivatives

1. This Part sets out the capital treatment for credit derivatives. Banks may use credit derivatives to mitigate its credit risks or to acquire credit risks. For credit derivatives that are used as credit risk mitigants (CRM), the general requirements for the use of CRM techniques in paragraphs 21 to 25, Part IV.B, have to be satisfied, in addition to the specific operational requirements for credit derivatives in paragraphs 8 to 14.

2. The contents of this Part are just the general rules to be followed in computing capital requirements for credit derivatives. A bank, therefore, is expected to consult the BSP-SES when there is uncertainty about the computation of capital requirements, or even about whether a given transaction should be treated under the credit

derivatives framework.

A. Definitions and general terminology

3. *Credit derivative* – a contract wherein one party called the *protection buyer* or *credit risk seller* transfers the credit risk of a reference asset or assets issued by a reference entity or entities, which it may or may not own, to another party called the *protection seller* or *credit risk buyer*. In return, the protection buyer pays a premium or interest-related payments to the protection seller reflecting the underlying credit risk of the reference asset/s. Credit derivatives may refer to credit default swaps (CDS), total return swaps (TRS), and credit-linked notes (CLN) and similar products.

4. *Credit default swap* – a credit derivative wherein the protection buyer may exchange the reference asset or any deliverable obligation of the reference entity for cash equal to a specified amount, or get compensated to the extent of the difference between the par value and market value of the asset upon the occurrence of a defined credit event.

5. *Total return swap* – a credit derivative wherein the protection buyer exchanges the actual collections and variations in the prices of the reference asset with the protection seller in return for a fixed premium.

6. *Credit-linked note* – a pre-funded credit derivative wherein the note holder acts as a protection seller while the note issuer is the protection buyer. As such, the repayment of the principal to the note holder is contingent upon the non-occurrence of a defined credit event. All references to CLNs shall be taken to generically include similar instruments, such as credit-linked deposits (CLDs).

7. *Special purpose vehicle* – refers to an entity specifically established to issue CLNs of a single, homogeneous risk class that are fully collateralized as to principal by eligible collateral instruments listed in paragraph

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34, Part IV.B, and which are purchased out of the proceeds of the note issuance.

B. Operational requirements for credit derivatives

8. A credit derivative must represent a direct claim on the protection seller and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible. Other than non-payment by a protection buyer of money due in respect of the credit derivative contract, it must be irrevocable; there must be no clause in the contract that would allow the protection seller unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. It must also be unconditional; there should be no clause in the credit derivative contract outside the direct control of the protection buyer that could prevent the protection seller from being obliged to pay out in a timely manner in the event of a defined credit event.

9. The credit events specified by the contracting parties must at a minimum cover:

- a) failure to pay the amounts due under terms of the underlying obligation that are in effect at the time of such failure (with a grace period that is closely in line with the grace period in the underlying obligation);
- b) bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events; and
- c) restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that results in a credit loss event (i.e., charge-off, specific provision or other similar debit to the profit and loss account).

10. The credit derivative shall not terminate prior to expiration of any grace period required for a default on the underlying obligation to occur as a result of a failure to pay, subject to the provisions of paragraph 52 of Part IV.B.

11. Credit derivatives allowing for cash settlement are recognized for capital purposes insofar as a robust valuation process is in place in order to estimate loss reliably. There must be a clearly specified period for obtaining post-credit event valuations of the underlying obligation.

12. If the protection buyer's right or ability to transfer the underlying obligation to the protection seller is required for settlement, the terms of the underlying obligation must provide that any required consent to such transfer may not be unreasonably withheld.

13. The identity of the parties responsible for determining whether a credit event has occurred must be clearly defined. This determination must not be the sole responsibility of the protection seller. The bank as protection buyer must have the right/ability to inform the protection seller of the occurrence of a credit event.

14. Asset mismatches (underlying obligation is different from the obligation used for purposes of determining cash settlement or the deliverable obligation, or from the obligation used for purposes of determining whether a credit event has occurred) are permissible if:

- a) the obligation used for purposes of determining cash settlement or the deliverable obligation, or the obligation used for purposes of determining whether a credit event has occurred ranks *pari passu* with or is junior to the underlying obligation; and
- b) both obligations share the same obligor (i.e., the same legal entity) and legally enforceable cross-default or cross-

acceleration clauses are in place.

C. Capital treatment for protection buyers

15. A bank that enters into a credit derivative transaction as a protection buyer in order to hedge an existing exposure in the banking book may only get capital relief if all the general requirements for the use of CRM techniques in paragraphs 21 to 25, Part IV.B and the conditions in paragraphs 8 to 14 are satisfied. In addition, only the eligible guarantors listed in paragraph 47, Part IV.B are considered as eligible protection sellers.

16. If all of the conditions in paragraph 15 are satisfied, banks that are protection buyers may apply the risk weight of the protection seller to the protected portion of the exposure being hedged. The risk weight of the protection seller should therefore be lower than the risk weight of the exposure being hedged for capital relief to be recognized. Exposures that are protected through the issuance of CLNs will be treated as transactions collateralized by cash and a zero percent (0%) risk weight is applied to the protected portion. The uncovered portion shall retain the risk weight of the bank's underlying counterparty.

17. The protected portion of an exposure is measured as follows:

- a) The fixed amount, if such is to be paid upon the occurrence of a credit event; or
- b) The notional value of the contract if either (1) par is to be paid in exchange for physical delivery of the reference asset, or (2) par less market value of the asset is to be paid upon the occurrence of a credit event.

18. A bank may obtain credit protection for a basket of reference entities where the contract terminates and pays out on the first entity to default. In this case, the bank may substitute the risk weight of the protection seller for the risk weight of the asset within

the basket with the lowest risk-weighted amount, but only if the notional amount is less than or equal to the notional amount of the credit derivative.

19. Where the contract terminates and pays out on the n^{th} (other than the first) entity to default, the bank will only be able to recognize any reductions in the risk weight of the underlying asset if $(n-1)^{\text{th}}$ default-protection has also been obtained or when $n-1$ of the assets within the basket has already defaulted.

20. Where the contract is referenced to entities in the basket proportionately, reductions in the risk weight will only apply to the extent of the underlying asset's share of protection in the contract.

21. When a bank conducts an internal hedge using a credit derivative (i.e., hedging the credit risk of an exposure in the banking book with a credit derivative booked in the trading book), in order for the bank to receive any reduction in the capital requirement for the exposure in the banking book, the credit risk in the trading book must be transferred to an outside third party (i.e., an eligible protection seller).

22. Where a bank buys credit protection through a TRS and records the net payments received on the swap as net income, but does not record offsetting deterioration in the value of the asset that is protected (either through reductions in fair value or by an addition to reserves), the credit protection will not be recognized.

23. Materiality thresholds on payments below which no payment is made in the event of loss are equivalent to retained first loss positions and must be deducted in full from the capital of the bank buying the credit protection.

24. Where the credit protection is denominated in a currency different from that in which the exposure is denominated – i.e., there is a currency mismatch – the

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protected portion of the exposure will be reduced by the application of a haircut, as follows:

$$Ga = G \times (1 - H_{fx})$$

Where:

Ga = adjusted protected portion of the exposure

G = protected portion of the exposure prior to haircut

H_{fx} = haircut appropriate for currency mismatch between the credit protection and underlying obligation set at eight percent (8%) (based on a 10-business day holding period and daily marking to market)

25. Where a maturity mismatch occurs between the credit protection and the underlying exposure, the protected portion of the exposure adjusted for maturity mismatch will be computed according to paragraph 50 to 54, Part IV.B.

D. Capital treatment for protection sellers

26. Where a bank is a protection seller in a CDS or TRS transaction, it must calculate a capital requirement on the reference asset as if it were a direct investor in the reference asset. The risk weight of the reference asset is multiplied by the nominal amount of the protection provided by the credit derivative to obtain the risk-weighted exposure.

27. For a bank holding a CLN, credit exposure is acquired on two fronts. As such, the on-balance sheet exposure arising from the note should be weighted by adding the risk weights of the reference entity and the risk weight of the note issuer. The amount of exposure is the carrying amount of the note. If the CLN principal is fully collateralized by an eligible collateral listed in paragraph 34, Part IV.B, and which satisfies the requirements in paragraphs 27 to 31, Part IV.B, the risk weight of the note issuer is substituted with the risk weight associated with the relevant collateral.

28. When the credit derivative is referenced to a basket of reference entities and the contract terminates and pays out on the first entity to default in the basket, capital should be held to consider the cumulative risk of all the reference entities in the basket. This means that the risk weights of all the reference entities are added up and multiplied by the amount of the protection provided by the credit derivative to obtain the risk-weighted exposure to the basket. However, the risk-weighted exposure is capped at ten (10) times the protection provided under the contract. Accordingly, the maximum capital charge is 100% of the protection provided under the contract. The multiplier ten (10) is the reciprocal of the BSP-required minimum CAR of ten percent (10%). For CLNs, the risk weight of the issuer is likewise included in the summing of the risk weights.

29. When the contract terminates and pays out on the nth (other than the first) entity to default, the treatment above shall apply except that in aggregating the risk weights of the reference entities, the risk weight/s of the n-1 lowest risk-weighted entity/ies is/are excluded from the computation. For CLNs, the risk weight of the issuer is likewise included in the summing of the risk weights.

30. When a first or an nth-to-default credit derivative has an external credit rating acceptable to the Bangko Sentral, the risk weight in paragraph 21, Part VI.F will be applied.

31. A contract that is referenced to entities in the basket proportionately should be risk-weighted according to each reference entity's share of protection under the contract.

E. Credit derivatives in the trading book

32. The following describes the positions to be reported for credit derivative transactions for purposes of calculating

specific risk and general market risk charges under the standardized approach.

33. A CDS creates a notional position in the specific risk of the reference obligation. A TRS creates notional positions on the specific and general market risks of the reference obligation, and an opposite notional position on a zero coupon government security representing the fixed payments or premium under the TRS. A CLN creates a notional position in the specific risk of the reference obligation, a position on the specific risk associated with the issuer, and a position on the general market risk of the note.

Specific risk

34. The specific risk position/s on the reference obligation/s created by credit derivatives are reported as short positions by protection buyers and long positions by protection sellers. In addition, holders of CLNs should report a long position on the specific risk of the note issuer.

35. The protection buyer in a first-to-default transaction should report a short position in the reference obligation with the lowest specific risk charge. A protection buyer in an nth (other than the first)-to-default transaction shall only be allowed to report a short position in a reference obligation only if n-1 obligations in the reference basket has/have already defaulted.

36. When a credit derivative is referenced to multiple entities and the contract terminates and pays out on the first obligation to default in the basket, the transaction should be reported by the protection seller as long positions in each of the reference obligations in the basket. A CLN should likewise be reported as a long position on the note issuer. The total capital charge is capped at the notional amount of the derivative or, in the case of a CLN, the carrying amount of the note.

37. When the contract terminates and

pays out on the nth (other than the first) entity to default in the basket, the treatment above shall apply except that the protection seller may exclude the long position/s on n-1 reference obligations with the lowest risk-weighted exposures in its report. A CLN should likewise be reported as a long position on the note issuer. The total capital charge is capped at the notional amount of the derivative or, in the case of a CLN, the carrying amount of the note.

38. When an nth-to-default credit derivative has an external credit rating acceptable to the Bangko Sentral, the specific risk weights in Part VII.B will be applied.

39. When the contract is referenced to multiple obligations under a proportionate structure, positions in the reference obligations should be reported according to their respective proportions in the contract.

General market risk

40. A protection buyer/seller in a TRS should report a short/long notional position on the reference obligation and a long/short notional position on a zero coupon government security representing the fixed payment under the contract.

41. A protection buyer/seller in a CLN should report a short/long position on the note.

Counterparty credit risk

42. CDS and TRS transactions in the trading book attract counterparty credit risk charges. A five percent (5%) add-on factor for the computation of the potential future credit exposure shall be used by both protection buyers and protection sellers if the reference obligation has an external credit rating of at least BBB- or its equivalent. A ten percent (10%) add-on factor applies to all other reference obligations. However, a protection seller in a CDS shall only be subject to the add-on factor if it is subject to closeout upon the insolvency of the

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protection buyer while the underlying is still solvent. The add-on in this case should be capped to the amount of unpaid premiums.

43. Where the credit derivative is a first to default transaction, the add-on will be determined by the lowest credit quality underlying in the basket, i.e., if there are any non-investment grade or unrated items in the basket, the ten percent (10%) add-on should be used. For second and subsequent to default transactions, underlying assets should continue to be allocated according to the credit quality, i.e., the second lowest credit quality will determine the add-on for a second to default transaction, etc.

44. Where the credit derivative is referenced proportionately to multiple obligations, the add-on factor will follow the add-on factor applicable for the obligation with the biggest share. If the protection is equally proportioned, the highest add-on factor should be used.

Part VI. Securitization

1. Banks must apply the securitization framework for determining regulatory capital requirements on their securitization exposures. Securitization exposures can include but are not restricted to the following: asset-backed securities, mortgage-backed securities, credit enhancements, liquidity facilities, interest rate or currency swaps, and credit derivatives. Underlying instruments in the pool being securitized may include but are not restricted to the following: loans, commitments, asset-backed and mortgage-backed securities, corporate bonds, equity securities, and private equity investments.

2. Since securitizations may be structured in many different ways, the capital treatment of a securitization exposure must be determined on the basis of its economic substance rather than its legal form. The

contents of this Part are just the general rules to be followed in computing capital requirements for securitization exposures. A bank should therefore consult the BSP-SES when there is uncertainty about the computation of capital requirements, or even about whether a given transaction should be considered a securitization.

A. Definitions and general terminology

3. *Traditional securitization* – a structure where the cash flow from an underlying pool of exposures is used to service at least two (2) different stratified risk positions or tranches reflecting different degrees of credit risk. Payments to the investors depend upon the performance of the specified underlying exposures, as opposed to being derived from an obligation of the entity originating those exposures. The stratified/tranched structures that characterize securitizations differ from ordinary senior/subordinated debt instruments in that junior securitization tranches can absorb losses without interrupting contractual payments to more senior tranches, whereas subordination in a senior/subordinated debt structure is a matter of priority of rights to the proceeds of liquidation.

4. *Synthetic securitization* – a structure with at least two (2) different stratified risk positions or tranches that reflect different degrees of credit risk where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of funded (e.g., credit-linked notes) or unfunded (e.g., credit default swaps) credit derivatives or guarantees that serve to hedge the credit risk of the portfolio. Accordingly, the investors’ potential risk is dependent upon the performance of the underlying pool.

5. *Originating bank* – a bank that originates directly or indirectly underlying exposures included in the securitization.

6. *Clean-up call* – an option that permits the securitization exposures to be called before all of the underlying exposures or securitization exposures have been repaid. In the case of traditional securitizations, this is generally accomplished by repurchasing the remaining securitization exposures once the pool balance or outstanding securities have fallen below some specified level. In the case of a synthetic transaction, the cleanup call may take the form of a clause that extinguishes the credit protection.

7. *Credit enhancement* – a contractual arrangement in which the bank retains or assumes a securitization exposure and, in substance, provides some degree of added protection to other parties to the transaction.

8. *Early amortization provisions* – mechanisms that, once triggered, allow investors to be paid out prior to the originally stated maturity of the securities issued. For risk-based capital purposes, an early amortization provision will be considered either controlled or non-controlled.

A controlled early amortization provision must meet all of the following conditions:

a) The bank must have an appropriate capital/liquidity plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortization;

b) Throughout the duration of the transaction, including the amortization period, there is the same pro rata sharing of interest, principal, expenses, losses and recoveries based on the bank's and investors' relative shares of the receivables outstanding at the beginning of each month;

c) The bank must set a period for amortization that would be sufficient for at least ninety percent (90%) of the total debt outstanding at the beginning of the early amortization period to have been repaid or recognized as in default; and

d) The pace of repayment should not be any more rapid than would be allowed by straight-line amortization over the period set out in criterion (c).

An early amortization provision that does not satisfy the conditions for a controlled early amortization provision will be treated as non-controlled early amortization provision.

9. *Eligible liquidity facilities* – an off-balance sheet securitization exposure shall be treated as an eligible liquidity facility if the following minimum requirements are satisfied:

a) The facility documentation must clearly identify and limit the circumstances under which it may be drawn. Draws under the facility must be limited to the amount that is likely to be repaid fully from the liquidation of the underlying exposures and any seller-provided credit enhancements. In addition, the facility must not cover any losses incurred in the underlying pool of exposures prior to a draw, or be structured such that draw-down is certain (as indicated by regular or continuous draws);

b) The facility must be subject to an asset quality test that precludes it from being drawn to cover credit risk exposures that are considered non-performing under existing Bangko Sentral regulations. In addition, liquidity facilities should only fund exposures that are externally rated investment grade at the time of funding;

c) The facility cannot be drawn after all applicable (e.g., transaction-specific and program-wide) credit enhancements from which the liquidity would benefit have been exhausted; and

d) Repayment of draws on the facility (i.e., assets acquired under a purchase agreement or loans made under a lending agreement) must not be subordinated to any interests of any note holder in the program or subject to deferral or waiver.

10. *Eligible servicer cash advance*

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facilities – cash advance that may be provided by servicers to ensure an uninterrupted flow of payments to investors. The servicer should be entitled to full reimbursement and this right is senior to other claims on cash flows from the underlying pool of exposures.

11. *Excess spread* – generally defined as gross finance charge collections and other income received by the trust or special purpose entity (SPE, specified in paragraph 13) minus certificate interest, servicing fees, charge-offs, and other senior trust or SPE expenses.

12. *Implicit support* – arises when a bank provides support to a securitization in excess of its predetermined contractual obligation.

13. *Special purpose entity* – a corporation, trust, or other entity organized for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE, and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures. SPEs are commonly used as financing vehicles in which exposures are sold to a trust or similar entity in exchange for cash or other assets funded by debt issued by the trust.

B. Operational requirements for the recognition of risk transference in traditional securitizations

14. An originating bank may exclude securitized exposures from the calculation of risk-weighted assets only if all of the following conditions have been met. Banks meeting these conditions, however, must still hold regulatory capital against any securitization exposures they retain.

a) Significant credit risk associated with the securitized exposures has been transferred to third parties.

b) The transferor does not maintain

effective or indirect control over the transferred exposures. The assets are legally isolated from the transferor in such a way (e.g., through the sale of assets or through subparticipation) that the exposures are put beyond the reach of the transferor and its creditors, even in bankruptcy or receivership. These conditions must be supported by an opinion provided by a qualified legal counsel.

The transferor is deemed to have maintained effective control over the transferred credit risk exposures if it:

i. is able to repurchase from the transferee the previously transferred exposures in order to realize their benefits; or

ii. is obligated to retain the risk of the transferred exposures.

The transferor's retention of servicing rights to the exposures will not necessarily constitute indirect control of the exposures.

c) The securities issued are not obligations of the transferor. Thus, investors who purchase the securities only have claim to the underlying pool of exposures.

d) The transferee is an SPE and the holders of the beneficial interests in that entity have the right to pledge or exchange them without restriction.

e) Clean-up calls must satisfy the conditions set out in paragraph 17.

f) The securitization does not contain clauses that (i) require the originating bank to alter systematically the underlying exposures such that the pool's weighted average credit quality is improved unless this is achieved by selling assets to independent and unaffiliated third parties at market prices; (ii) allow for increases in a retained first loss position or credit enhancement provided by the originating bank after the transaction's inception; or (iii) increase the yield payable to parties other

than the originating bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the underlying pool.

C. Operational requirements for the recognition of risk transference in synthetic securitizations

15. For synthetic securitizations, the use of CRM techniques (i.e., collateral, guarantees and credit derivatives) for hedging the underlying exposure may be recognized for risk-based capital purposes only if the conditions outlined below are satisfied:

- a) Credit risk mitigants must comply with the requirements as set out in Part IV.B and Part V of this Framework.
- b) Eligible collateral is limited to that specified in paragraph 34, Part IV.B. Eligible collateral pledged by SPEs may be recognized.
- c) Eligible guarantors are defined in paragraph 47, Part IV.B. SPEs are not recognized as eligible guarantors in the securitization framework.
- d) Banks must transfer significant credit risk associated with the underlying exposure to third parties.
- e) The instruments used to transfer credit risk must not contain terms or conditions that limit the amount of credit risk transferred, such as those provided below:
 - i. Clauses that materially limit the credit protection or credit risk transference (e.g., significant materiality thresholds below which credit protection is deemed not to be triggered even if a credit event occurs or those that allow for the termination of the protection due to deterioration in the credit quality of the underlying exposures);
 - ii. Clauses that require the originating bank to alter the underlying exposures to improve the pool's weighted average credit

- quality;
- iii. Clauses that increase the banks' cost of credit protection in response to deterioration in the pool's quality;
- iv. Clauses that increase the yield payable to parties other than the originating bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the reference pool; and
- v. Clauses that provide for increases in a retained first loss position or credit enhancement provided by the originating bank after the transaction's inception.
- f) An opinion must be obtained from a qualified legal counsel that confirms the enforceability of the contracts in all relevant jurisdictions.
- g) Clean-up calls must satisfy the conditions set out in paragraph 17.

16. For synthetic securitizations, the effect of applying CRM techniques for hedging the underlying exposure are treated according to Part IV.B and Part V of this Framework. In case there is a maturity mismatch, the capital requirement will be determined in accordance with paragraphs 50 to 54, Part IV.B. When the exposures in the underlying pool have different maturities, the longest maturity must be taken as the maturity of the pool. Maturity mismatches may arise in the context of synthetic securitizations when, for example, a bank uses credit derivatives to transfer part or all of the credit risk of a specific pool of assets to third parties. When the credit derivatives unwind, the transaction will terminate. This implies that the effective maturity of the tranches of the synthetic securitization may differ from that of the underlying exposures. Originating banks of synthetic securitizations with such maturity mismatches must deduct all retained positions that are unrated or rated below

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investment grade. Accordingly, when deduction is required, maturity mismatches are not taken into account. For all other securitization exposures, the bank must apply the maturity mismatch treatment set forth in paragraphs 50 to 54, Part IV.B.

D. Operational requirements and treatment of clean-up calls

17. For securitization transactions that include a clean-up call, no capital will be required due to the presence of a clean-up call if the following conditions are met: (i) the exercise of the clean-up call must not be mandatory, in form or in substance, but rather must be at the discretion of the originating bank; (ii) the clean-up call must not be structured to avoid allocating losses to credit enhancements or positions held by investors or otherwise structured to provide credit enhancement; and (iii) the clean-up call must only be exercisable when ten percent (10%) or less of the original underlying portfolio, or securities issued remain, or, for synthetic securitizations, when ten percent (10%) or less of the original reference portfolio value remains.

18. Securitization transactions that include a clean-up call that does not meet all of the criteria stated in paragraph 17 result in a capital requirement for the originating bank. For a traditional securitization, the underlying exposures must be treated as if they were not securitized. Additionally, banks must not recognize in regulatory capital any gain-on-sale, as defined in paragraph 23. For synthetic securitization, the bank purchasing protection must hold capital against the entire amount of the securitized exposures as if they did not benefit from any credit protection. Same treatment applies for synthetic securitization that incorporates a call, other than a cleanup call, that effectively terminates the transaction and the purchased credit protection on a specified date.

19. If a clean-up call, when exercised,

is found to serve as a credit enhancement, the exercise of the clean-up call must be considered a form of implicit support provided by the bank and must be treated in accordance with paragraph 26.

E. Operational requirements for use of external credit assessments

20. The following operational criteria concerning the use of external credit assessments apply in the securitization framework:

a) To be eligible for risk-weighting purposes, the external credit assessment must take into account and reflect the entire amount of credit risk exposure the bank has with regard to all payments owed to it. For example, if a bank is owed both principal and interest, the assessment must fully take into account and reflect the credit risk associated with timely repayment of both principal and interest.

b) The external credit assessments must be from an eligible External Credit Assessment Institution (ECAI) as recognized by the bank’s national supervisor in accordance with Part IV.C. An eligible credit assessment must be publicly available. In other words, a rating must be published in an accessible form and included in the ECAI’s transition matrix. Consequently, ratings that are made available only to the parties to a transaction do not satisfy this requirement.

c) Eligible ECAIs must have a demonstrated expertise in assessing securitizations, which may be evidenced by strong market acceptance.

d) A bank must apply external credit assessments from eligible ECAIs consistently across a given type of securitization exposure. Furthermore, a bank cannot use the credit assessments issued by one ECAI for one or more tranches and those of another ECAI for other positions (whether retained or purchased) within the same securitization structure that may or may not

be rated by the first ECAI. Where two or more eligible ECAIs can be used and these assess the credit risk of the same securitization exposure differently, paragraph 59 of Part IV.C will apply.

e) Where CRM is provided directly to an SPE by an eligible guarantor defined in paragraph 47 of Part IV.B and is reflected in the external credit assessment assigned to a securitization exposure(s), the risk weight associated with that external credit assessment should be used. In order to avoid any double counting, no additional capital recognition is permitted. If the CRM provider is not an eligible guarantor, the covered securitization exposures should be treated as unrated.

f) In the situation where a credit risk mitigant is not obtained by the SPE but rather applied to a specific securitization exposure within a given structure (e.g., ABS tranche), the bank must treat the exposure as if it is unrated and then use the CRM treatment outlined in Part IV.B to recognize the hedge.

F. Risk-weighting

21. The risk-weighted asset amount of a securitization exposure is computed by multiplying the amount of the position by the appropriate risk weight determined in accordance with the following table. For off-balance sheet exposures, banks must apply a credit conversion factor (CCF) and then risk weight the resultant credit equivalent amount.

Credit assessment ¹	AAA to AA-	A+ to A-	BBB+ to BBB-	Below BBB- and unrated
Risk weight	20%	50%	100%	Deduction from Tier 1 capital

22. The capital treatment of implicit support, liquidity facilities, securitizations

of revolving exposures, and credit risk mitigants are identified separately.

23. Banks must deduct from CET 1 capital any increase in equity capital resulting from a securitization transaction, such as that associated with expected future margin income resulting in a gain-on-sale that is recognized in regulatory capital. Such an increase in capital is referred to as a “gain-on-sale” for the purposes of the securitization framework.

24. Credit enhancing IOs (interest only), net of the amount that must be deducted from CET 1 as in paragraph 23.

25. Deductions from capital may be calculated net of any specific provisions taken against the relevant securitization exposures.

26. When a bank provides implicit support to a securitization, it must, at a minimum, hold capital against all of the exposures associated with the securitization transaction as if they had not been securitized. Additionally, banks would not be permitted to recognize in regulatory capital any gain-on-sale, as defined in paragraph 23. Furthermore, the bank is required to disclose publicly that (a) it has provided non-contractual support and (b) the capital impact of doing so.

27. As a general rule, off-balance sheet securitization exposures will receive a CCF of 100%, except in the cases below.

28. A CCF of twenty percent (20%) and fifty percent (50%) will be applied to eligible liquidity facilities as defined in paragraph 9 above with original maturity of one year or less and more than one year, respectively. However, if an external rating of the facility itself is used for risk weighting the facility, a 100% CCF must be applied. A zero percent (0%) CCF may be applied to eligible liquidity

¹ The notations follow the rating symbols used by Standard & Poor’s. The mapping of ratings of all recognized external rating agencies is in Part IV.C

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facilities that are only available in the event of a general market disruption (i.e., whereupon more than one SPE across different transactions are unable to roll over maturing commercial paper, and that inability is not the result of an impairment in the SPE’s credit quality or in the credit quality of the underlying exposures). To qualify for this treatment, the conditions provided in paragraph 9 must be satisfied. Additionally, the funds advanced by the bank to pay holders of the capital market instruments (e.g., commercial paper) when there is a general market disruption must be secured by the underlying assets, and must rank at least *pari passu* with the claims of holders of the capital market instruments.

29. A CCF of zero percent (0%) will be applied to undrawn amount of eligible servicer cash advance facilities, as defined in paragraph 10 above, that are unconditionally cancellable without prior notice.

30. An originating bank is required to hold capital against the investors’ interest (i.e., against both the drawn and undrawn balances related to the securitized exposures) when:

- a) It sells exposures into a structure that contains an early amortization feature; and
- b) The exposures sold are of a revolving nature. These involve exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g., credit card receivables and corporate loan commitments).

31. Originating banks, though, are not required to calculate a capital requirement for early amortizations in the following situations:

- a) Replenishment structures where the underlying exposures do not revolve and the early amortization ends the ability of the bank to add new exposures;

- b) Transactions of revolving assets containing early amortization features that mimic term structures (i.e., where the risk of the underlying facilities does not return to the originating bank);

- c) Structures where a bank securitizes one or more credit line(s) and where investors remain fully exposed to future draws by borrowers even after an early amortization event has occurred; and

- d) The early amortization clause is solely triggered by events not related to the performance of the securitized assets or the selling bank, such as material changes in tax laws or regulations.

32. As described below, the CCFs depend upon whether the early amortization repays investors through a controlled or non-controlled mechanism. They also differ according to whether the securitized exposures are uncommitted retail credit lines (e.g., credit card receivables) or other credit lines (e.g., revolving corporate facilities). A line is considered uncommitted if it is unconditionally cancellable without prior notice.

33. For uncommitted retail credit lines (e.g., credit card receivables) that have either controlled or non-controlled early amortization features, banks must compare the three-month average excess spread defined in paragraph 11 to the point at which the bank is required to trap excess spread as economically required by the structure (i.e., excess spread trapping point). In cases where such a transaction does not require excess spread to be trapped, the trapping point is deemed to be 4.5 percentage points.

34. The bank must divide the excess spread level by the transaction’s excess spread trapping point to determine the appropriate segments and apply the corresponding conversion factors, as outlined in the following tables:

	Controlled		Non-controlled	
	3-month average excess spread-credit conversion factor (CCF)	Credit conversion factor (CCF)	3-month average excess spread-credit conversion factor (CCF)	Credit conversion factor (CCF)
	Uncommitted	Committed	Uncommitted	Committed
Retail credit lines	133.33% of trapping point or more – 0% CCF	90% CCF	133.33% of trapping point or more – 0% CCF	100% CCF
	less than 133.33% to 100% of trapping point – 1% CCF		less than 133.33% to 100% of trapping point – 5% CCF	
	less than 100% to 75% of trapping point – 2% CCF		less than 100% to 75% of trapping point – 15% CCF	
	less than 75% to 50% of trapping point - 10% CCF		less than 75% to 50% of trapping point - 50% CCF	
	less than 50% to 25% of trapping point - 20% CCF		less than 50% of trapping point - 100% CCF	
	less than 25% of trapping point - 40%			
Non-retail credit lines	90% CCF	90% CCF	100% CCF	100%CCF

35. All other securitized revolving exposures with controlled and non-controlled early amortization features will be subject to CCFs of ninety percent (90%) and 100%, respectively, against the off-balance sheet exposures.

36. The CCF will be applied to the amount of the investors’ interest. The resultant credit equivalent amount shall then be applied a risk weight applicable to the underlying exposure type, as if the exposures had not been securitized.

37. For a bank subject to the early amortization treatment, the total capital charge for all of its positions will be subject to a maximum capital requirement (i.e., a ‘cap’) equal to the greater of (i) that required for retained securitization exposures, or (ii) the capital requirement that would apply had the exposures not been securitized. In

addition, banks must deduct the entire amount of any gain-on-sale and credit enhancing IOs arising from the securitization transaction in accordance with paragraphs 23 and 25.

G. Credit risk mitigation

38. The treatment below applies to a bank that has obtained or given a credit risk mitigant on a securitization exposure. Credit risk mitigants include collateral, guarantees, and credit derivatives. Collateral in this context refers to that used to hedge the credit risk of a securitization exposure rather than the underlying exposures of the securitization transaction.

Collateral

39. Eligible collateral is limited to that recognized in paragraph 34, Part IV.B.

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Collateral pledged by SPEs may be recognized.

Guarantees and credit derivatives

40. Credit protection provided by the entities listed in paragraph 47, Part IV.B may be recognized. SPEs cannot be recognized as eligible guarantors.

41. Where guarantees or credit derivatives fulfill the minimum operational requirements as specified in Part IV.B and Part V, respectively, banks can take account of such credit protection in calculating capital requirements for securitization exposures.

42. Capital requirements for the collateralized or guaranteed/protected portion will be calculated according to Part IV.B and Part V.

43. A bank other than the originator providing credit protection to a securitization exposure must calculate a capital requirement on the covered exposure as if it were an investor in that securitization. A bank providing protection to an unrated credit enhancement must treat the credit protection provided as if it were directly holding the unrated credit enhancement.

Maturity mismatches

44. For the purpose of setting regulatory capital against a maturity mismatch, the capital requirement will be determined in accordance with paragraphs 50 to 54, Part IV.B, except for synthetic securitizations which will be determined in accordance with paragraph 16.

Part VII. Market Risk-weighted Assets

1. *Market risk* is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. The risks addressed in these guidelines are:

- a) The risks pertaining to interest rate-

related instruments and equities in the trading book; and

- b) Foreign exchange risk throughout the bank.

A. Definition of the trading book

2. A *trading book* consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any restrictive covenants on their tradability or able to be hedged completely. In addition, positions should be frequently and accurately valued, and the portfolio should be actively managed.

3. A *financial instrument* is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary financial instruments (or cash instruments) and derivative financial instruments. A *financial asset* is any asset that is cash, the right to receive cash or another financial asset; or the contractual right to exchange financial assets on potentially favorable terms, or an equity instrument. A *financial liability* is the contractual obligation to deliver cash or another financial asset or to exchange financial liabilities under conditions that are potentially unfavorable.

4. *Positions held with trading intent* are those held intentionally for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits, and may include for example proprietary positions, positions arising from client servicing (e.g. matched principal brokering) and market making.

5. The following will be the basic requirements for positions eligible to receive trading book capital treatment:

- a) Clearly documented trading strategy for the position/instrument or portfolios, approved by senior management (which would include expected holding horizon);
- b) Clearly defined policies and procedures for the active management of the position, which must include:

i. positions are managed on a trading desk;

ii. position limits are set and monitored for appropriateness;

iii. dealers have the autonomy to enter into/manage the position within agreed limits and according to the agreed strategy;

iv. positions are marked to market at least daily, and when marking to model the parameters must be assessed on a daily basis;

v. positions are reported to senior management as an integral part of the institution’s risk management process; and

vi. positions are actively monitored with reference to market information sources (assessment should be made of the market liquidity or the ability to hedge positions or the portfolio risk profiles). This would include assessing the quality and availability of market inputs to the valuation process, level of market turnover, sizes of positions

- traded in the market, etc.
- c) Clearly defined policy and procedures to monitor the positions against the bank’s trading strategy including the monitoring of turnover and stale positions in the bank’s trading book.
6. The documentations of the basic requirements of Part VII, Item "5" should be submitted to the Bangko Sentral.
7. In addition to the above documentation requirements, the bank should also submit to the Bangko Sentral a documentation of its systems and controls for the prudent valuation of positions in the trading book including the valuation methodologies.

B. Measurement of capital charge

8. The market risk capital charge shall be computed according to the methodology set under Subsec. 1115.2, subject to certain modifications as outlined in the succeeding paragraphs.
9. The specific risk weights for trading book positions in debt securities and debt derivatives shall depend on the third party credit assessment of the issue or the type of issuer, as may be appropriate, as follows:

Credit ratings of debt securities/derivatives issued by sovereigns ¹	Credit ratings of debt securities/derivatives issued by MDBs	Credit ratings of debt securities/derivatives issued by other entities	Unadjusted specific risk weight
Php-denominated debt securities/derivatives issued by the Philippine NG and Bangko Sentral			0.00%
LGU Bonds covered by Deed of Assignment of Internal Revenue Allotment and guaranteed by LGU Guarantee Corporation			4.00%
AAA to AA-	AAA		0.00%
A + to BBB-	AA + to BBB-	AAA to BBB-	
Residual maturity ≤ 6 months	Residual maturity ≤ 6 months	Residual maturity ≤ 6 months	0.25%
Residual maturity > 6 months, ≤ 24 months	Residual maturity > 6 months, ≤ 24 months	Residual maturity > 6 months, ≤ 24 months	1.00%
Residual maturity > 24 months	Residual maturity > 24 months	Residual maturity > 24 months	1.60%
		All other debt securities/ derivatives	8.00%

¹ The notations follow the rating symbols used by Standard & Poor’s. The mapping of ratings of all recognized external rating agencies is in Part IV.C. For purposes of this framework, debt securities/derivatives issued by sovereigns include foreign currency denominated debt securities/derivatives issued by the Philippine NG.

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10. Foreign currency denominated debt securities/derivatives issued by the Philippine NG and Bangko Sentral¹ shall be risk-weighted according to the table above: *Provided*, That only one-third (1/3) of the applicable risk weight shall be applied from 01 July 2007, two-thirds (2/3) from 01 January 2008, and the full risk weight from 01 January 2009.

11. A security, which is the subject of a repo-style transaction, shall be treated as if it were still owned by the seller/lender of the security, i.e., to be reported by the seller/lender.

12. In addition to capital charge for specific and general market risk, a credit risk capital charge should be applied to banks’ counterparty exposures in repo-style transactions and OTC derivatives contracts. The computation of the credit risk capital charge for counterparty exposures arising from trading book positions are discussed in paragraphs 35 to 41 of Part IV.B.

(As amended by Circular No. 605 dated 05 March 2008)

C. Measurement of risk-weighted assets

13. Market risk-weighted assets are determined by multiplying the market risk capital charge by ten (10) [i.e., the reciprocal of the minimum capital ratio of ten percent (10%)].

Part VIII. Operational Risk-weighted Assets

A. Definition of operational risk

1. *Operational risk* is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

2. Banks should be guided by the Basel Committee on Banking Supervision’s

recommendations on *Sound Practices for the Management and Supervision of Operational Risk* (February 2003). The same may be downloaded from the BIS website (www.bis.org).

B. Measurement of capital charge

3. In computing for the operational risk capital charge, banks may use either the basic indicator approach or the standardized approach.

4. Under the basic indicator approach, banks must hold capital for operational risk equal to fifteen percent (15%) of the average gross income over the previous three (3) years of positive annual gross income. Figures for any year in which annual gross income is negative or zero should be excluded from both the numerator and denominator when calculating the average.

5. Banks that have the capability to map their income accounts into the various business lines given in paragraph 7 may use the standardized approach subject to prior Bangko Sentral approval². In order to qualify for use of the standardized approach, a bank must satisfy Bangko Sentral that, at a minimum:

a) Its board of directors and senior management are actively involved in the oversight of the operational risk management framework;

b) It has an operational risk management system that is conceptually sound and is implemented with integrity; and

c) It has sufficient resources in the use of the approach in the major business lines as well as the control and audit areas.

6. Operational risk capital charge is calculated as the three (3)-year average of the simple summation of the regulatory capital charges across each of the business lines in each year. In any given year, negative

¹ Warrants paired with ROP Global Bonds shall be exempted from capital charge for market risk only to the extent of bank’s holdings of bonds paired with warrants equivalent to not more than fifty percent (50%) of total qualifying capital, as defined under Part II of this Appendix.

² Refer to *Appendix 63b-2* for the Guidelines on the Use of the Standardized Approach in Computing the Capital Charge for Operational Risk

capital charges (resulting from negative gross income) in any business line may offset positive capital charges in other business lines without limit. However, where the aggregate capital charge across all business lines within a given year is negative, then figures for that year shall be excluded from both the numerator and denominator.

7. The business lines and their corresponding beta factors are listed below:

Business lines		Activity Groups	Beta factors
Level 1	Level 2		
Corporate finance	Corporate Finance	Mergers and acquisitions, underwriting, privatization, securitization, research, debt (government, high yield), equity, syndications, IPO, secondary private placements	18 %
	Municipal/Government Finance		
	Advisory Services		
Trading and Sales	Sales	Fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage, debt, prime brokerage	18 %
	Market Making		
	Proprietary Positions		
	Treasury		
Retail Banking	Retail Banking	Retail lending and deposits, banking services, trust and estates	12 %
	Private Banking	Private lending and deposits, banking services, trust and estates, investment advice	
	Card Services	Merchant/commercial/corporate cards, private labels and retail	
Commercial Banking	Commercial Banking	Project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange	15 %
Payment and Settlement	External Clients	Payments and collections, funds transfer, clearing and settlement	18 %
Agency Services	Custody	Escrow, depository receipts, securities lending (customers) corporate actions	15 %
	Corporate Agency	Issuer and paying agents	
	Corporate Trust		
Asset Management	Discretionary Fund Management	Discretionary and non-discretionary fund management, whether pooled, segregated, retail, institutional, closed, open, private equity	12 %
	Non-Discretionary Fund Management		
Retail Brokerage	Retail brokerage	Execution and full service	12 %

8. Gross income, for the purpose of computing for operational risk capital charge, is defined as net interest income plus non-interest income. This measure should:

a) be gross of any provisions for losses on accrued interest income from financial assets;

b) be gross of operating expenses, including fees paid to outsourcing service providers;

c) include fees and commissions;

d) exclude gains/(losses) from the sale/redemption/derecognition of non-trading financial assets and liabilities;

e) exclude gains/(losses) from sale/derecognition of non-financial assets; and

f) include other income (i.e., rental income, miscellaneous income, etc.)
- (As amended by M-2007-019 dated 21 June 2007)
- C. Measurement of risk-weighted assets
9. The resultant operational risk capital charge is to be multiplied by 125% before multiplying by ten (10) [i.e., the reciprocal of the minimum capital ratio of ten percent (10%)].
- Part IX. Disclosures in the Annual Reports and Published Financial Statements
1. This section lists the specific information that banks have to disclose, at a minimum, in their Annual Reports, except

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Item “i”, paragraph 3 which should also be disclosed in banks’ quarterly Published Balance Sheet.

2. Full compliance of these disclosure requirements is a prerequisite before banks can obtain any capital relief (i.e., adjustments in the risk weights of collateralized or guaranteed exposures) in respect of any credit risk mitigation techniques.

A. Capital structure and capital adequacy

3. The following information with regard to banks’ capital structure and capital adequacy shall be disclosed in banks’ Annual Reports, except Item “i” below which should also be disclosed in banks’ quarterly published Balance Sheet:

- a) CET1 capital and a breakdown of its components;
- b) Tier 1 capital and a breakdown of its components;
- c) Tier 2 capital and a breakdown of its components;
- d) Total qualifying capital;
- e) Capital conservation buffer;
- f) Capital requirements for credit risk (including securitization exposures);
- g) Capital requirements for market risk;
- h) Capital requirements for operational risk; and
- i) Total CAR, Tier 1 and CET1 ratios on both solo and consolidated bases.

4. In addition to the above disclosure requirements, the following shall likewise be disclosed to improve transparency of regulatory capital and enhance market discipline:

- a) Full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements;
- b) All regulatory adjustments/ deductions, as applicable;
- c) Description of the main features of capital instruments issued; and

d) Comprehensive explanations of how ratios involving components of regulatory capital are calculated.

5. On top of the above disclosure requirements, banks/QBs shall be required to make available on their websites the full terms and conditions of all instruments included in regulatory capital.

B. Risk exposures and assessments

6. For each separate risk area (credit, market, operational, interest rate risk in the banking book), banks must describe their risk management objectives and policies, including:

- a) Strategies and processes;
- b) The structure and organization of the relevant risk management function;
- c) The scope and nature of risk reporting and/or measurement systems; and
- d) Policies for hedging and/or mitigating risk, and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.

Credit risk

7. Aside from the general disclosure requirements stated in paragraph 4, the following information with regard to credit risk have to be disclosed in banks’ Annual Reports:

- a) Total credit risk exposures (i.e., principal amount for on-balance sheet and credit equivalent amount for off-balance sheet, net of specific provision) broken down by type of exposures as defined in Part IV;
- b) Total credit risk exposure after risk mitigation, broken down by:
 - i. type of exposures as defined in Part IV; and
 - ii. risk buckets, as well as those that are deducted from capital;
- c) Total credit risk-weighted assets broken down by type of exposures as defined in Part IV;

- d) Names of external credit assessment institutions used, and the types of exposures for which they were used;
- e) Types of eligible credit risk mitigants used including credit derivatives;
- f) For banks with exposures to securitization structures, aside from the general disclosure requirements stated in paragraph 4, the following minimum information have to be disclosed:
 - i. Accounting policies for these activities;
 - ii. Total outstanding exposures securitized by the bank; and
 - iii. Total amount of securitization exposures retained or purchased broken down by exposure type;
- g) For banks that provide credit protection through credit derivatives, aside from the general disclosure requirements stated in paragraph 4, total outstanding amount of credit protection given by the bank broken down by type of reference exposures should also be disclosed; and
- h) For banks with investments in other types of structured products, aside from the general disclosure requirements stated in paragraph 4, total outstanding amount of other types of structured products issued or purchased by the bank broken down by type should also be disclosed.

Market risk

8. Aside from the general disclosure requirements stated in paragraph 4, the following information with regard to market risk have to be disclosed in banks’ Annual Reports:
- a) Total market risk-weighted assets broken down by type of exposures (interest rate, equity, foreign exchange, and options); and
 - b) For banks using the internal models approach, the following information have to be disclosed:
 - i. The characteristics of the models used;

- ii. A description of stress testing applied to the portfolio;
- iii. A description of the approach used for backtesting/validating the accuracy and consistency of the internal models and modeling processes;
- iv. The scope of acceptance by the Bangko Sentral; and
- v. A comparison of VaR estimates with actual gains/losses experienced by the bank, with analysis of important outliers in backtest results.

Operational risk

9. Aside from the general disclosure requirements stated in paragraph 4, banks have to disclose their operational risk-weighted assets in their Annual Reports.

Interest rate risk in the banking book

10. Aside from the general disclosure requirements stated in paragraph 4, the following information with regard to interest rate risk in the banking book have to be disclosed in banks’ Annual Reports:
- a) Internal measurement of interest rate risk in the banking book, including assumptions regarding loan prepayments and behavior of nonmaturity deposits, and frequency of measurement; and
 - b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to internal measurement of interest rate risk in the banking book.

Part X. Enforcement

(Transferred to Subsec. X115.9)
(Circular No. 538 dated 04 August 2006, as amended by Circular Nos. 934 dated 23 December 2016, 914 dated 23 June 2016, 890 dated 02 November 2015, 822 dated 13 December 2013, 781 dated 15 January 2013, M-2013-056 dated 10 December 2013, 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)

COMMON SHARES

Criteria for classification as common shares for regulatory capital purposes

1. It represents the most subordinated claim in liquidation.

2. It is entitled to a claim on the residual assets that is proportional with its share of issued capital, after all senior claims have been repaid in liquidation (i.e., has an unlimited and variable claim, not a fixed or capped claim).

3. Its principal is perpetual and never repaid outside of liquidation (setting aside discretionary repurchases or other means of effectively reducing capital in a discretionary manner that is allowable under relevant law).

4. The bank does nothing to create an expectation at issuance that the instrument will be bought back, redeemed or cancelled nor do the statutory or contractual terms provide any feature which might give rise to such an expectation.

5. The distributions are paid out of distributable items (retained earnings included). The level of distributions is not in any way tied or linked to the amount paid in at issuance and is not subject to a contractual cap (except to the extent that a bank is unable to pay distributions that exceed the level of distributable items).

6. There are no circumstances under which the distributions are obligatory. Non payment is therefore not an event of default.

7. The distributions are paid only after all legal and contractual obligations have been met and payments on more senior
- capital instruments have been made. This means that there are no preferential distributions, including in respect of other elements classified as the highest quality issued capital.

8. It is the issued capital that takes the first and proportionately greatest share of any losses as they occur¹. Within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and *pari passu* with all the others.

9. The paid in amount is recognized as equity capital (i.e., not recognized as a liability) for determining balance sheet insolvency.

10. The paid in amount is classified as equity under the relevant accounting standards.

11. It is directly issued and paid-in and the bank can not directly or indirectly have funded the purchase of the instrument.

12. It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank.

13. The paid in amount is neither secured nor covered by a guarantee of the issuer or related entity² or subject to any other arrangement that legally or economically enhances the seniority of the claim.

14. It is only issued with the approval of the owners of the issuing bank, either given directly by the owners or, if permitted by applicable law, given by the board of directors or by other persons duly authorized by the owners.

15. It is clearly and separately disclosed in the bank’s balance sheet.
(Circular No. 781 dated 15 January 2013)

¹ In cases where capital instruments have a permanent write-down feature, this criterion is still deemed to be met by common shares.

² A related entity includes a parent company, a sister company, a subsidiary or any affiliate. A holding company is a related entity irrespective of whether it forms part of the consolidated banking group.

ADDITIONAL TIER 1 CAPITAL

Criteria for inclusion in Additional Tier 1 capital

1. It must be issued and paid-in.

2. It must be subordinated to depositors, general creditors and subordinated debt of the bank.

3. It is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors.

4. It is perpetual, ie., there is no maturity date and there are no step-ups or other incentives to redeem.

5. It may be callable at the initiative of the issuer only after a minimum of five (5) years, subject to the following conditions:

a. To exercise a call option a bank must receive prior supervisory approval;

b. A bank must not do anything which creates an expectation that the call will be exercised; and

c. Banks must not exercise a call unless:

i. They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank¹; or

ii. The bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised;

6. Any repayment of principal (e.g. through repurchase or redemption) must be with prior supervisory approval and banks should not assume or create market expectations that supervisory approval will be given.

7. With regard to dividend/coupon discretion:

a. The bank must have full discretion at all times to cancel distributions/payments²;

b. Cancellation of discretionary payments must not be an event of default;

c. Banks must have full access to cancelled payments to meet obligations as they fall due;

d. Cancellation of distributions/payments must not impose restrictions on the bank except in relation to distributions to common stockholders.

8. Dividends/coupons must be paid out of distributable items.

9. The instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the bank’s credit standing.

10. The instrument cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency law.

11. Instruments classified as liabilities for accounting purposes must have principal loss absorption through either (i) conversion to common shares or (ii) a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The trigger point is set at CET1 ratio of 7.25% or below or as determined by the Bangko Sentral. The bank must submit an expert’s opinion on the accounting treatment/classification of the instruments.

The guidelines on loss absorbency features of AT1 capital as provided in
- ¹ Replacement issues can be concurrent with but not after the instrument is called.

² A consequence of full discretion at all times to cancel distributions/payments is that “dividend pushers” are prohibited. An instrument with a dividend pusher obliges the issuing bank to make a dividend/coupon payment on the instrument if it has made a payment on another (typically more junior) capital instrument or share. This obligation is inconsistent with the requirement for full discretion at all times. Furthermore, the term “cancel distributions/payments” means extinguish these payments. It does not permit features that require the bank to make distributions/payments in kind.
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App. 63b- Annex E shall likewise be observed.

12. It must have a provision that requires the instrument to either be written off or converted into common equity upon the occurrence of a trigger event.

The trigger event occurs when a bank is considered non-viable as determined by the Bangko Sentral. Non-viability is defined as a deviation from a certain level of CET1 Ratio, inability of the bank to continue business (CLOSURE), or any other event as may be determined by the Bangko Sentral, whichever comes earlier.

The issuance of any new shares as a result of the trigger event must occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted.

The guidelines on loss absorbency features of AT1 capital at point of non-viability as provided in *App. 63b Annex F* shall likewise be observed.

13. The write-down will have the following effects:

- a. Reduce the claim of the instrument in liquidation;
- b. Reduce the amount re-paid when a call is exercised; and
- c. Partially or fully reduce coupon/dividend payments on the instrument.

14. Neither the bank nor a related party over which the bank exercises control nor

significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.

15. The instrument cannot have any features that hinder recapitalization, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame.

16. It must be underwritten by a third party not related to the issuer bank or acting in reciprocity for and in behalf of the issuer bank;

17. It must clearly state on its face that it is not a deposit and is not insured by the Philippine Deposit Insurance Corporation (PDIC).

18. The bank must submit a written external legal opinion that the above-mentioned requirements, including the subordination and loss absorption features have been met.

19. If the instrument is not issued out of an operating entity or the holding company in the consolidated group (e.g. a special purpose vehicle – “SPV”), proceeds must be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in Additional Tier 1 capital.¹

(Circular No. 781 dated 15 January 2013)

¹ Capital issued to third parties out of an SPV cannot be included in CET1. Instruments meeting the criteria for eligibility as AT1 capital will be treated as if the bank itself has issued the capital directly to 3rd parties. In cases where the capital has been issued to 3rd parties through an SPV via a fully consolidated subsidiary of the bank, such capital subject to the requirements for eligibility as AT1 capital, be treated as if the subsidiary itself had issued it directly to the 3rd parties and may be included in the bank's consolidated AT 1 capital based on the treatment of minority interest.

TIER 2 CAPITAL

Criteria for inclusion in Tier 2 Capital

- 1. It must be issued and paid-in.
- 2. It must be subordinated to depositors and general creditors of the bank.
- 3. It is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general creditors of the bank.
- 4. With regard to maturity:
 - a. It must have a minimum original maturity of at least five (5) years;
 - b. Its recognition in regulatory capital in the remaining five (5) years before maturity will be amortized on a straight line basis as shown in the table below; and

Remaining maturity	Discount factor
5 years & above	0%
4 years to < 5 years	20%
3 years to < 4 years	40%
2 years to < 3 years	60%
1 year to < 2 years	80%
< 1 year	100%

- c. There are no step-ups or other incentives to redeem.
- 5. It may be callable at the initiative of the issuer only after a minimum of five (5) years:
 - a. To exercise a call option, a bank must receive prior supervisory approval; and
 - b. A bank must not do anything which creates an expectation that the call will be exercised¹;and
 - c. Banks must not exercise a call unless:
 - i. They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the

- income capacity of the bank;² or
- ii. The bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.
- 6. The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation.
- 7. The instrument cannot have a credit sensitive dividend feature, that is a dividend/ coupon that is reset periodically based in whole or in part on the bank’s credit standing.
- 8. Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.
- 9. It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank.
- 10. It must have a provision that requires the instrument to either be written off or converted into common equity upon the occurrence of a trigger event.
- The trigger event occurs when a bank is considered non-viable as determined by the Bangko Sentral. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio, inability of the bank to continue business (CLOSURE) or any other event as determined by the Bangko Sentral, whichever comes earlier.
- The issuance of any new shares as a result of the trigger event must occur prior to any public sector injection of capital so

¹ An option to call the instrument after five (5) years) but prior to the start of the amortization period will not be viewed as an incentive to redeem as long as the bank does not do anything that creates an expectation that the call will be exercised at this point.

² Replacement issues can be concurrent with but not after the instrument is called.

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that the capital provided by the public sector is not diluted.

The guidelines on loss absorbency features of Tier 2 capital at point of nonviability as provided in *App. 63b Annex F* shall likewise be observed.

11. The write-down will have the following effects:

- a. Reduce the claim of the instrument in liquidation;
- b. Reduce the amount re-paid when a call is exercised; and
- c. Partially or fully reduce coupon/dividend payments on the instrument

12. The bank must submit a written external legal opinion that the above-

mentioned requirements, including the subordination and loss absorption features have been met.

13. It must clearly state on its face that it is not a deposit and is not insured by the Philippine Deposit Insurance Corporation (PDIC).

14. If the instrument is not issued out of an operating entity or the holding company in the consolidated group (e.g .a special purpose vehicle – “SPV”), proceeds must be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other.¹

(Circular No. 781 dated 15 January 2013)

¹ Capital issued to third parties out of an SPV cannot be included in CET1. Instruments meeting the criteria for eligibility as Tier 2 capital will be treated as if the bank itself has issued the capital directly to 3rd parties. In cases where the capital has been issued to 3rd parties through an SPV via a fully consolidated subsidiary of the bank, such capital subject to the requirements for eligibility as Tier 2 capital, be treated as if the subsidiary itself had issued it directly to 3rd parties through an SPV via a fully consolidated subsidiary of the bank, such capital subject to the requirements for eligibility as AT1 capital, be treated as if the subsidiary itself had issued it directly to the 3rd parties and may be included in the banks consolidated AT1 capital based on the treatment of minority interest.

Illustrative Sample

Computation of eligible minority interests to be included in parent bank’s capital base

The case:

A banking group consists of two (2) legal entities that are both banks – Bank P is the parent and Bank S is the subsidiary. Their individual balance sheets are set out below:

Bank P – Balance Sheet		Bank S - Balance Sheet	
<u>Assets</u>		<u>Assets</u>	
Loans	90	Loans	160
CET1 investments in Bank S	30		
AT1 investments in Bank B	9		
Tier 2 investments in Bank S	4		
<u>Liabilities and Equity</u>		<u>Liabilities and Equity</u>	
Deposits	70	Deposits	90
Tier 2 capital instruments	20	Tier 2 capital instruments	16
AT1 capital instruments	12	AT1 capital instruments	11
CET1 capital instruments	31	CET1 capital instruments	43

The consolidated balance sheet of the banking group is set out below:

Consolidated balance sheet	
Assets	
Loans	250
Liabilities and equity	
Deposits	160
Tier 2 issued by subsidiary to third parties	12
Tier 2 issued by parent	20
AT1 issued by subsidiary to third parties	2
AT1 issued by parent	12
Common Equity issued by subsidiary to third parties (i.e., minority interest)	13
Common Equity issued by parent	31

The balance sheet of Bank P shows that in addition to its loans to customers, it has investments in Bank S as follows:

1. 70% of common shares;
2. 82% of Additional Tier 1 capital; and
3. 25% of Tier 2 capital.

	Amount issued to Bank P		Amount issued to third parties		Total
CET1	30	70%	13	30%	43
AT1	9	82%	2	18%	11
Tier 1	39		15		54
Tier 2	4	25%	12	75%	16
Total Capital	43		27		70

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(A) Computation of minority interests arising from ordinary shares issued by a consolidated bank subsidiary

Step 1 –
Calculate the surplus CET1 of Bank S in excess of its 8.5% minimum CET1 plus conservation buffer requirement (i.e., 6.0% + 2.5%). Bank S is assumed to have risk weighted assets of 100.

Minimum and surplus capital of Bank S		
	Minimum plus capital conservation buffer	Surplus capital
CET1	8.5 (= 8.5% * 100)	34.5 (= 43 - 8.5)

Step 2 –
Calculate the eligible portion of minority interest (MI) arising from CET1 issued by Bank S that is allowed to be included in the consolidated capital of Bank P [i.e., item (e)].

Bank S : amount of capital issued to third parties included in consolidated capital					
	Total amount issued (a)	Amount issued to third parties (b)	Surplus capital (c)	Surplus attributable to third parties (i.e., amount excluded from consolidated capital) (d) = (c) * (b)/(a)	Amount included in consolidated capital (e) = (b) - (d)
CET1	43	13	34.5	10.4	2.6

Step 3 –
The eligible amount of MI to be included in the consolidated CET1 Capital of Bank P is 2.6.

	Total amount issued by Bank P (all of which is to be included in consolidated capital)	Amount issued by Bank S to third parties to be included in consolidated capital of Bank P	Total amount issued by Bank P and Bank S to be included in consolidated capital of Bank P
CET1	31	2.6	33.6

(B) Minority interests arising from ordinary shares and Additional Tier 1 capital instruments issued by a consolidated bank subsidiary

Step 1 –
Calculate the surplus Tier 1 Capital of Bank S in excess of its 10% minimum Tier 1 capital plus capital conservation buffer requirement (i.e., 7.5% + 2.5%). Bank S is assumed to have risk weighted assets of 100.

Minimum and surplus capital of Bank S		
	Minimum plus capital conservation buffer	Surplus capital
Tier 1	10 (= 10% * 100)	44 (= (43 + 11) – 10)

Step 2 –

Calculate the eligible portion of MI arising from Tier 1 Capital issued by Bank S that is allowed to be included in the consolidated capital of Bank P [i.e., item (e)]

Bank S : amount of capital issued to third parties included in consolidated capital					
	Total amount issued (a)	Amount issued to third parties (b)	Surplus capital (c)	Surplus attributable to third parties (i.e., amount excluded from consolidated capital) (d) = (c) * (b)/(a)	Amount included in consolidated capital (e) = (b) - (d)
CET1	43	13	34.5	10.4	2.6
Tier 1	54	15	44	12.2	2.8

Step 3 –

The eligible amount for inclusion in Bank P’s consolidated AT1 Capital is 0.2, arrived at by excluding from the eligible amount for inclusion as Tier 1 Capital (i.e., 2.8) the amount that has already been recognized in CET1 (i.e., 2.6).

	Total amount issued by Bank P (all of which is to be included in consolidated capital)	Amount issued by Bank S to third parties to be included in consolidated capital of Bank P	Total amount issued by Bank P and Bank S to be included in consolidated capital of Bank P
CET1	31	2.6	33.6
AT1	12	0.2	12.2
Tier 1	43	2.8	45.8

(C) Minority interests arising from Tier 1 capital instruments and Tier 2 capital instruments issued by a consolidated bank subsidiary

Step 1 –

Calculate the surplus total capital of Bank S in excess of 12.5% minimum total capital plus conservation buffer requirement (i.e., 10% + 2.5%). Bank S is assumed to have risk weighted assets of 100.

Minimum and surplus capital of Bank S		
	Minimum plus capital conservation buffer	Surplus capital
Tier 2	12.5 (= 12.5% * 100)	57.5 (= (43 + 11 + 16) - 12.5)

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Step 2 –
Calculate the eligible portion of MI arising from total capital by Bank S that is allowed to be included in the consolidated capital of Bank P (i.e., item (e)).

Bank S : amount of capital issued to third parties included in consolidated capital					
	Total amount issued (a)	Amount issued to third parties (b)	Surplus capital (c)	Surplus attributable to third parties (i.e., amount excluded from consolidated capital) (d) = (c) * (b)/(a)	Amount included in consolidated capital (e) = (b) - (d)
CET1	43	13	34.5	10.4	2.6
Tier 1	54	15	44	12.2	2.8
Total Capital	70	27	57.5	22.2	4.8

Step 3 –
The eligible amount for inclusion in Bank P’s consolidated capital is 2.0, arrived at by excluding from the eligible amount for inclusion as total capital (i.e., 4.8) the amount that has already been recognized in Tier 1 Capital (i.e., 2.8).

Total amount issued by Bank P (all of which is to be included in consolidated capital)	Amount issued by Bank S to third parties to be included in consolidated capital of Bank P	Total amount issued by Bank P and Bank S to be included in consolidated capital of Bank P
CET1 31	2.6	33.6
AT1 12	0.2	12.2
Tier 1 43	2.8	45.8
Tier 2 20	2.0	22.0
Total Capital 63	4.8	67.8

(Circular 781 dated 15 January 2013)

LOSS ABSORBENCY REQUIREMENTS FOR ADDITIONAL TIER 1 CAPITAL

1. Capital instruments classified as liabilities for accounting purposes must have principal loss absorption when the pre-specified trigger point is breached, through either:

 - a. conversion to common shares; or
 - b. write-off mechanism which allocates losses to the instrument.

2. The trigger point for conversion or write-off is set at 7.25% Common Equity Tier 1 (CET 1) or below or as determined by the Bangko Sentral.

3. The write-off or conversion to common equity must generate CET1 under the relevant accounting standards. The instrument will only receive recognition in Tier 1 (CET 1) up to the amount of CET1 generated by a full write-off of the instrument.

4. The aggregate amount to be written off or converted for all such instruments on breaching the trigger point must be at least the amount needed to immediately return the bank's CET1 ratio at more than 7.25%, or if this is not possible, the full principal value of the instrument.

5. The bank has the option to choose its main loss absorption mechanism for its AT1 instruments which must be explicitly provided in the terms and condition of the issuance of the instruments.

In case the conversion mechanism was chosen as an option, the terms and condition of the issuance shall likewise provide that in case said conversion cannot be implemented due to certain legal constraints, the write-off mechanism shall take effect.

6. Banks opting to use the conversion mechanism must address all legal impediments and obtain all prior authorization to ensure immediate
- recapitalization through conversion when the trigger point is breached. Failure to satisfy these requirements would render the instruments ineligible for inclusion in AT1 capital.

7. Banks must make the necessary adjustments to their Articles of Incorporation to accommodate the conversion of capital instruments to common shares for loss absorbency. Moreover, banks must ensure that it has an appropriate buffer of authorized capital stock.

8. Where AT1 capital instruments provide for conversion into common shares when the trigger point is breached, the issue documentation must include among others:

 - a. the specific number of common shares to be received upon conversion, or specify the conversion formula for determining the number of common shares received; and
 - b. number of shares to be received based on the specified formula:

Provided, That the capital instruments converting into ordinary shares shall have a maximum conversion rate of fifty percent (50%) of the ordinary share price at the time of issue.

9. In issuing AT1 capital, the bank may:

 - a. differentiate between/among instruments as to whether the instrument is required to be converted or written off upon breaching the trigger point; and
 - b. provide for a hierarchy as to which AT1 instruments will be converted or written off.

10. Where the issue documentation provides for a ranking of the conversion or write-off, the terms attached to such

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hierarchy must not impede the ability of the capital instrument to be immediately converted or written off, as required.

11. Written commitment to undertake the necessary actions to effect the conversion must be accomplished by the bank. Otherwise, the write-off mechanism will take effect as the main loss absorbency mechanism.

12. Where, following the breach of the trigger point, the conversion cannot be undertaken, the write-off mechanism shall likewise take effect.

13. The write-off mechanism shall have the following effects:

- a. reduce the claim of the instrument in liquidation;
- b. reduce the amount re-paid when a call is exercised; and
- c. partially or fully reduce coupon/dividend payments on the instruments.

14. The conversion to common shares or write-off of capital instruments prompted by the breach of the trigger point does not preclude the Bangko Sentral from requiring further conversion or write-off upon the occurrence of the trigger event.

(Circular No. 781 dated 15 January 2013)

**RISK DISCLOSURE REQUIREMENTS ON LOSS ABSORBENCY FEATURES OF
CAPITAL INSTRUMENTS**

The following are the risk disclosure requirements on the loss absorbency features of Additional Tier 1 (AT1) and Tier 2 (T2) capital instruments eligible under the BASEL III framework which aim to uphold investor protection through enhanced disclosure and transparency.

When marketing, selling and distributing AT1 and T2 instruments eligible as capital under the Basel III framework, banks must:

- a. Subject investors to a client suitability test to determine their understanding of the specific risks related to these investments and their ability to absorb risks arising from these instruments;
- b. Provide the appropriate Risk Disclosure Statement for the issuance of AT1 and T2 capital instruments. The said disclosure statement shall explain the loss absorbency feature for AT1 and T2 capital instruments as well as the resulting processes that will be effected when the triggers for loss absorbency are breached;

c. Secure a written certification from each investor stating that;

- (1) The investor has been provided with a Risk Disclosure Statement which, among others, explains the concept of loss absorbency for AT1 and T2 capital instruments as well as the resulting processes should the case triggers are breached;
 - (2) The investor has read and understood the terms and conditions of the issuance;
 - (3) The investors are aware of the risks associated with the capital instruments; and
 - (4) Said risks include permanent write-down or conversion of the debt instrument into common equity at a specific discount;
- d. Make available to the Bangko Sentral, as may be required, the:
- (1) Risk Disclosure Statement;
 - (2) Certification cited in Item "c(3)" above duly signed by the investor; and
 - (3) Client Suitability Test of the investor.
- (Circular 786 dated 15 February 2013)*

**LOSS ABSORBENCY REQUIREMENTS FOR ADDITIONAL TIER 1 CAPITAL
AND TIER 2 CAPITAL AT THE POINT OF NON-VIABILITY**

1. Additional Tier 1 (AT1) and Tier 2 (T2) capital instruments are required to have loss absorbency features at the point of non-viability.

2. Upon the occurrence of the trigger event, AT1 and T2 capital instruments should be able to absorb losses either through:

- a. conversion to common shares; or
- b. write-off mechanism which allocates losses to the instrument.

3. AT1 and T2 capital instruments will then be converted to common shares or written off upon the occurrence of the trigger event.

The trigger event occurs when a bank is considered non-viable as determined by the Bangko Sentral. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio, inability of the bank to continue business (CLOSURE) or any other event as determined by the Bangko Sentral, which ever comes earlier.

4. The write-off or conversion to common equity must generate CET1 and Total Capital under the relevant accounting standards. The instrument will only receive recognition in Tier 1 and Total Capital up to the amount of CET1 generated by a full write-off of the instrument.

5. In the absence of any contractual terms to the contrary, AT1 capital instruments shall be utilized first before Tier 2 capital instruments are converted or written off, until viability of the bank is re-established.

6. In the event that the bank does not have any AT1 instruments, then the conversion/write off shall automatically apply to T2 capital.

7. The bank has the option to choose its main loss absorption mechanism at the point of non-viability which must be

explicitly provided in the terms and condition of the issuance of the instruments.

In case the conversion mechanism was chosen as an option, the terms and condition of the issuance shall likewise provide that in case, said conversion cannot be implemented due to certain legal constraints, the write-off mechanism shall take effect.

8. Banks opting to use the conversion mechanism must address all legal impediments and obtain all prior authorization to ensure immediate recapitalization through conversion when the trigger event occurs. Failure to satisfy these requirements would render the instruments ineligible for inclusion as either AT1 capital or T2 capital.

9. Banks must make the necessary adjustments to their Articles of Incorporation to accommodate the conversion of capital instruments to common shares for loss absorbency at the point of non-viability. Moreover, banks must ensure that it has an appropriate buffer of authorized capital stock.

10. Where AT1 or T2 capital instruments provide for conversion into common shares when the trigger event occurs, the issue documentation must include among others:

- a. the specific number of common shares to be received upon conversion, or specify the conversion formula for determining the number of common shares received; and

- b. number of shares to be received based on the specified formula.

Provided, That the capital instruments converting into ordinary shares shall have a maximum conversion rate of fifty percent (50%) of the ordinary share price at the time of issue.

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11. In issuing AT1 or T2 capital, the bank may:

- a. differentiate between/among instruments as to whether the instrument is required to be converted or written off upon the occurrence of the trigger event; and
- b. provide for a hierarchy as to which instruments will be converted or written off among the AT1 capital instruments as well as among the T2 capital instruments.

12. Where the issue documentation provides for a ranking of the conversion or write-off, the terms attached to such hierarchy must not impede the ability of the capital instrument to be immediately converted or written off, as required.

13. Written commitment to undertake the necessary actions to effect the conversion must be accomplished by the bank. Otherwise, the write-off mechanism will take effect as the main loss absorbency mechanism.

14. Where, upon the occurrence of the trigger event, the conversion cannot be undertaken, the write-off mechanism shall likewise take effect.

15. The write-off mechanism shall have the following effects:

- a. reduce the claim of the instrument in liquidation;
- b. reduce the amount re-paid when a call is exercised; and
- c. partially or fully reduce coupon/dividend payments on the instruments.

16. In case of bank closure prior to the breach of the trigger event, a provision that provides for automatic write-off of AT1 and T2 instruments must be included in the terms and conditions of the issuance.

GROUP TREATMENT

17. The relevant jurisdiction in determining the trigger event is the jurisdiction in which the capital is being given recognition for regulatory purposes. However, the group treatment will only apply to wholly-owned subsidiary banks.

18. Where an issuing bank is a subsidiary of a wider banking group regulated by the Bangko Sentral or its parent wishes the instrument to be included in the capital of the consolidated group in addition to its solo capital, the terms and conditions of the subsidiary bank AT1 and T2 capital instruments must specify an additional trigger event as follows:

AT1 and T2 capital instruments will be converted to common shares or written off once the parent bank is considered non-viable.

19. In case of a Bangko Sentral supervised entity that is a subsidiary of another institution that is not regulated by the Bangko Sentral, if the instruments are to be recognized as capital under Bangko Sentral requirements, in addition to the applicability of the trigger event, said instruments must provide that:

- a. any supervisor of the parent entity cannot impede the right of Bangko Sentral to require the write-off or conversion of the instruments in relation to the Bangko Sentral supervised entity; and
- b. any right of write-off or conversion by the parent supervisor must generate CET1 in the Bangko Sentral supervised entity.

20. Further, any common stock paid as compensation to the holders of the instrument must be common stock of either the issuing bank or the parent company of the consolidated group.

(Circular 781 dated 15 January 2013)

**RISK DISCLOSURE REQUIREMENTS ON LOSS ABSORBENCY FEATURES OF
CAPITAL INSTRUMENTS**

- I. When marketing, selling and/or distributing AT1 and Tier 2 instruments eligible as capital under the Basel III framework, in the Philippines, banks must:

1. Subject investors to a client suitability test to determine their understanding of the specific risks related to these investments and their ability to absorb risks arising from these instruments;

2. Provide the appropriate Risk Disclosure Statement for the issuance of AT1 and Tier 2 capital instruments. The said disclosure statement shall explain the loss absorbency features for AT1 and Tier 2 capital instruments as well as the resulting processes that will be effected when the triggers for loss absorbency are breached;

3. Secure a written certification from each investor stating that:

a. The investor has been provided a Risk Disclosure Statement which, among others, explains the concept of loss absorbency for AT1 and Tier 2 capital instruments as well as the resulting processes should the case triggers are breached;

b. The investor has read and understood the terms and conditions of the issuance;

c. The investor is aware of the risks associated with the capital instruments; and

d. Said risks include permanent write-down or conversion of the debt instrument into common equity at a specific discount;
4. Make available to the Bangko Sentral, as may be required, the:

a. Risk disclosure statement;

b. Certification cited in Item “3” above duly signed by the investor; and

c. Client suitability test of the investor.

II. For offshore issuances of AT1 and Tier 2 capital instruments, the risk disclosure requirements shall be governed by the applicable rules and regulations of the country where these instruments are issued.

The subsequent sale and/or distribution of AT1 and Tier 2 capital instruments in the Philippines, originally issued overseas, shall comply with all the risk disclosure requirements for issuance in the Philippines.
(Circular No. 826 dated 14 February 2014)

**GUIDELINES ON THE CAPITAL TREATMENT OF BANKS’ HOLDINGS OF
REPUBLIC OF THE PHILIPPINES GLOBAL BONDS PAIRED WITH WARRANTS**
(Appendix to Sec. X115)

A bank’s holdings of ROP Global Bonds that are paired with Warrants (paired Bonds), which give the bank the option or right to exchange its holdings of ROP Global Bonds into Peso-denominated government securities upon occurrence of a predetermined credit event, shall be risk

weighted at zero percent (0%): *Provided*, That the zero percent (0%) risk weight shall be applied only to bank’s holdings of paired Bonds equivalent to not more than fifty percent (50%) of the total qualifying capital, as defined under *Appendix 63-b*.
(Circular 588 dated 11 December 2007, as amended by Circular No. 890 dated 02 November 2015)

**GUIDELINES ON THE USE OF THE STANDARDIZED APPROACH IN
COMPUTING THE CAPITAL CHARGE FOR OPERATIONAL RISKS**
(Appendix to Sec. X115)

Banks applying for the use of The Standardized Approach (TSA) must satisfy the following requirements/criteria:

General Criteria

1. The use of TSA shall be conditional upon the explicit prior approval of the Bangko Sentral.
2. The Bangko Sentral will only give approval to an applicant bank if at a minimum:
 - a. Its board of directors (or equivalent management committee in the case of foreign bank branches) and senior management are actively involved in the oversight of the operational risk management framework;
 - b. It has an operational risk management system that is conceptually sound and is implemented with integrity; and,
 - c. It has sufficient resources in the use of the approach in the major business lines as well as in the control and audit areas.
3. The above criteria should be supported by a written documentation of the board-approved operational risk management framework of the bank which should cover the following:
 - a. Overall objectives and policies
 - b. Strategies and processes
 - c. Operational risk management structure and organization
 - d. Scope and nature of risk reporting/assessment systems
 - e. Policies and procedure for mitigating operational risk
4. This operational risk management framework of the bank should be disclosed in its annual report, as provided under *Appendix 63b*.

Mapping of Gross Income

5. Banks using TSA in computing operational risk capital charge must develop specific written policies and criteria for mapping gross income of their current business lines into the standard business lines prescribed under *Appendix 63b*. They must also put in place a review process to adjust these policies and criteria for new or changing business activities or products as appropriate.
6. Banks must adopt the following principles for mapping their business activities to the appropriate business lines:
 - (a) Activities or products must be mapped into only one (1) of the eight (8) standard business lines, as follows:
 - (1) *Corporate finance*- This includes banking arrangements and facilities [e.g., mergers and acquisitions, underwriting, privatizations, securitization, research, debt (government, high yield), equity, syndications, Initial Public Offering (IPO), secondary private placements] provided to large commercial enterprises, multinational companies, NBFIs, government departments, etc.
 - (2) *Trading and sales*- This includes treasury operations, buying and selling of securities, currencies and others for proprietary and client account.
 - (3) *Retail banking*- This includes financing arrangements for private individuals, retail clients and small businesses such as personal loans, credit cards, auto loans, etc. as well as other facilities such as trust and estates and investment advice.
 - (4) *Commercial banking*- This includes financing arrangements for commercial enterprises, including project

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finance, real estate, export finance, trade finance, factoring, leasing, guarantees, bills of exchange, etc.

(5) *Payment and settlement* - This includes activities relating to payments and collections, inter-bank funds transfer, clearing and settlement.

(6) *Agency services* - This refers to activities of the banks acting as issuing and paying agents for corporate clients, providing custodial services, etc.

(7) *Asset management* - This includes managing funds of clients on a pooled, segregated, retail, institutional, open or closed basis under a mandate.

(8) *Retail brokerage* - This includes brokering services provided to customers that are retail investors rather than institutional investors.

(a) Any activity or product which cannot be readily mapped into one (1) of the standardized business lines but which is ancillary¹ to a business line shall be allocated to the business line to which it is ancillary. If the activity is ancillary to two (2) or more business lines, an objective criteria or qualification must be made to allocate the annual gross income derived from that activity to the relevant business lines.

(b) Any activity that cannot be mapped into a particular business line and is not an ancillary activity to a business line shall be mapped into one (1) of the business lines with the highest associated beta factor eighteen percent (18%). Any ancillary activity to that activity will follow the same business line treatment.

(c) Banks may use internal pricing methods to allocate gross income between business lines: *Provided*, That the sum of gross income for the eight (8) business lines must still be equal to the gross income as would be recorded if the bank uses the Basic Indicator Approach (BIA).

(d) The process by which banks map their business activities into the standardized business lines must be regularly reviewed by party independent from that process.

7. In computing the gross income of the bank, the amounts of the income accounts reported in the operational risk template² must be equal to the year-end balance reported in the FRP. Any discrepancy must be properly accounted and supported by a reconciliation statement

Application Process for the Use of TSA

8. Banks applying for the use of TSA should submit the following documents to their respective Central Points of Contact (CPCs) of the Bangko Sentral:

(a) An application letter signed by the president/CEO (or equivalent management committee in the case of foreign bank branches) of the bank signifying its intention to use TSA in computing the capital charge for operational risk;

(b) Written documentation of the Board-approved operational risk management framework as described in paragraph 3.

(c) Written policies and criteria for mapping business activities and their corresponding gross income into the standard business lines as described in paragraphs 5 to 7.

(d) An overall roll-out plan of the bank including project plans and execution processes, with the appropriate time lines.

Initial Monitoring Period

9. The Bangko Sentral may require a six (6)-month period of initial monitoring of a bank's TSA before it is used for supervisory capital purposes.

Reversion from TSA to BIA

10. A bank which has been approved to use TSA in computing its capital charge

¹ Ancillary function is an activity/function that is not the main activity of a given business line but only as a support activity

² Part V of the revised CAR report template

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for operational risk will not be allowed to revert to the simpler approach, i.e., the BIA. However, if the Bangko Sentral determines that the bank no longer meets the qualifying criteria for TSA, it may require the bank to revert to BIA. The bank shall be required to

repeat the whole application process should it opt to return to the use of TSA, but only after a year of using the BIA.

These guidelines shall take effect on 21 July 2007.

(M-2007-019 dated 21 June 2007, as amended by Circular No. 890 dated 02 November 2015)

**RISK BASED CAPITAL ADEQUACY FRAMEWORK FOR STAND-ALONE
THRIFT BANKS, RURAL BANKS, AND COOPERATIVE BANKS¹**
(Appendix to Sec. X118)

Introduction

This Appendix contains the implementing guidelines of the revised risk-based capital adequacy framework for stand-alone TBs, RBs and Coop Banks. The framework is similar to the Basel 1 framework but incorporates certain elements of Basel 2.

The guidelines contained in this Appendix shall take effect on 1 January 2012.

Part I. Risk-based Capital Adequacy Ratio

1. The risk based CAR of stand-alone TBs, RBs and Coop Banks, or collectively, “banks”, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than ten percent (10%).

2. Qualifying capital is computed in accordance with the provisions of Part II. Risk weighted assets is the sum of (1) credit risk-weighted assets (Part III), and (2) operational risk-weighted assets (Part IV): *Provided*, That banks that shall engage in trading activities², including derivatives activities as end-user for hedging purpose and/or under a Type 3-Limited User Authority shall likewise include counterparty credit risk-weighted assets and/or market risk-weighted assets relative to such exposures, which shall be computed based on the relevant provisions of The Revised Risk-Based Capital Adequacy Framework for the Philippine Banking System³.

(As amended by Circular No. 827 dated 28 February 2014 and 770 dated 28 September 2012)

3. The CAR requirement will be applied to all stand-alone TBs, RBs and Coop Banks on both solo and consolidated bases, as applicable. The application of the requirement on a consolidated basis is the best means to preserve the integrity of capital in banks with subsidiaries by eliminating double gearing. However, as one of the principal objectives of supervision is the protection of depositors, it is essential to ensure that capital recognized in capital adequacy measures is readily available for those depositors. Accordingly, individual banks should likewise be adequately capitalized on a stand-alone basis.

4. To the greatest extent possible, all banking and other relevant financial activities (both regulated and unregulated) conducted by a bank and its subsidiaries will be captured through consolidation. Thus, majority-owned or controlled financial allied undertakings (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) should be fully consolidated on a line-by-line basis. Exemptions from consolidation shall only be made in cases where such holdings are acquired through debt previously contracted and held on a temporary basis, are subject to different regulation, or where non-consolidation for regulatory capital purposes is otherwise required by law. All cases of exemption from consolidation must be made with prior clearance from the Bangko Sentral.

5. Banks shall comply with the minimum CAR at all times notwithstanding that supervisory reporting shall only be on quarterly basis. Any breach, even if only

¹ These refers to TBs, RBs and Coop Banks that are not subsidiaries of UBs and KBs.

² Effective 01 January 2013.

³ The amendment in the risk-based CAR report on market risk-weighted assets as provided under Memorandum No. M-2013-028 dated 19 June 2013 shall be applied with the CAR report of stand-alone TBs, RBs and Coop Banks effective reporting period 31 March 2014.

temporary, shall be reported to the bank’s Board of Directors and to Bangko Sentral-SES within three (3) banking days. For this purpose, these banks shall develop an appropriate system to properly monitor their compliance.

6.The Bangko Sentral reserves the right, upon authority of the Deputy Governor-SES, to conduct on-site inspection outside of regular or special examination, for the purpose of ascertaining the accuracy of CAR calculations as well as the integrity of CAR monitoring and reporting systems.

Part II. Qualifying Capital

1. Qualifying capital consists of Tier 1 (core plus hybrid) capital and Tier 2 (supplementary) capital elements, net of required deductions from capital.

A. Tier 1 Capital

2. Tier 1 capital is the sum of core Tier 1 capital and allowable amount of hybrid Tier 1 capital, as set in paragraph 11.

3. Core Tier 1 capital consists of:
- a) Paid-up common stock;
 - b) Deposit for common stock subscription;
 - c) Paid-up perpetual and non-cumulative preferred stock;
 - d) Deposit for perpetual and non-cumulative preferred stock subscription;
 - e) Additional paid-in capital;
 - f) Retained earnings;
 - g) Undivided profits;
 - h) Net gains on fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities;
 - i) Cumulative foreign currency translation; and
 - j) Minority interest in subsidiary financial allied undertakings (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) which are less than wholly-owned: *Provided*, That a bank shall not use minority interests in the equity accounts of consolidated subsidiaries as an avenue for introducing into its capital structure elements that might not otherwise qualify as Tier 1 capital or that would, in

effect, result in an excessive reliance on preferred stock within Tier 1:

- Less:
- i. Common stock treasury shares;
 - ii. Perpetual and non-cumulative preferred stock treasury shares;
 - iii. Net unrealized losses on available for sale equity securities purchased;
 - iv. Unbooked valuation reserves and other capital adjustments based on the latest report of examination as approved by the Monetary Board;
 - v. Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses;
 - vi. Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries, net of allowance for credit losses;
 - vii. Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm’s length terms as determined by the appropriate supervising department of the Bangko Sentral, net of allowance for credit losses;
 - viii. Deferred tax asset, net of deferred tax liability: *Provided*, That the conditions to offset under PAS 12 are met: *Provided, further*, That any excess of deferred tax liability over deferred tax asset (i.e., net deferred tax liability) shall not be added to Tier 1 capital; and
 - ix. Goodwill, net of allowance for losses, including that relating to unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks (on solo basis) and unconsolidated non-financial allied undertakings (on solo and consolidated bases).

4. Hybrid Tier 1 capital in the form of perpetual preferred stock and perpetual unsecured subordinated debt may be issued subject to prior Bangko Sentral approval and to the conditions in paragraph 11.

(As amended by Circular Nos. 914 dated 23 June 2016 and 762 dated 25 July 2012)

B. Tier 2 Capital

5. Tier 2 capital is the sum of upper Tier 2 capital and lower Tier 2 capital.

- 6.The total amount of lower Tier 2 capital before deductions enumerated in paragraph 9 that may be included in total Tier 2 capital shall be limited to a maximum of fifty percent (50%) of total Tier 1 capital (net of deductions enumerated in paragraph 3). The total amount of upper and lower Tier 2 capital both before deductions enumerated in paragraph 9 that may be included in total qualifying capital shall be limited to a maximum of 100% of total Tier 1 capital (net of deductions enumerated in paragraph 3).
7. Upper Tier 2 capital consists of:
- a) Paid-up perpetual and cumulative preferred stock;
 - b) Deposit for perpetual and cumulative preferred stock subscription;
 - c) Paid-up limited life redeemable preferred stock issued with the condition that redemption thereof shall be allowed only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level prior to redemption;
 - d) Deposit for limited life redeemable preferred stock subscription with the replacement requirement upon redemption;
 - e) Appraisal increment reserve – bank premises, as authorized by the Monetary Board;
 - f) Net unrealized gains on available for sale equity securities purchased subject to a fifty-five percent (55%) discount;
 - g) General loan loss provision, limited to a maximum of one percent (1%) of total credit risk-weighted assets, and any amount in excess thereof shall be deducted from the total credit risk weighted assets in computing the denominator of the risk-based capital ratio;
 - h) With prior Bangko Sentral approval, unsecured subordinated debt with a minimum original maturity of at least ten (10) years, issued subject to the conditions in paragraph 12, in an amount equivalent

to its carrying amount discounted by the following rates: and

Remaining maturity	Discount factor
5 years & above	0%
4 years to < 5 years	20%
3 years to < 4 years	40%
2 years to < 3 years	60%
1 year to < 2 years	80%
< 1 year	100%

- i) Hybrid Tier 1 capital as defined in paragraph 4 in excess of the maximum allowable limit of fifteen percent (15%) of total Tier 1 capital (net of deductions enumerated in paragraph 3):
 - Less:
 - i. Perpetual and cumulative preferred stock treasury shares;
 - ii. Limited life redeemable preferred stock treasury shares with the replacement requirement upon redemption;
 - iii. Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption; and
 - iv. Net losses in fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities.
- 8. Lower Tier 2 capital consists of:
 - a) Paid-up limited life redeemable preferred stock without the replacement requirement upon redemption in an amount equivalent to its carrying amount discounted by the following rates:

Remaining maturity	Discount factor
5 years & above	0%
4 years to < 5 years	20%
3 years to < 4 years	40%
2 years to < 3 years	60%
1 year to < 2 years	80%
< 1 year	100%

- b) Deposit for limited life redeemable preferred stock subscription without the replacement requirement upon redemption; and

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c) With prior Bangko Sentral approval, unsecured subordinated debt with a minimum original maturity of at least five (5) years, issued subject to the conditions in paragraph 13, in an amount equivalent to its carrying amount discounted by the following rates:

Remaining maturity	Discount factor
5 years & above	0%
4 years to < 5 years	20%
3 years to < 4 years	40%
2 years to < 3 years	60%
1 year to < 2 years	80%
< 1 year	100%

Less:

- i. Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption; and
- ii. Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption up to the extent of the balance of redeemable preferred stock after applying the cumulative discount factor.

(As amended by Circular No. 762 dated 25 July 2012)

C. Deductions from the total of Tier 1 and Tier 2 capital

9. The following items should be deducted fifty percent (50%) from Tier 1 and fifty percent (50%) from Tier 2 capital: *Provided*, That the amount to be deducted from Tier 2 capital shall be limited to its balance and any excess thereof shall be deducted from Tier 1 capital:

- a) Investments in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks, after deducting related goodwill, if any (for solo basis);
- b) Investments in other regulatory capital instruments of unconsolidated subsidiary RBs for Coop Banks (for solo basis);

c) Investments in equity of unconsolidated subsidiary non-financial allied undertakings, after deducting related goodwill, if any (for both solo and consolidated bases);

d) Significant minority investments (20%-50% of voting stock) in banks and other financial allied undertakings (for both solo and consolidated bases); and

e) Reciprocal investments in equity/ other regulatory capital instruments of other banks/QBs/enterprises.

10. Any asset deducted from qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the total risk-weighted assets in computing the denominator of the ratio. Available for sale debt securities shall be risk-weighted net of allowance for credit losses, but without considering accumulated market gains/(losses).

D. Eligible instruments under hybrid Tier 1 capital

11. Perpetual preferred stock and perpetual unsecured subordinated debt issuances of banks should comply with the following minimum conditions in order to be eligible as hybrid Tier 1 (HT1) capital:

- a) It must be issued and fully paid-up. Only the net proceeds received from the issuance shall be included as capital;
- b) The dividends/coupons must be non-cumulative. It is acceptable to pay dividends/coupons in scrip or shares of stock if a cash dividend/coupon is withheld: *Provided*, That this does not result to issuing lower quality capital: *Provided, further*, That where such dividend/coupon stock settlement feature is included, the bank should ensure that it has an appropriate buffer of authorized capital stock and appropriate stockholders and board authorization, if necessary, to fulfill their potential obligations under such issues;

c) It must be available to absorb losses of the bank without it being obliged to cease carrying on business. The agreement governing its issuance should specifically provide for the dividend/coupon and principal to absorb losses where the bank would otherwise be insolvent, or for its	holders to be treated as if they were holders of a specified class of share capital in any proceedings commenced for the winding up of the bank. Issue documentation must disclose to prospective investors the manner by which the instrument is to be treated in loss situation.
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Alternatively, the agreement governing its issuance can provide for automatic conversion into common shares or perpetual and non-cumulative preferred shares upon occurrence of certain trigger events, as follows:

- i. Breach of minimum capital ratio;
- ii. Commencement of proceedings for winding up of the bank; or
- iii. Upon appointment of receiver for the bank.

The rate of conversion must be fixed at the time of subscription to the instrument. The bank must also ensure that it has appropriate buffer of authorized capital stock and appropriate stockholders and board authorization for conversion/issue to take place anytime;

d) Its holders must not have a priority claim, in respect of principal and dividend/coupon payments in the event of winding up of the bank, which is higher than or equal with that of depositors, other creditors of the bank and holders of LT2 and UT2 capital instruments. Its holder must waive his/its right to set-off any amount he/it owes the bank against any subordinated amount owed to him/it due to the HT1 capital instrument;

e) It must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of any holder as against depositors, other creditors of the bank and holders of LT2 and UT2 capital instruments;

f) It must not be redeemable at the initiative of the holder. It must not be repayable without the prior approval of the BSP: *Provided*, That repayment may be allowed only in connection with call option after a minimum of five (5) years from issue date: *Provided, however*, That a call option may be exercised within the first five (5) years from issue date when:

i. It was issued for the purpose of a merger with or acquisition by the bank and the merger or acquisition is aborted;

ii. There is a change in tax status of the HT1 capital instrument due to changes in the tax laws and/or regulations; or

iii. It does not qualify as HT1 capital as determined by the BSP:

Provided, further, That such repayment shall be approved by the BSP only if the preferred share/debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption.

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency. The agreement governing its issuance must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option which may be exercised by the bank;

g) Its main features must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

h) The proceeds of the issuance must be immediately available without limitation to the bank;

i) The bank must have full discretion over the amount and timing of dividends/coupons where the bank:

i. Has not paid or declared a dividend on its common shares in the preceding financial year; or

ii. Determines that no dividend is to be paid on such shares in the current financial year.

The bank must have full control and access to waived payments;

j) Any dividend/coupon to be paid must be paid only to the extent that the bank has profits distributable determined in accordance with existing BSP regulations. The dividend/coupon rate, or the formulation for calculating dividend/coupon

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payments must be fixed at the time of issuance and must not be linked to the credit standing of the bank;

k) It may allow only one (1) moderate step-up in the dividend/coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of ten (10) years after the issue date and if it results in an increase over the initial rate that is not more than:

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

ii. Fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference security or rate.

l) It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

m) It must be issued in minimum denominations of at P500,000.00 or its equivalent;

n) It must clearly state on its face that it is not a deposit and is not insured by the PDIC; and

o) The bank must submit a written external legal opinion that the abovementioned requirements, including the subordination and loss absorption features, have been met.

Provided, That for purposes of reserve requirement regulation, it shall not be treated as time deposit liability, deposit substitute liability or other forms of borrowings: *Provided, further*, That the total amount of HT1 capital that may be included in the Tier 1 capital shall be limited to a maximum of fifteen percent (15%) of total

Tier 1 capital (net of deductions enumerated in paragraph 3). *Provided, furthermore*, That the amount of HT1 capital in excess of the maximum limit shall be eligible for inclusion in UT2 capital, subject to the limit in total Tier 2 capital. To determine the allowable amount of HT1 capital, the amount of total core Tier 1 capital (net of deductions enumerated in paragraph 3) should be multiplied by 17.65%, the number derived from the proportion of 15% to 85% (i.e., $15\%/85\% = 17.65\%$): *Provided, finally*, That where it is denominated in foreign currency, it shall be revalued in accordance with PAS 21.

E. Eligible unsecured subordinated debt

12. Unsecured subordinated debt issuances by banks should comply with the following minimum conditions in order to be eligible as UT2 capital:

a) It must be issued and fully paid-up. Only the net proceeds received from the issuance shall be included as capital;

b) It must be available to absorb losses of the bank without it being obliged to cease carrying on business. The agreement governing its issuance should specifically provide for the coupon and principal to absorb losses where the bank would otherwise be insolvent, or for its holders to be treated as if they were holders of a specified class of share capital in any proceedings commenced for the winding up of the bank. Issue documentation must disclose to prospective investors the manner by which the instrument is to be treated in loss situation.

Alternatively, the agreement governing its issuance can provide for automatic conversion into common shares or perpetual and non-cumulative shares or perpetual and cumulative preferred shares upon occurrence of certain trigger events, as follows:

- i. Breach of minimum capital ratio;
- ii. Commencement of proceedings for winding up of the bank; or
- iii. Upon appointment of receiver for the bank.

The rate of conversion must be fixed at the time of subscription to the instrument. The bank must also ensure that it has appropriate buffer of authorized capital stock and appropriate stockholders and board authorization for conversion/issue to take place anytime;

c) Its holders must not have a priority claim, in respect of principal and coupon payments of the UT2 in the event of winding up of the bank, which is higher than or equal with that of depositors, other creditors of the bank, and holders of LT2 capital instruments. Its holder must waive his/its right to set-off any amount he/it owes the bank against any subordinated amount owed to him/it due to the UT2 capital instrument;

d) It must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of any holder as against depositors, other creditors of the bank and holders of LT2 capital instruments;

e) It must not be redeemable at the initiative of the holder. It must not be repayable prior to maturity without the prior approval of the BSP: *Provided*, That repayment may be allowed only in connection with call option after a minimum of five (5) years from issue date: *Provided, however*, That a call option may be exercised within the first five (5) years from issue date when:

i. It was issued for the purpose of a merger with or acquisition by the bank and the merger or acquisition is aborted;

ii. There is a change in tax status of the UT2 capital instrument due to changes in the tax laws and/or regulations; or

iii. It does not qualify as UT2 capital as determined by the BSP:

Provided, further, That such repayment prior to maturity shall be approved by the BSP only if the debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption,

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency. The agreement governing its issuance must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option which may be exercised by the bank;

f) Its main features must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

g) The proceeds of the issuance must be immediately available without limitation to the bank;

h) The bank must have the option to defer any coupon payment where the bank:

i. Has not paid or declared a dividend on its common shares in the preceding financial year; or

ii. Determines that no dividend is to be paid on such shares in the current financial year;

It is acceptable for the deferred coupon to bear interest but the interest rate payable must not exceed market rates;

i) The coupon rate, or the formulation for calculating coupon payments must be fixed at the time of issuance and must not be linked to the credit standing of the bank;

j) It may allow only one (1) moderate step-up in the coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of ten (10) years after the issue

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date and if it results in an increase over the initial rate that is not more than:

- i. 100 basis points less the swap spread between the initial index basis and the stepped-up index basis; or
- ii. Fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis.

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference security or rate;

k) It must be underwritten or purchased by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

l) It must be issued in minimum denominations of at least P500,000.00 or its equivalent;

m) It must clearly state on its face that it is not a deposit and is not insured by the PDIC; and

n) The bank must submit a written external legal opinion that the abovementioned requirements, including the subordination and loss absorption features, have been met: *Provided*, That it shall be subject to a cumulative discount factor of twenty percent (20%) per year during the last five (5) years to maturity (i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.): *Provided, further*, That where it is denominated in a foreign currency, it shall be revalued in accordance with PAS 21: *Provided, furthermore*, That for purposes of reserve requirement regulation, it shall not be treated as time deposit liability, deposit substitute liability or other forms of borrowings;

13. Unsecured subordinated debt issuances banks should comply with the following minimum conditions in order to be eligible as LT2 capital:

a) It must be issued and fully paid-up. Only the net proceeds received from the issuance shall be included as capital;

b) Its holders must not have a priority claim, in respect of principal and coupon payments in the event of winding up of the bank, which is higher than or equal with that of depositors and other creditors of the bank. Its holder must waive his/its right to set-off any amount he/it owes the bank against any subordinated amount owed to him/it due to the LT2 capital instrument;

c) It must neither be secured nor covered by a guarantee of the issuer or related party or other arrangement that legally or economically enhances the priority of the claim of any holder as against depositors and other creditors of the bank;

d) It must not be redeemable at the initiative of the holder. It must not be repayable prior to maturity without the prior approval of the BSP: *Provided*, That repayment may be allowed only in connection with call option after a minimum of five (5) years from issue date: *Provided, however*, That a call option may be exercised within the first five (5) years from issue date when:

i. It was issued for the purpose of a merger with or acquisition by the bank and the merger or acquisition is aborted;

ii. There is a change in tax status of the LT2 capital instrument due to changes in the tax laws and/or regulations; or

iii. It does not qualify as LT2 capital as determined by the BSP:

Provided, further, That such repayment prior to maturity shall be approved by the BSP only if the debt is simultaneously replaced with issues of new capital which is neither smaller in size nor of lower quality than the original issue, unless the bank's capital ratio remains more than adequate after redemption.

It must not contain any clause which requires acceleration of payment of principal, except in the event of insolvency.

The agreement governing the issuance must not contain any provision that mandates or creates an incentive for the bank to repay the outstanding principal of the instrument, e.g., a cross-default or negative pledge or a restrictive covenant, other than a call option which may be exercised by the bank;

e) Its main features must be publicly disclosed by annotating the same on the instrument and in a manner that is easily understood by the investor;

f) The proceeds must be immediately available without limitation to the bank;

g) The coupon rate, or the formulation for calculating coupon payments must be fixed at the time of issuance and must not be linked to the credit standing of the bank;

h) It may allow only one (1) moderate step-up in the coupon rate in conjunction with a call option, only if the step-up occurs at a minimum of five (5) years after the issue date and if it results in an increase over the initial rate that is not more than:

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

ii. Fifty percent (50%) of the initial credit spread less the swap spread between the initial index basis and the stepped-up index basis;

The swap spread should be fixed as of the pricing date and reflect the differential in pricing on that date between the initial reference security or rate and the stepped-up reference security or rate.

i) It must be underwritten or purchased by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank;

j) It must be issued in minimum denominations of at least P500,000.00 or its equivalent;

k) It must clearly state on its face that it is not a deposit and is not insured by the PDIC; and

l) The bank must submit a written external legal opinion that the abovementioned requirements, including the subordination feature have been met: *Provided*, That it shall be subject to a cumulative discount factor of twenty percent (20%) per year during the last five (5) years to maturity (i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.): *Provided, further*, That where it is denominated in a foreign currency, it shall be revalued in accordance with PAS 21: *Provided, furthermore*, That for purposes of reserve requirement regulation, it shall not be treated as time deposit liability, deposit substitute liability or other forms of borrowings.

14. Capital instruments issued by banks starting 01 January 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*.

(As amended by Circular Nos. 781 dated 15 January 2013, 716 dated 25 March 2011 and 709 dated 10 January 2011)

Part III. Credit Risk-Weighted Assets

1. Credit risk-weighted assets shall be determined by assigning risk weights to amounts of on-balance sheet assets and to credit equivalent amounts of off-balance sheet items and for banks that shall engage in derivatives activities as end-user for hedging purpose and/or under a Type 3-Limited User Authority granted pursuant to the provisions of Subsec. X602.2, inclusive of derivative contracts: *Provided*, That the following shall be deducted from the total credit risk-weighted assets:

a) General loan loss provision (in excess of the amount permitted to be included in upper Tier 2 capital); and

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b) Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board.

A. On-Balance Sheet Assets

2. The risk-weighted amount shall be the product of the net carrying amount of the asset and the risk weight associated with that asset. Net carrying amount shall refer to the outstanding balance of the account inclusive of unamortized discount/ (premium) and accumulated market gains/ (losses), and net of allowance for credit losses: *Provided*, That for available for sale debt securities, any accumulated market gains/(losses) shall be deducted/added back as stated in paragraph 10 of Part II.

a) 0% risk weight –

- i. Cash on hand (including foreign currency notes and coins on hand acceptable as international reserves);
- ii. Peso-denominated claims on or portions of claims guaranteed by or collateralized by peso-denominated securities issued by the Philippine National Government and the Bangko Sentral;
- iii. Claims on or portions of claims guaranteed by or collateralized by securities issued by central governments and central banks of foreign countries with the highest credit quality as defined in Part VI;
- iv. Claims on or portions of claims guaranteed by or collateralized by securities issued by multilateral development banks with the highest credit quality as defined in Part VI;
- v. Loans to the extent covered by hold-out on, or assignment of deposits/deposit substitutes maintained with the lending bank;
- vi. Loans or acceptances under letters of credit to the extent covered by margin deposits;

vii. Peso-denominated special time deposit loans to the extent guaranteed by Industrial Guarantee and Loan Fund (IGLF);

viii. Peso-denominated real estate mortgage loans to the extent guaranteed by the Home Guaranty Corporation (HGC); and

ix. Peso-denominated loans to the extent guaranteed by the Trade and Investment Development Corporation of the Philippines (TIDCORP).

b) 20% risk weight –

- i. Checks and other cash items (including foreign currency checks and other cash items denominated in currencies acceptable as international reserves);
- ii. Claims on or portions of claims guaranteed by or collateralized by securities issued by local government units (LGUs) with the highest credit quality as defined in Part VI;
- iii. Claims on or portions of claims guaranteed by or collateralized by securities issued by non-central government public sector entities of foreign countries with the highest credit quality as defined in Part VI;
- iv. Claims on or portions of claims guaranteed by Philippine incorporated banks/QBs with the highest credit quality as defined in Part VI;
- v. Claims on or portions of claims guaranteed by foreign incorporated banks with the highest credit quality as defined in Part VI;
- vi. Interbank call loans;
- vii. Claims on or portion of claims guaranteed by Philippine incorporated private enterprises (including claims on government corporations and on MSME not qualifying under highly diversified loan portfolio as defined in Item “d” below) with the highest credit quality as defined in Part VI;
- viii. Claims on or portion of claims guaranteed by foreign incorporated

private enterprises (including claims on government corporations) with the highest credit quality as defined in Part VI; and

ix. Loans to small farmer and fisherfolk engaged in palay and/or food production projects/activities to the extent guaranteed by the Agricultural Guarantee Fund Pool (AGFP) created under Administrative Order No. 225-A dated 26 May 2008: *Provided*, That a separate fund is maintained to guarantee the loans originated by banks: *Provided, further*, That the maximum allowable leveraging ratio of the fund maintained to guarantee bank loans shall be three (3), i.e., the maximum amount of loans guaranteed by the fund is thrice the amount of money in the fund: *Provided, furthermore*, That the fund maintained to guarantee bank loans is invested in assets that are zero percent (0%) risk weighted under this risk-based capital adequacy framework.

c) 50% risk weight –

i. Loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower which are not classified as non-performing.

ii. Foreign currency denominated claims on or portion of claims guaranteed by or collateralized by foreign currency denominated securities issued by the Philippine National government and the Bangko Sentral.

d) 75% risk weight –

Qualified micro, small and medium enterprise (MSME) loan portfolio that meets the following criteria:

For individual claims that may form part of the MSME loan portfolio –

(1) Claim must be on a micro, small or medium business enterprise as defined under existing Bangko Sentral regulations; and

(2) Claim must be in the form of:

- Direct loan; or

- Unused letters of credit: *Provided*, That the credit equivalent amounts thereof shall be determined in accordance with paragraph 3.

For the MSME loan portfolio –

It must be a highly diversified portfolio, i.e., it has at least 500 borrowers that are distributed over a number of industries. All borrowers included in the count must not have any non-performing loan. All non-performing MSME exposures are to be treated as ordinary non-performing loans.

e) 100% risk weight –

i. Non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower.

f) 150% risk weight –

i. All non-performing loans (except non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower), all non-performing sales contract receivables and all non-performing debt securities.

ii. Real and other properties acquired (ROPA) and Non-Current Assets Held for Sale (NCAHS)¹ – net of allowance for losses: *Provided*, That the 150% risk weight shall be applied on a staggered basis for three (3) years, i.e., 115% starting 01 January 2012, 130% from 01 January 2013, and 150% from 01 January 2014.

g) 100% risk weight –

All other assets including, among others, the following:

i. Claims on central governments and central banks of foreign countries other than those with the highest credit quality;

ii. Claims on Philippine local government units other than those with the highest credit quality;

¹ For all non-performing sales receivables and NCAHS, it shall take effect 01 January 2013

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- iii. Claims on non-central government public sector entities of foreign countries other than those with the highest credit quality;
- iv. Claims on Philippine incorporated banks/QBs other than those with the highest credit quality;
- v. Claims on foreign incorporated banks other than those with the highest credit quality;
- vi. Claims on the Philippine incorporated private enterprises (including claims on government corporations and on MSME not qualifying under highly diversified loan portfolio as defined in Item “d” above) other than those with the highest credit quality;
- vii. Claims on foreign incorporated private enterprises other than those with the highest credit quality;
- viii. Loans to companies engaged in speculative residential building or property development;
- ix. Equity investments (except those deducted from capital);
- x. Bank premises, furniture, fixture and equipment, inclusive of revaluation increment – net of allowance for losses;
- xi. Foreign currency notes and coins on hand not acceptable as international reserves; and
- xii. Foreign currency checks and other cash items not acceptable as international reserves, except those which are deducted from capital, as follows:
 - (1) Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI - net of allowance for credit losses;
 - (2) Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries - net of allowance for credit losses;
 - (3) Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm’s length terms as determined by the appropriate supervising department of the Bangko Sentral – net of allowance for credit losses;
 - (4) Deferred tax asset, net of deferred tax liability: *Provided*, That the conditions

to offset under PAS 12 are met: *Provided, further*, That any excess of deferred tax liability over deferred tax asset (i.e., net deferred tax liability) shall not be added to Tier 1 capital;

(5) Goodwill, net of allowance for losses, including that relating to unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks (on solo basis) and unconsolidated non-financial allied undertakings (on solo and consolidated bases);

(6) Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption;

(7) Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor);

(8) Investment in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for solo basis);

(9) Investments in other regulatory capital instruments of unconsolidated subsidiary RBs for Coop Banks (for solo basis);

(10) Investment in equity of subsidiary non-financial allied undertakings, after deducting related goodwill, if any (for both solo and consolidated bases);

(11) Significant minority investments (twenty percent to fifty percent (20%-50%) of voting stock) in banks and other financial allied undertakings (for both solo and consolidated bases); and

(12) Reciprocal investments in equity/ other regulatory capital instruments of other banks/QBs/enterprises.

(As amended by Circular Nos. 914 dated 23 June 2016, 827 dated 28 February 2014 and 770 dated 28 September 2012)

B. Off-Balance Sheet Assets

3. The risk-weighted amount shall be calculated using a two-step process. First, the credit equivalent amount of an off-

balance sheet item shall be determined by multiplying its notional principal amount by the appropriate credit conversion factor, as follows:

a) 100% credit conversion factor

This shall apply to direct credit substitutes, e.g., general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances), and shall include:

- i. Guarantees issued other than shipside bonds/airway bills; and
- ii. Financial standby letters of credit (net of margin deposit).

b) 50% credit conversion factor

This shall apply to certain transaction-related contingent items, e.g., performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions, and shall include:

- i. Performance standby letters of credit (net of margin deposit), established as a guarantee that a business transaction will be performed.

This shall also apply to –

- i. Other commitments e.g., formal standby facilities and credit lines with an original maturity of more than one (1) year.

c) 20% credit conversion factor

This shall apply to short-term, self-liquidating trade-related contingencies arising from movement of goods, e.g., documentary credits collateralized by the underlying shipments, and shall include:

- i. Trade-related guarantees:
 - (1) Shipside bonds/airway bills
 - (2) Letters of credit - confirmed
- ii. Sight letters of credit outstanding (net of margin deposit);
- iii. Usance letters of credit outstanding (net of margin deposit);
- iv. Deferred letters of credit (net of margin deposit);

- v. Revolving letters of credit (net of margin deposit) arising from movement of goods and/or services; and

This shall also apply to commitments with an original maturity of up to one (1) year.

d) 0% credit conversion factor

This shall apply to commitments, which can be unconditionally cancelled at any time by the bank without prior notice, and shall include –

- i. Credit card lines.

This shall also apply to those not involving credit risk, and shall include:

- i. Late deposits/payments received;
- ii. Inward bills for collection;
- iii. Outward bills for collection;
- iv. Travelers’ checks unsold;
- v. Trust department accounts;
- vi. Items held for safekeeping/custodianship;
- vii. Items held as collaterals;
- viii. Deficiency claims receivable; and
- ix. Others.

Second, the credit equivalent amount shall be treated like any on-balance sheet asset and shall be assigned the appropriate risk weight, i.e., according to the obligor, or if relevant, the qualified guarantor or the nature of collateral.

C. Claims with Eligible Collateral/ Guarantees

4. In order to obtain capital relief, all documentation used in collateralized transactions and for documenting guarantees must be binding on all parties and legally enforceable in all relevant jurisdictions. The disclosure requirements under Part V of this document must also be observed for banks to obtain capital relief.

5. In addition to the general requirement for legal certainty set out in paragraph 4, the legal mechanism by which collateral is pledged or transferred must ensure that the bank has the right to liquidate or take legal possession of it in a timely manner, in the event of default, insolvency or bankruptcy.

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6. The following are the eligible collateral instruments:

- a) Cash (as well as certificates of deposits or comparable instruments issued by the lending bank) on deposit with the bank which is incurring the counterparty exposure;
- b) Peso-denominated securities issued by the Philippine National Government and the BSP;
- c) Multilateral development banks;
- d) Securities with the highest credit quality as defined in Part VI issued by:
 - i. Central government and central banks of foreign countries;
 - ii. Philippine local government units; and
 - iii. Non-central government public sector entities of foreign countries; and
- e) First mortgage on residential property, only in the case of loans to individuals for housing purpose.

7. A guarantee must represent a direct claim on the protection provider and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible. Other than the non-payment by a protection purchaser of money due in respect of the credit protection contract, the guarantee must be irrevocable; there must be no clause in the contract that would allow the protection provider unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. It must also be unconditional; there should be no clause in the protection contract outside the direct control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.

8. The following are the eligible guarantors:

- a) Philippine National Government and the BSP;
- b) Multilateral development banks;
- c) Guarantors with the highest credit quality as defined in Part VI:
 - i. Central government and central banks of foreign countries;
 - ii. Philippine local government units;
 - iii. Non-central government public sector entities of foreign countries;
 - iv. Philippine incorporated banks/QBs;
 - v. Foreign incorporated banks;
 - vi. Philippine incorporated private enterprises (including government corporations);
 - vii. Foreign incorporated private enterprises (including government corporations); and
- d) The Agricultural Guarantee Fund Pool created under Administrative Order No. 225-4 dated 26 May 2008.

9. The extent to which a claim is guaranteed/collateralized shall be determined by the amount of current market value of securities pledged/guarantee coverage, in comparison with the carrying amount of the on-balance sheet claim or the notional principal amount of the off-balance sheet exposure.

Part IV. Operational Risk-Weighted Assets

A. Definition of operational risk

1. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

2. Banks should be guided by the Basel Committee on Banking Supervision's recommendations on Sound Practices for the Management and Supervision of Operational Risk (February 2003). The same may be downloaded from the BIS website (www.bis.org).

B. Measurement of capital charge

3. In computing for the operational risk capital charge, banks shall use the basic indicator approach, with modification.

4. Under this approach, banks must hold capital for operational risk equivalent to twelve percent (12%) of the average gross income over the previous three (3) years of positive annual gross income; *Provided*, That this shall be applied over a three (3)-year period, i.e., four percent (4%) capital charge shall be applied by 01 January 2012, eight (8%) by 01 January 2013, and twelve percent (12%) by 01 January 2014. Figures for any year in which annual gross income is negative or zero should be excluded from both the numerator and denominator when calculating the average.

5. Gross income must be calculated using the year-end balances from the FRP.

6. Gross income, for the purpose of computing for operational risk capital charge, is defined as net interest income plus non-interest income. This measure should:

- a) be gross of any provisions for losses on accrued interest income from financial assets;
- b) be gross of operating expenses, including fees paid to outsourcing service providers;
- c) include fees and commissions;
- d) exclude gains/(losses) from the sale/redemption/derecognition of non-trading financial assets and liabilities;
- e) exclude gains/(losses) from sale/derecognition of non-financial assets; and
- f) include other income (i.e., rental income, miscellaneous income, etc.).

7. Banks that have concerns on the insufficiency of their income data should consult their respective Central Point of Contact Department (CPCD) of the SES for the appropriate computation of the operational risk capital charge.¹

C. Measurement of operational risk-weighted assets

8. The resultant operational risk capital charge is to be multiplied by 125% before multiplying by 10 (i.e., the reciprocal of the minimum capital ratio of 10%) to arrive at the total operational risk-weighted assets.

Part V. Disclosures in the Annual Reports and Published Balance Sheet

1. In addition to the disclosure requirements under Subsec. X190.5 and X192.9.c of the MORB, banks shall disclose in their Annual Reports, where applicable, the information below. Item "h" should also be disclosed in the quarterly Published Balance Sheet (PBS):

- a) Tier 1 capital and a breakdown of its components (including deductions solely from Tier 1);
- b) Tier 2 capital and a breakdown of its components;
- c) Deductions from Tier 1 fifty percent (50%) and Tier 2 fifty percent (50%) capital;
- d) Total qualifying capital;
- e) Capital requirements for credit risk;
- f) Capital requirements for market risk;
- g) Capital requirements for operational risk; and
- h) Total and Tier 1 capital adequacy ratio on both solo and consolidated bases.

2. The required disclosures shall commence with Annual Reports for financial year 2012 and quarterly PBS from end-March 2012.

Part VI. Definitions

1. *Bank premises, furniture, fixture and equipment (inclusive of revaluation increment) – net*. This refers to the real and other properties used/to be used for banking purposes inclusive of revaluation increment as approved by the Monetary Board.

¹Applies to banks operating for less than three years, or those that have been recently merged, among others.

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2. *Cash on hand.* This refers to total amount of cash in the bank’s vault in the form of notes and coins in Philippine currency and in foreign currencies acceptable to form part of the international reserves.
3. *Central government of a foreign country.* This refers to the central government which is regarded as such by a recognized banking supervisory authority in that country.
4. *COCIs.* This refers to the total amount of COCIs received after the selected clearing cut-off time until the close of the regular banking hours denominated in Philippine currency and in foreign currencies acceptable to form part of the international reserves.
5. *Claims.* This refer to exposures to the entity on whom the claim is held, and shall include, but shall not be limited to the following accounts, inclusive of unamortized discount/(premium) and accumulated market gains/(losses) and net of allowance for credit losses: *Provided,* That for available for sale debt securities, any accumulated market gains/(losses) shall be deducted/added back as stated in paragraph 10 of Part II:
- a) Due from BSP;
 - b) Due from other banks;
 - c) Financial assets designated at fair value through profit or loss;
 - d) Available for sale financial assets;
 - e) Held to maturity financial assets;
 - f) Unquoted debt securities classified as loans;
 - g) Loans and receivables;
 - h) Loans and receivable arising from repurchase agreements, certificates of assignment/participation with recourse, and securities lending and borrowing transactions;
 - i) Sales contract receivables;
 - j) Accrued interest income from financial assets; and

- k) Others, e.g., accounts receivable and dividends receivable.
- Accruals on a claim shall be classified and risk weighted in the same way as the claim. Bills purchased on a without recourse basis shall be classified as claims on the drawee banks.
6. *Claims on (a) central government and central bank and non-central government public sector entities of foreign country and foreign incorporated bank/private enterprise; (b) multilateral development banks; (c) local government units and Philippine incorporated bank/QB/private enterprise with the highest credit quality.* This refers to claims on governments, banks/QBs, private enterprises given the highest credit rating by any of the following BSP-recognized credit rating agencies:

International rating agencies:

Rating agency	Highest rating
Moody’s	“Aa3” and above
Standard & Poor’s	“AA-” and above
Fitch Ratings	“AA-” and above
And such other rating agencies as may be approved by the Monetary Board	

International rating agencies (with National Ratings):

Rating agency	Highest rating
Fitch Ratings Singapore	“AA-” and above
And such other rating agencies as may be approved by the Monetary Board	

Domestic rating agencies:

Rating agency	Highest rating
PhilRatings	“PRS Aa” and above
And such other rating agencies as may be approved by the Monetary Board	

Provided, That for purposes of this Appendix,

- With prior BSP approval, international credit rating agencies may have national rating

systems developed exclusively for use in the Philippines using the Philippine sovereign as reference highest credit quality anchor;

- If a claim has only one rating by any of the Bangko Sentral recognized credit assessment agencies, that rating shall be used to determine the risk weight of the claim; in cases where there are two (2) or more ratings which map into different risk weights, the higher of the two lowest risk weights should be used;

- Any reference to credit rating shall refer to issue-specific rating; the issuer rating may be used only if the claim being risk-weighted is an unsecured senior obligation of the issuer and is of the same denomination applicable to the issuer rating (e.g., local currency issuer rating may be used for risk weighting local currency denominated senior claims); or short-term or in cases of guarantees;

- For loans, risk weighting shall depend on either the rating of the borrower or the rating of the unsecured senior obligation of the borrower: *Provided*, That in the case of the latter, the loan is of the same currency denomination as the unsecured senior obligation; and

- Domestic debt issuances may be rated by Bangko Sentral-recognized domestic or international credit rating agencies, which have developed a national rating scale acceptable to the Bangko Sentral, while internationally issued debt obligations shall be rated by Bangko Sentral-recognized international credit assessment agencies only.

7. *Consolidated basis*. This refers to combined financial statements of parent bank and subsidiary financial allied undertakings (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) on a line by line basis.

8. *Deposit for stock subscription*. This refers to the funds received as deposits for stock subscription that meets the conditions for recognition as equity provided in Sec.

X128.

9. *Financial allied undertakings*. This refers to enterprises or firms with homogenous or similar activities/business/functions with the financial intermediary and may include but not limited to leasing companies, banks, investment houses, financing companies, credit card companies, FIs catering to small and medium scale industries (including VCCs), companies engaged in FX dealership/brokerage, and such other similar activities as the Monetary Board may declare as appropriate from time to time.

10. *Goodwill*. This refers to the future economic benefit arising from assets that are not capable of being individually identified and separately recognized.

11. *Government corporations*. This refers to commercial undertakings owned by central governments or non-central public sector entities. Claims on Philippine GOCCs that are not explicitly guaranteed by the Philippine National Government are also included in this category.

12. *Interbank call loans*. This refers to the cost of call/demand loans granted to other resident banks and non-bank financial intermediaries with quasi-banking authority covered under Section X343.

13. *Investment in subsidiaries*. This refers to the amount of the bank's investments in the equity instruments of unconsolidated subsidiaries which shall be accounted for using the equity method. As provided under PAS 27, a subsidiary is an entity that is controlled by another entity (known as the parent). Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity, unless in exceptional circumstances, it can be directly demonstrated that such ownership does not constitute control.

14. *Loans to individuals for housing purpose, fully secured by first mortgage on*

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residential property that is or will be occupied by the borrower. This shall not include loans to companies engaged in speculative residential building or property development.

15. *Loans or acceptances under letters of credit to the extent covered by margin deposits.* This shall not include the unnegotiated letters of credit or the unutilized portion thereof, or other items booked under contingent accounts. This shall also not include margin deposits against loans or acceptance accounts which are fully liquidated.

16. *Loans to the extent covered by hold-out on, or assignment of, deposits or deposit substitutes maintained in the lending bank.* A loan shall be considered as secured by a hold-out on, or assignment of deposit or deposit substitute only if such deposit or deposit substitute account is covered by a hold-out agreement or deed of assignment signed by the depositor or investor/placer in favor of the bank. This shall not include loans transferred to/carried by the bank's trust department secured by deposit hold-out/assignment.

17. *Multilateral development banks.* This includes all exposures to multilateral development banks. Claims on World Bank Group, which comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the European Investment Fund (EIF), the Nordic Investment Bank (NIB), the Caribbean Development Bank (CDB), the Islamic Development Bank (IDB), and the Council of Europe Development Bank (CEDB) currently receive 0% risk weight.

18. *Non-central government public sector entities of a foreign country.* This

refers to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

19. *Non-performing debt securities.* This refers to debt securities as described below:

a) For zero-coupon debt securities, and debt securities with quarterly, semi-annual, or annual coupon payments, they shall be considered non-performing when principal and or coupon payment is unpaid for thirty (30) days or more after due date; and

b) For debt securities with monthly coupon payments, they shall be considered non-performing when three (3) or more coupon payments are in arrears: *Provided, however,* That when the total amount of arrearages reaches twenty percent (20%) of the total outstanding balance of the debt security, the total outstanding balance of the debt security shall be considered as non-performing.

20. *Other commitments.* This includes undrawn portion of any binding arrangements which obligate the bank to provide funds at some future date.

21. *Other commitments with an original maturity of up to one (1) year.* This includes any revolving or undated open-ended commitments, e.g., overdrafts or unused credit lines, providing that they can be unconditionally cancelled at any time and subject to credit revision at least annually.

22. *Other regulatory capital instruments.* This refers to unsecured subordinated term debt instruments qualifying as capital of banks.

23. *Perpetual preferred stock.* This refers to preferred stock that does not have a maturity date, that cannot be redeemed at the option of the holder of the instrument, and that has no provision that will require future redemption of the issue. Consistent with these provisions, any perpetual

preferred stock with a feature permitting redemption at the option of the issuer may qualify as capital only if the redemption is subject to prior approval of the Bangko Sentral.

24. *Philippine LGUs*. This refers to Philippine government units below the level of national government, such as city, provincial, and municipal governments.

25. *Philippine National Government*. This shall refer to the Philippine National Government and its agencies such as departments, bureaus, offices, and instrumentalities, but excluding GOCCs.

26. *Private enterprises*. This refers to all commercial companies whether organized in the form of a corporation, partnership, or sole proprietorship. This shall include government corporations.

27. *Redeemable preferred stock*. This refers to preferred stock which under existing regulation may be redeemed at the specific dates or periods fixed for redemption, only upon prior approval of the Bangko Sentral and, where the conditions of the issuance specifically state, only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption: *Provided*, That redemption shall not be earlier than five (5) years after the date of issuance: *Provided, further*, That such redemption may not be made where the bank is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the bank to meet its debts as they mature.

28. *Solo basis*. This refers to combined financial statements of head office and branches.

29. *Treasury shares*. This refers to shares of the parent bank held by a subsidiary financial allied undertaking (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) in consolidated financial statements.

Part VII. Required Reports

1. Banks shall submit a report of their risk-based capital ratio on a solo basis (head office plus branches) and on a consolidated basis (parent bank plus subsidiary financial allied undertakings (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) quarterly in the prescribed forms within the deadlines, i.e., fifteen (15) banking days and thirty (30) banking days after the end of the reference quarter, respectively. Only banks with subsidiary financial allied undertakings (i.e., RBs and VCCs for TBs, and RBs for Coop Banks) which under the existing regulations are required to prepare consolidated financial statements on a line-by-line basis shall be required to submit report on consolidated basis. The abovementioned reports shall be classified as Category A-2 reports.

(As amended by Circular No. 762 dated 25 July 2012)

Part VIII. Sanctions

A. For non-reporting of CAR breaches

1. It is the responsibility of the President or any officer of the bank holding equivalent position to cause the immediate reporting of CAR breaches both to its Board of Directors and to the Bangko Sentral. It is likewise the responsibility of the President/ or any officer holding equivalent position to ensure the accuracy of CAR calculations and the integrity of the associated monitoring and reporting system. Any willful violation of the above will be considered as a serious offense for purposes of determining the appropriate monetary penalty that will be imposed on the President/or any officer holding equivalent position. In addition, the President/or any officer holding equivalent position shall be subject to the non-monetary sanctions:

- a) First offense – warning
- b) Second offense – reprimand

- c) Third offense – one (1) month suspension without pay
- d) Further offense – disqualification

B. For non-compliance with required disclosures

2. Willful non-disclosure or erroneous disclosure of any item required to be disclosed under this framework in either the Annual Report or the Published Balance Sheet shall be considered as a serious offense for purposes of determining the appropriate monetary penalty that will be imposed on the bank. In addition, the President/or any officer holding equivalent position and the BOD shall be subject to the following non-monetary sanctions:

- a) First offense – warning on President/or any officer holding equivalent position and the BOD
- b) Second offense – reprimand on President/or any officer holding equivalent position and the BOD
- c) Third offense – 1 month suspension of President/or any officer holding equivalent position without pay
- d) Further offense – possible disqualification of the President/or any officer holding equivalent position and/or the BOD

C. For non-compliance with the minimum CAR

3. In case a bank does not comply with the prescribed minimum CAR, the Monetary Board may limit or prohibit the distribution of net profits by such bank and may require that part or all of net profits be used to

increase the capital accounts of the bank until the minimum requirements has been met. The Monetary Board may, furthermore, restrict or prohibit the acquisition of major assets and the making of new investments by the bank, with the exception of purchases of readily marketable evidences of indebtedness of the Republic of the Philippines and of the Bangko Sentral included in paragraph 2, Item "a.ii" of Part III, and any other evidences of indebtedness or obligations the servicing and repayment of which are fully guaranteed by the Republic of the Philippines, until the minimum requirement capital ratio has been restored.

4. In case of a bank merger, or consolidation, or when a bank is under rehabilitation program approved by the Bangko Sentral, the Monetary Board may temporarily relieve the surviving bank, consolidated bank, or constituent bank or corporations under rehabilitation from full compliance with the required capital ratio under such conditions as it may prescribe.

5. A bank may also be subject to PCA framework when either the total CAR, Tier 1 ratio or leverage ratio falls below 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 falls below the minimum capital requirement.

(Circular No. 688 dated 26 May 2010, as amended by Circular Nos. 914 dated 23 June 2016, 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 dated 25 March 2011 and 713 dated 14 February 2011)

**RISK-BASED CAPITAL ADEQUACY FRAMEWORK FOR THE BANKS ON THE
DEFINITION OF QUALIFYING CAPITAL INSTRUMENTS**
(Appendix to App. 63a, 63b and 63c)

(Deleted by Circular No. 781 dated 15 January 2013)

**BANGKO SENTRAL RULES OF PROCEDURE ON ADMINISTRATIVE CASES
INVOLVING DIRECTORS AND OFFICERS OF BANKS**
(Appendix to Sec. X150)

RULE I – GENERAL PROVISIONS

Section 1. Title. These rules shall be known as the BSP Rules of Procedure on Administrative Cases Involving Directors and Officers of Banks.

Sec. 2. Applicability. These rules shall apply to administrative cases filed with or referred to the Office of Special Investigation (OSI), BSP, involving directors and officers of banks pursuant to Section 37 of Republic Act No. 7653 (The New Central Bank Act) and Sections 16 and 66 of Republic Act No. 8791 (The General Banking Law of 2000).

The disqualification of directors and officers under Section 16 of R.A. No. 8791 shall continue to be covered by existing BSP rules and regulations.

Sec. 3. Nature of proceedings. The proceedings under these rules shall be summary in nature and shall be conducted without necessarily adhering to the technical rules of procedure and evidence applicable to judicial trials. Proceedings under these rules shall be confidential and shall not be subject to disclosure to third parties, except as may be provided under existing laws.

RULE II – COMPLAINT

Sec. 1. Complaint. The complaint shall be in writing and subscribed and sworn to by the complainant. However, in cases initiated by the appropriate department of the BSP, the complaint need not be under oath. No anonymous complaint shall be entertained.

Sec. 2. Where to file. The complaint shall be filed with or referred to the OSI.

Sec. 3. Contents of the complaint. The complaint shall contain the ultimate facts of the case and shall include:

- a. full name and address of the complainant;
- b. full name and address of the person complained of;
- c. specification of the charges;
- d. statement of the material facts;
- e. statement as to whether or not a similar complaint has been filed with the BSP or any other public office.

The complaint shall include copies of documents and affidavits of witnesses, if any, in support of the complaint.

**RULE III – DETERMINATION OF
PRIMA FACIE CASE
AND PROSECUTION OF THE CASE**

Sec. 1. Action on complaint. Upon determination that the complaint is sufficient in form and substance, the OSI shall furnish the respondent with a copy thereof and require respondent to file within ten (10) days from receipt thereof, a sworn answer, together with copies of documents and affidavits of witnesses, if any, copy furnished the complainant.

Failure of the respondent to file an answer within the prescribed period shall be considered a waiver and the case shall be deemed submitted for resolution.

Sec. 2. Preliminary investigation. Upon receipt of the sworn answer of the respondent, the OSI shall determine whether there is a *prima facie* case against

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the respondent. If a *prima facie* is established during the preliminary investigation, the OSI shall file the formal charge with the Supervised Banks Complaints Evaluation Group (SBCEG), BSP. However, in the absence of a *prima facie* case, the OSI shall dismiss the complaint without prejudice or take appropriate action as may be warranted.

Sec. 3. Formal charge. The formal charge shall contain the name of the respondent, a brief statement of material or relevant facts, the specific charge, and the pertinent provisions of banking laws, rules or regulations violated.

Sec. 4. Prosecution. The OSI shall prosecute the case. The complainant may be assisted or represented by counsel, who may be deputized for such purpose, under the direction and control of the OSI.

**RULE IV – PROCEEDING BEFORE
THE HEARING PANEL OR HEARING
OFFICER**

Sec. 1. Filing of the formal charge. The OSI shall file the formal charge before the SBCEG. It shall also furnish the SBCEG with supporting documents relevant to the formal charge.

Sec. 2. Hearing officer and composition of the hearing panel. The case shall be heard either by a hearing officer or a hearing panel, which shall be composed of a chairman and two (2) members, all of whom shall be designated by the SBCEG. The SBCEG shall determine whether the case shall be heard either by a hearing panel or a hearing officer.

Sec. 3. Answer. The hearing panel or hearing officer shall furnish the respondent with a copy of the formal charge, with

supporting documents relevant thereto, and shall require him to submit, within ten (10) days from receipt thereof, a sworn answer, copy of which shall be furnished the prosecution.

The respondent, in his answer, shall specifically admit or deny all the charges specified in the formal charge, including the attachments. Failure of the respondent to comment, under oath, on the documents attached thereto shall be deemed an admission of the genuineness and due execution of said documents.

Sec. 4. Waiver. In the event that the respondent, despite due notice, fails to submit an answer within the prescribed period, he shall be deemed to have waived his right to present evidence. The hearing panel or hearing officer shall issue an order to that effect and direct the prosecution to present evidence *ex parte*. Thereafter, the hearing panel or hearing officer shall submit a report on the basis of available evidence.

Sec. 5. Preliminary conference. Upon receipt of the answer of respondent, the hearing panel or hearing officer shall set the case for preliminary conference for the parties to consider and agree on the admission or stipulation of facts and of documents, simplification of issues, identification and marking of evidence and such other matters as may aid in the prompt and just resolution of the case. Any evidence not presented and identified during the preliminary conference shall not be admitted in subsequent proceedings.

Sec. 6. Submission of position papers After the preliminary conference, the hearing panel or hearing officer shall issue an order stating therein the matters taken up, admissions made by the parties and issues for resolution. The order shall also direct the parties to simultaneously submit,

within ten (10) days from the receipt of said order, their respective position papers which shall be limited to a discussion of the issues as defined in the order.

Sec. 7. Hearing. After the submission by the parties of their position papers, the hearing panel or hearing officer shall determine whether or not there is a need for a hearing for the purpose of cross-examination of the affiant(s). If the hearing panel or hearing officer finds no necessity for conducting a hearing, he shall issue an order to the effect.

In cases where the Hearing Panel or Hearing Officer deems it necessary to allow the parties to conduct cross-examination, the case shall be set for hearing. The affidavits of the parties and their witnesses shall take the place of their direct testimony.

RULE V – PROHIBITED MOTIONS

Sec. 1. Prohibited Motions. No motion to dismiss or quash, motion for bill of particulars and such other dilatory motions shall be allowed in the cases covered by these rules.

RULE VI – RESOLUTION OF THE CASE

Sec. 1. Contents and period for submission of report. Within sixty (60) days after the hearing panel or hearing officer has issued an order declaring that the case is submitted for resolution, a report shall be submitted to the Monetary Board. The report of the hearing panel or hearing officer shall contain clearly and distinctly the findings of facts and conclusions of law on which it is based.

Sec. 2. Rendition and notice of resolution After consideration of the report, the Monetary Board shall act thereon and

cause true copies of its resolution to be served upon the parties.

Sec. 3. Finality of the resolution. The resolution of the Monetary Board shall become final after the expiration of fifteen (15) days from receipt thereof by the parties, unless a motion for reconsideration shall have been timely filed.

Sec. 4. Motion for reconsideration. A motion for reconsideration may only be entertained if filed within fifteen (15) days from receipt of the resolution by the parties. No second motion for reconsideration shall be allowed.

RULE VII – APPEAL

Sec. 1. Appeal. An appeal from the Resolution of the Monetary Board may be taken to the Court of Appeals within the period and in the manner provided under Rule 43 of the Revised Rules of Court.

RULE VIII – EXECUTION OF RESOLUTION

Sec. 1. Resolution becoming executory The resolution of the Monetary Board shall become executory upon the lapse of fifteen (15) days from receipt thereof by the parties or from the receipt of the denial of the motion for reconsideration.

Sec. 2. Effect of appeal. The appeal shall not stay the resolution sought to be reviewed unless the Court of Appeals shall direct otherwise upon such terms as it may deem just.

Sec. 3. Enforcement of resolution. When the resolution orders the imposition of fines, suspension or removal from office of respondent, the enforcement thereof shall be referred to the appropriate department of the BSP.

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**RULE IX - MISCELLANEOUS
PROVISIONS**

Sec. 1. Repeal. All existing rules, regulations, orders or circulars or any part thereof inconsistent with these rules are

hereby repealed, amended or modified accordingly.

Sec. 2. Separability Clause. If any part of these rules is declared unconstitutional or illegal, the other parts or provisions shall remain valid.

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FORMAT CERTIFICATION
(Appendix to Subsec. X235.12)

*(Deleted by Circular Nos. 873 dated 25 March 2015 and
870 dated 20 February 2015)*

**REGULATORY REQUIREMENTS IN INVESTING IN CREDIT-LINKED NOTES,
STRUCTURED PRODUCTS AND SECURITIES OVERLYING SECURITIZATION
STRUCTURES BY UNIVERSAL BANKS AND COMMERCIAL BANKS**
[Appendix to Secs. 1628 (2008 - 1633), 1635, 1636 and 1648]

a. Banks shall: submit the following documents to the appropriate department of the SES within five (5) banking days after the date of its initial investment in credit-linked notes, structured products and/or securities overlying securitization structures -

(1) A notarized certification in the prescribed formats (Annexes “A” and “B”) duly signed by the President/Chief Executive Officer or its equivalent, the Treasurer and Compliance Officer, stating that the bank’s investments are in compliance with relevant BSP rules and regulations, and that the bank has an adequate risk management system in place; and

(2) Terms and conditions and/or product manuals on the credit-linked notes, structured products and/or securities overlying securitization structures, which as a minimum should cover the following:

(a) Description of the relevant financial product;

(b) Analysis of the proposed investments’ –

i. reasonableness vis-à-vis the institution’s overall financial condition and capital levels; and

ii. consistency with the institution’s business strategies and objectives;

(c) Analysis of the risks that may arise from the investments and the corresponding impact on the bank’s risk profile;

(d) Procedures/methodologies that the bank will implement to measure, monitor and control the risks inherent in the financial products;

(e) Relevant accounting guidelines, including pro-forma accounting entries;

(f) Relevant tax treatment;

(g) Analysis of any legal/regulatory restrictions and whether the investment is permissible for the institution; and

(h) Process flow chart, from deal initiation to risk reporting, indicating the departments and personnel involved in the identified processes.

UBs/KBs failing to submit the required certification within the prescribed deadline shall be subject to monetary penalties applicable for delayed reporting under existing regulations. For purposes of imposing monetary penalties, the required certification shall be classified as a *Category A-1 report*. Further, failure to comply with the above requirements shall subject the erring bank to the imposition of administrative sanctions under Section 37 of R.A. 7653.

The certification and the terms and conditions and/or product manual need not be submitted for a bank’s subsequent investments in the same issue of credit-linked note or structured product, or securities overlying the same tranche of a securitization structure.

b. The certification shall be subject to post-verification by the appropriate supervision and examination department of the BSP.

Should the BSP subsequently determine that the investments do not fully comply with the provisions of Secs. 1628, 1635, 1636 and 1648, as applicable, and other relevant BSP regulations, the UB/KB shall be considered to have submitted a false certification, subject to the sanctions prescribed under -

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- (1) Sec. 1636 for investments in structured products by UBs and KBs without expanded derivatives authority, or
- (2) Section 37 of R.A. No. 7653 for investments in structured products by UBs and KBs with expanded derivatives authority, and for investments in credit-

linked notes and similar products and in securities overlying securitization structures by all UBs and KBs.

Monetary penalties shall be reckoned from the date of the investment until the date that the erring bank shall have fully complied with the requirements under Secs. 1628, 1635, 1636 and 1648.

Annex A

For investments in (1) structured products by UBs and KBs with expanded derivatives authority and (2) credit-linked notes and securities overlying securitization structures by all UBs and KBs

(Name of Bank)

CERTIFICATION

We certify, in relation to _____ (Name of Bank) _____'s investment in _____ (name of financial product) _____ on _____ (date), _____ that –

1. The bank is allowed to invest in the product cited above under existing rules and regulations of the Bangko Sentral ng Pilipinas and the investment was approved by the Board of Directors in its Resolution No. _____ dated _____; and
2. The bank has an adequate risk management system, which includes, among others, the following:

a. Written policies and procedures that provide for adequate identification, measurement, monitoring and control of all risks in the investment;

b. Pertinent risk measurement system/methodologies that effectively measure on a timely basis all risks inherent in the investment;

c. Limit structure that addresses all risk factors and is consistent with the board-approved risk appetite and business strategy;

d. Internal controls; and

e. Management information system that efficiently provides accurate and timely monitoring and reporting of risk exposures and limit compliance.

President/CEO

Treasurer

Compliance Officer

SUBSCRIBED AND SWORN to before me this _____ day of _____ at _____, with affiants exhibiting to me the following Community Tax Certificate Nos. –

Name	Date Issued	Place Issued
President/CEO	_____	_____
Treasurer	_____	_____
Compliance Officer	_____	_____

NOTARY PUBLIC

Not. Reg. No. _____

Doc. No. _____

Page No. _____

Series of _____

For investments in structured products by UBs and KBs without expanded derivatives authority

(Name of Bank)

CERTIFICATION

We certify, in relation to _____ (Name of Bank) _____’s investment
in _____ (name of financial product) _____ on _____ (date) _____, that –

1. The bank is allowed to invest in the product cited above under existing rules and regulations of the Bangko Sentral ng Pilipinas;
2. The bank’s investment is in compliance with the conditions set out in Circular No. 466 dated 05 January 2005, as follows:
 - a. The revenue stream of the structured product is linked only to interest rate indices and/or foreign exchange rates other than those that involve the Philippine Peso, and that the minimum all-in return of such investments is not lower than zero.
 - b. The contractual maturity of the instrument does not exceed 5 years.
 - c. The product is issued by a bank or special purpose vehicle (SPV) collateralized by securities rated at least “A” or its equivalent by an international rating agency acceptable to the Monetary Board.
 - d. The investment is booked in the “Held to Maturity” (HTM) Securities” account, or for instruments with put options, in the “Available for Sale (AFS) Securities” account.
 - e. The total carrying value of all the bank’s investments in structured products does not exceed 20% of the total investment portfolio of its EFCDU.
 - f. The bank has established internal processes to identify, evaluate, monitor and manage the risk exposures (e.g. credit risk, market risk, liquidity risk, operational risk, legal risk, compliance risk), created by its investment in the above-cited product. Further to this:
 - (i) The investment was specifically approved by the Board of Directors in its Resolution No. _____ dated _____, and is subject to appropriate internal limits and periodic reporting to the Board.

- (ii) The bank complies with generally accepted accounting and disclosure standards and/or rules and regulations prescribed by the BSP.
- (iii) An independent risk management function is in place.
- (iv) The bank has the ability to value the investments on a continuing and consistent basis and to measure its sensitivity to market movements.
- (v) The risks of the investments can be accurately aggregated in risk reports on a timely basis.

Further, we undertake to –

- (i) Perform, at regular intervals, stress tests that reflect extreme market conditions; and
- (ii) Obtain, on a monthly basis, bid prices from the issuer(s) of the investment instruments, to supplement the valuation exercise in Item 2.f.iv above.

President/CEO

Treasurer

Compliance Officer

SUBSCRIBED AND SWORN to before me this _____ day of _____ at _____, with affiants exhibiting to me the following Community Tax Certificate Nos. –

Name	Date Issued	Place Issued
President/CEO	_____	_____
Treasurer	_____	_____
Compliance Officer	_____	_____

NOTARY PUBLIC

Not. Reg. No. _____
Doc. No. _____
Page No. _____
Series of _____

GUIDELINES ON THE ACCOUNTING TREATMENT FOR INVESTMENTS IN
CREDIT-LINKED NOTES AND OTHER STRUCTURED PRODUCTS
(Appendix to Sec. 1389)

In line with the policy of promoting fairness and accuracy in reporting financial transactions, banks are enjoined to observe the following guidelines on accounting for investments in credit-linked notes (CLNs) and other structured products (SPs) in addition to those prescribed under PAS 39:

CLNs and other SPs are financial instruments which consist of the host contract (e.g., debt or equity contract) and one or more embedded derivatives. Said financial instruments may be accounted for as compound financial instruments or as bifurcated financial instruments where the embedded derivatives shall be separated from the host contracts. PAS 39 provides the conditions on when the embedded derivative may be bifurcated from the host contract.

Booking of CLNs and other SPs as a compound instrument

1. CLNs may be booked under the “Held for Trading” (HFT) or “Designated at Fair Value through Profit or Loss” (DFVPL) category according to intention as provided under Circular No. 494 dated 20 September 2005.

2. Other SPs, shall also be booked under the HFT or DFVPL category according to intention as provided in PAS 39.

In either case, the compound instrument (host contract and embedded derivatives) shall be carried at fair value with fair value changes reflected in profit or loss.

Booking of CLNs and other SPs as bifurcated financial instrument

Investment in CLNs and other SPs that are not intended to be traded (i.e., not to

be booked as HFT) or to be designated at fair value through profit or loss shall be accounted for as bifurcated financial instruments.

Accounting for host contracts. When the embedded derivatives are bifurcated (separated) from the host contract, the host contract shall be accounted for as follows:

1. In the case of CLN, the host contract shall be booked under the “Available for Sale” (ASS) but not under the “Held to Maturity” (HTM) nor under the “Unquoted Debt Securities Classified as Loans” (UDSCL) category in accordance with Circular No. 494.

2. In the case of other SPs, the host contract shall be booked under the ASS, HTM or UDSCL category in accordance with X388.5.

Host contracts of investments in CLNs and Other SPs shall in no case be booked under the “Due from Other Banks” or “Interbank Loans Receivable” accounts.

Accounting for embedded derivatives
The bifurcated embedded derivatives shall be accounted for as “Derivatives Held for Trading” with fair value changes reflected in profit or loss, except in cases where the bifurcated embedded derivatives are designated and effective hedging instruments, which shall be booked under the “Derivatives Held for Hedging” account. The following shall be observed for purposes of FRP reporting of bifurcated embedded derivatives:

- The entire notional amount (or leveraged notional amount in cases of leveraged exposures) of the hybrid contract

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and the corresponding positive/(negative) fair value of the embedded derivatives shall be reported in Schedule 4 (Derivatives Held for Trading – Embedded Derivatives) of the FRP.

- In the case of CLNs and Other SPs that have more than one embedded derivatives (multiple embedded derivatives) that are required to be separated from the hybrid contract, the entire notional amount (or leveraged notional amount in cases of leveraged exposures) of the hybrid contract and the corresponding positive/(negative) fair value of the embedded derivatives shall be reported in Schedule 4 (Derivatives Held for Trading – Embedded Derivatives) of the FRP for each type of bifurcated derivatives.

Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative. However, embedded derivatives that are classified as equity are accounted for separately from those classified as assets or liabilities. In addition, if an instrument has more than one embedded derivatives and those derivatives relate to different risk exposures and are readily separable and independent of each other, they are accounted for separately from each other.

Marking to market guidance

In addition to the marking to market guidelines provided under PAS 39, banks should likewise consider apart from the carrying amount of the host contract the notional amount (or leveraged notional amount in cases of leveraged exposures) of embedded derivatives in marking to market the hybrid financial instrument.

For this purpose, the term CLN shall include similar instruments such as credit linked deposits (CLDs) and credit linked loans (CLLs) where the repayment of the principal to the note holder is contingent upon the occurrence of a defined credit event. On the other hand, other SPs (as defined under X625.2) shall refer to a financial instrument where the total return is a function of one or more underlying indices, such as interest rates, equities and exchange rates. It is composed of a host contract (e.g., plain vanilla debt or equity securities) and an embedded derivative (e.g., swaps, forwards or options) that re-shape the risk-return pattern of the hybrid instrument. The term SP does not include asset-backed securities.

(M-2008-010 dated 07 March 2008)

THE GUIDELINES FOR THE IMPOSITION OF MONETARY PENALTY FOR VIOLATIONS/OFFENSES WITH SANCTIONS FALLING UNDER SECTION 37 OF R.A. NO. 7653 ON BANKS, DIRECTORS AND/OR OFFICERS
(Appendix to Secs. X199, X299, X399, X499, X599, X699, X799, X899, X999, Circular No. 645 dated 13 February 2009)

The schedule of penalty, categorized based on: (1) the nature of offenses such as minor, less serious, and/or serious, and (2) the asset size of the bank, shall be as follows:

A. For Serious Offense

Asset Size	Up to P200.0 million	Above P200.0 million but not exceeding P500.0 million	Above P500.0 million but not exceeding P1.0 Billion	Above P1.0 Billion but not exceeding P10.0 Billion	Above P10.0 Billion but not exceeding P50.0 Billion	Above P50.0 Billion
Penalty Range						
Minimum	P 500	P 1,000	P 3,000	P 10,000	P 18,000	P 25,000
Medium	750	1,500	5,000	12,500	20,000	27,500
Maximum	1,000	2,000	7,000	15,000	22,000	30,000

B. For Less Serious Offense

Asset Size	Up to P200.0 million	Above P200.0 million but not exceeding P500.0 million	Above P500.0 million but not exceeding P1.0 Billion	Above P1.0 Billion but not exceeding P10.0 Billion	Above P10.0 Billion but not exceeding P50.0 Billion	Above P50.0 Billion
Penalty Range						
Minimum	P 300	P 600	P 1,000	P 3,000	P 7,000	P 15,000
Medium	350	700	1,250	4,000	8,500	17,500
Maximum	400	800	1,500	5,000	10,000	20,000

C. For Minor Offense

Asset Size	Up to P200.0 million	Above P200.0 million but not exceeding P500.0 million	Above P500.0 million but not exceeding P1.0 Billion	Above P1.0 Billion but not exceeding P10.0 Billion	Above P10.0 Billion but not exceeding P50.0 Billion	Above P50.0 Billion
Penalty Range						
Minimum	P 150	P 300	P 600	P 1,000	P 3,000	P 6,000
Medium	200	400	700	1,500	4,000	8,000
Maximum	250	500	800	2,000	5,000	10,000

For purposes of this Regulation, the following definition of terms shall mean:

1. **Serious Offense** - This refers to unsafe or unsound banking practice. An unsafe or unsound practice is one (1) in which there has been some conduct, whether act or omission, which is contrary to accepted standards of prudent banking operation and may result to the exposure of the bank and its shareholders to abnormal risk or loss.

- (a) In determining the acts or omissions included under the unsafe or unsound banking practice, an analysis of the impact thereof on the banks/quasi-banks/trust entities' operations and financial condition must be undertaken, including evaluation of capital position, asset condition, management, earnings posture and liquidity position. The following circumstances shall be considered:
- (b) The act or omission has resulted or may result in material loss or damage, or

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abnormal risk or danger to the safety, stability, liquidity or solvency of the institution;

(c) The act or omission has resulted or may result in material loss or damage or abnormal risk to the institution’s depositors, creditors, investors, stockholders or to the Bangko Sentral or to the public in general;

(d) The act or omission has caused any undue injury, or has given unwarranted benefits, advantage or preference to the bank or any party in the discharge by the director or officer of his duties and responsibilities through manifest partiality, evident bad faith or gross inexcusable negligence; or

(e) The act or omission involves entering into any contract or transaction manifestly and grossly disadvantageous to the bank, QB or trust entity, whether or not the director or officer profited or will profit thereby.

Certain acts or omissions as falling under this classification maybe determined based on the guidelines provided under *Appendix 48*.

2. Less Serious Offense - These include major acts or omissions defined as bank/individual’s failure to comply with the requirements of banking laws, rules and regulations, provisions of Manual of Regulations (MOR)/Circulars/Memorandum as well as Monetary Board directives/instructions having material^{1/} impact on Bank’s solvency, liquidity or profitability and/or those violations classified as major offenses under the Report of Examination, except those classified under unsafe or unsound banking practice.

3. Minor Offense - These include acts or omissions which are procedural in

nature, can be corrected immediately and do not have material impact on the solvency, liquidity and profitability of the Bank. All other acts or omissions that cannot be classified under the major offenses/violations will be classified under this category.

4. Minimum refers to the range of penalties to be imposed if the mitigating factor(s) outweigh the aggravating circumstances.

5. Medium refers to the penalty to be imposed in the absence of any mitigating and aggravating circumstances or if the mitigating factor(s) offset the aggravating factor(s).

6. Maximum refers to the penalty to be imposed if the aggravating circumstances outweigh the mitigating factor(s).

In determining the amount of penalty, a two-stage assessment shall be conducted as follows:

Step 1: Determine the nature of offense whether it is: (a) Serious; (b) Less Serious; or (c) Minor Offense; and

Step 2: Determine whether there are aggravating and/or mitigating factors (as listed and defined in Annex A).

Both the aggravating and mitigating factors shall be considered for initial penalty imposition and subsequent requests for reconsideration thereto.

The foregoing monetary penalties shall be without prejudice to the imposition of non-monetary sanctions, if and when deemed applicable by the Monetary Board. Violations of banking laws and Bangko Sentral regulations with specific penal clause are not covered by this Regulation.

^{1/} SFAS/IAS defines materiality as any information, which if omitted or misstated, could influence the economic decisions of users taken on the basis of the financial statements. Per Financial Accounting Standard Board (FASB), it is defined as the magnitude of an omission or misstatement of accounting information xxx.

Aggravating and Mitigating Factors to be Considered in the Imposition of Penalty

1. Aggravating Factors

(a) Frequency of the commission of specific violation. This pertains to commission or omission of a specific offense involving either the *same or different transaction*. This will also refer to a violation which may have been corrected in the past but found repeated in another transaction/account in the subsequent examination.

In determining frequency, the number of times of commission or omission of a specific offense during the preceding three (3) - year period shall also be considered.

The word *offense* pertains to a violation that connotes infraction of existing BSP rules and regulations as well as non-compliance with BSP/MB directives.

(b) Duration of violations prior to notification. This pertains to the length of time prior to the latest notification on the violation. Violations that have been existing for a long time before it was revealed/ discovered in the regular examination or are under evaluation for a long time due to pending requests or correspondences from banks on whether a violation has actually occurred shall be dealt with through this criterion. Violations outstanding for more than one (1) year prior to notification, at the minimum, will qualify as violations outstanding for a long time.

(c) Continuation of offense or omission after notification. This pertains to the persistence of an act or offense *after the latest notification on the existence of the violation, either from the appropriate department of the SES or from the Monetary Board and/or Deputy Governor, in cases where the violation has been elevated accordingly*. This covers the period after the final notification of the existence of the violation until such time that the violation has been

corrected and/or remedied. The corrective action shall be reckoned with from the date of notification.

(d) Concealment. This factor pertains to the cover up of a violation. In evaluating this factor, one shall consider the intention of the party(ies) involved and whether pecuniary benefit may accrue accordingly.

Intention precedes concealment. The act of concealing an offense or omission carries with it the intention to defraud regulators. Moreover, the amount of pecuniary benefit, which may or may not accrue from the offense or omission, shall also be considered under this factor.

Concealment may be apparent in cases when bank officers purposely complicates the transaction to make it difficult to uncover or refuse to provide information/ documents that would support the violation/offense committed.

Inasmuch as concealment and intention are speculative matters and may be difficult to establish, appropriate support of facts or circumstantial evidence in this factor shall be considered.

(e) Loss or risk of loss to bank. In assessing this factor, *potential loss* refers to any time at which the bank was in danger of sustaining a loss.

Substantial actual loss. The Bank has been exposed to a significant loss of earnings and capital. The volume of accounts involved in the loss is substantial/ significant in relation to the institution's assets and capital. The bank/individual may have substantial/serious violations that could impact the reputation and earnings of the bank.

Minimal actual loss or substantial risk of loss. The Bank has incurred minimal loss or will be exposed to substantial risk of loss of earnings or capital although both do not materially impact financial condition. The volume of accounts involved for minimal loss or substantial risk of loss is reasonable

and manageable. While a loss was incurred, the bank could absorb the loss in the normal course of business. Substantial risk of loss includes *any potential losses the aggregate of which amounts to at least one percent (1%) of the capital of the bank*^{1/}.

Minimal risk of loss. The risk exposure on earnings or capital is minimal. Bank is not vulnerable to significant loss. The volume of accounts involved for potential loss/risk is minimal/negligible. The risk of loss would have little impact on the bank or its financial condition. The risk of loss aggregating to less than one percent (1%) of the capital of the bank will fall under this classification.

(f) Impact to bank/banking industry. In assessing this factor, it is appropriate to consider any possible negative impact or harm to the bank. (e.g. A violation of law involving insider abuse may result in adverse publicity for the institution, possibly causing a run on deposits and affecting the bank’s liquidity). Resulting effect on the banking industry on the violation/offenses committed by the bank, if any, will also be considered. Sources of data may come from news reports.

Substantial impact on bank. No impact on banking industry. This may involve reputational risk of the bank as a result of negative publicity generated for example, by involvement of bank’s director/officer in activities not acceptable to the regulatory bodies, e.g. pyramiding, investment scams etc. This may also involve insider abuse of authority/power. However, the banking industry is not affected for this isolated case.

Moderate impact on banking industry or on public perception of banking industry. This may involve poor corporate governance and mismanagement of bank that may result to erosion of public confidence leading to bank run in various branches. This may also trigger a bank run in other subsidiaries.

Substantial impact on banking industry or on public perception of banking industry. This is a worst-case scenario. The violations/irregular activities of the bank may totally erode the trust and confidence of the banking public resulting to a nationwide bank run. Pessimistic perception of the banking public on the banking industry is highly observed.

2. Mitigating Factors

(a) Good faith. Good faith is the absence of intention of the of the erring individual/entity in the commission of a violation.

Full cooperation. This is determined by the actions of the individual and/or bank towards the regulators after or even before notification of the offense and/or omission. Assistance rendered by the Bank during the investigation and/or examination conducted relative to the cited offense and/or omission may be viewed favorably when computing the amount of penalty to be imposed on the Bank/individual.

With positive measures/action undertaken although not corrected immediately. The bank is willing to remedy/correct the violation but is being restrained of its capacity to take immediate action thus, will undertake a Memorandum of Undertaking/Commitment for a specified period as a sign of good faith. The bank has started to rectify the infraction by instituting reforms in their operations or systems.

Voluntary disclosure of offense. Voluntary disclosure of the bank of the offense committed before it is discovered by BSP examiners in the regular/special examination or in the supervisory work (e.g. submission of reports to the BSP disclosing the violation committed by the bank based on the internal auditor's findings) may be considered as the highest level of mitigation under this factor.

The burden of proof, however, falls on the bank/individual to support its/his/her claim of good faith and may be used as basis to mitigate the amount of penalty that may be imposed.

^{1/} Circular 410 dated 29 October 2003 provides that external auditors of banks must report to BSP, among others, any potential losses the aggregate of which amounts to at least one percent (1%) of the capital to enable the BSP to take timely and appropriate remedial action.

**IMPLEMENTATION OF THE DELIVERY BY THE SELLER OF SECURITIES
DIRECTLY TO THE BUYER OR TO HIS DESIGNATED SECURITIES
CUSTODIAN/CENTRAL SECURITY DEPOSITORY**
*[Appendix to Secs. X441 and Subsecs. X235.5,
X235.12, X238.1 and X441.10]*

Section 1. Statement of Policy. Pursuant to the policy of the Bangko Sentral to promote the protection of investors in order to gain their confidence in the securities market, the following rules/guidelines shall be observed by banks and NBFIs under Bangko Sentral supervision in their dealings in securities whether they are acting as seller, buyer, agent, or custodian.

The guidelines on the delivery of government securities by the selling banks to an investor's Principal Securities Account with the RoSS through the Client Interface System facility are in *Appendix 68a*.

Sec. 2. Distinction between a Securities Custodian, Registry and Central Securities Depository. For purposes of these Rules, a securities custodian, registry and central securities depository are defined as follows:

A securities custodian is a Bangko Sentral-accredited financial institution under Bangko Sentral supervision that is authorized to engage in investment management (for banks/investment houses with quasi-banking authority only) or trust business and is designated by the investor to perform the functions of safekeeping, holding title to the securities in a nominee capacity, reports rendition, mark-to-market valuation, collection and payment of dividends, interest earnings or proceeds from the sale/redemption/maturity of securities held under custodianship and representation of clients in corporate actions.

It may also perform the value-added service of securities lending as agent, subject to the conditions specified under Subsec. X441.6.

A security registry, is a duly authorized financial institution designated or appointed by the issuer to maintain the securities registry book either in electronic or in printed form. It records the initial issuance of the securities and subsequent transfer of ownership and issues registry confirmation to the buyers/holders. The registry must be a third party that does not belong to the same financial conglomerate or banking group as that of the issuer of securities.

A central securities depository is an SEC-authorized entity that provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions, and plays an important role in helping to ensure the integrity of securities issues.¹

The securities custodian and the central securities depository must at all times maintain their independence and should not belong to the same financial conglomerate or banking group as that of the issuer or seller of securities held under custody or deposit.

It shall be the responsibility of the securities custodian and central securities depository to ensure that appropriate systems capacity, procedures or measures such as proper recording, accounting, reporting, preserving, and segregation of securities are in place in order to protect the interest of the client.

Sec. 3. Registry of Scripless Securities (RoSS) of the Bureau of the Treasury. The Bureau of the Treasury, as operator of the RoSS, which serves as the official registry for government securities, is not subject to

¹ BIS-IOSCO, "Principles for Financial Market Infrastructure", p.8 (April 2012)

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Bangko Sentral accreditation and is exempted from the independence requirement under the existing Bangko Sentral regulations.

Sec. 4. Delivery of Securities. Pursuant to existing Bangko Sentral regulations, securities which are the subject of quasi-banking activities, repurchase agreements and securities sold on a without recourse basis shall be delivered by the seller directly to the purchaser or to the purchaser's designated Bangko Sentral-accredited securities custodian or SEC-authorized central securities depository.

Sec. 5. Modes of Delivery.

a. If the securities sold are certificated, delivery shall be effected physically to the purchaser, or to the purchaser's designated Bangko Sentral-accredited custodian. The certificate must be transferred to and registered under the name of the purchaser and properly recorded in the registry book.

b. Delivery of immobilized or dematerialized securities shall be effected by means of book entry transfer to the appropriate securities account of the following: (1) the purchaser in a registry of said securities; (2) purchaser in an SEC-authorized central securities depository; or (3) the purchaser's designated Bangko Sentral-accredited securities custodian. Book-entry transfer to a sub-account for clients under the primary account of the dealer will not be deemed compliant with this requirement.

Sec. 6. Client Information. Selling or dealing banks shall inform their clients of the requirements under Sections 3 and 4 above, together with the complete list of all Bangko Sentral-accredited securities custodians or SEC-authorized central securities depositories. The selling or dealing bank or NBFIs must inform their clients that

the choice of securities custodian or central securities depository is the sole prerogative of the securities purchaser. The seller or dealer may, however, indicate to their clients their preferred securities custodians or central securities depositories.

Sec. 7. Custodianship/ Securities Deposit Agreement. The securities owner/purchaser shall enter into a custodianship agreement with a Bangko Sentral-accredited securities custodian or a securities deposit agreement with an SEC-authorized central securities depository of his choice. The Agreement shall contain the following minimum stipulations:

- a. Rights and obligations of the parties;
- b. Fees for the services offered by the custodian/depository; and
- c. Scope and term/period of the Agreement.

The securities purchasers/ owners may designate/appoint a representative or agent for the purpose of opening of the custodianship/securities deposit account and execution of trade transactions (i.e., buying and selling instructions including relaying of instructions to the custodian/central securities depository to receive or deliver securities in order to consummate the buy/sell transactions).

Sec. 8. Compliance with the Anti-Money Laundering (AML) Act of 2001, as amended. Compliance with AML Act of 2001, as amended, by Bangko Sentral-accredited securities custodians/registries or SEC-authorized central securities depositories shall be governed by AML rules and regulations issued by their supervising authorities, such as the Bangko Sentral or the SEC. For purposes of complying with the customer identification requirement, a Bangko Sentral-accredited securities custodian/registry or SEC-authorized central securities depository may rely on the

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customer identification process undertaken by a third party pursuant to existing AML rules and regulations.

Notwithstanding the above, the custodian, registry or central securities depository is not precluded from

conducting its own Know-Your-Customer (KYC) activities and maintaining direct holding of the KYC information/ documents of its clients.

(Circular No. 524 dated 31 March 2006, as amended by Circular Nos. 873 dated 25 March 2015, 714 dated 10 March 2011 and M-2007-002 dated 23 January 2007)

TEMPLATE OF LETTER TO INVESTOR

Dear Investor:

We wish to inform you that the Bangko Sentral ng Pilipinas (BSP), in July of 2003 issued **Circular No. 392, Series of 2003**, which requires all securities sold by banks on a **“without recourse basis”** (i.e. the bank has no liability to the buyer of securities in paying the obligation due on the security) to be delivered to the buyer/purchaser of securities through any of the following means:

- (a) **If the security is evidenced by a certificate of indebtedness**, the certificate must be transferred in the name of the purchaser/buyer and physically delivered to the purchaser/buyer or to his designated BSP-accredited third party custodian.
- (b) **If the security is immobilized or dematerialized** (i.e., that the security is not evidenced by a certificate of indebtedness and instead security account is created in the electronic books of the registry in the name of the purchaser/buyer or his designated custodian):
 - i. The security must be delivered by book-entry transfer to the appropriate securities account of the buyer in the registry of said securities which must be evidenced by a confirmation in writing by the registrar to the buyer. The confirmation of sale or document of conveyance shall be physically delivered by the seller or dealer to the buyer, or
 - ii. The security must be delivered by book-entry transfer to the appropriate securities account of the BSP-accredited third party custodian designated by the buyer/purchaser in the registry of said securities which must be evidenced by a confirmation in writing by the registrar to the said BSP-accredited third party custodian, who shall in turn issue to the securities owner a delivery receipt acknowledging receipt of the securities

Circular No. 392 is part of a package of reforms to support the development of the domestic capital market through enhanced investor protection and greater market transparency. It provides for a more defined role and responsibilities for the custodians and registrars and a stricter supervision and regulation thereof by the BSP. It aims to provide the client with the following benefits:

- a. Full control and possession of the securities purchased;
- b. Independent validation of the existence of securities purchased;
- c. Regular reporting of securities holdings; and
- d. Capability to choose most competitive counter-parties in case of sale, pledge, transfer, and lending of securities.

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Moreover, Circular No. 392, which amends CBP Circular 437-74, seeks to address the changes in the legal framework brought by the developments in the market, i.e., where purchase of securities may be evidenced not only by transfer of certificates but also by electronic book-entry transfer of ownership in the books of the registrar for said security.

As an investor, therefore, of securities which is dematerialized or scripless, you have **the option** to require your dealer/broker to deliver the securities to you by requiring them to have the securities registered directly in **your name in the registry** of said securities **or** by requiring them to have the securities registered in the name of the BSP **accredited third party custodian** of your choice who in turn will credit your securities account with them.

The **registry** is a BSP-accredited bank or non-bank financial institution (NBFI) designated or appointed by the Issuer to (1) maintain the securities registry book; (2) record the (a) issuance of the securities and (b) subsequent transfers of ownership thereof; and (3) issue registry confirmation to the buyers/holders of security.

The **custodian**, on the other hand, is a BSP-accredited bank or NBFI designated by the investor to safekeep the security by allowing it to hold title to the security, either in a nominee or trustee capacity, to enable it to perform the following administrative functions/services related to investing in a security or various securities: i) Mark to market valuation of security that will enable the client to know the value of his investment at any period in time; ii) compute and collect the interest due on the security; iii) render statements on outstanding securities under safekeeping; iv) represents the client (per its instruction) in the events of default or breach of contract of the issuer; and v) lend the security of the clients as “agent” that will enable the client to earn additional income on the security.

The registrars and custodians underwent a rigorous evaluation process by the BSP to determine whether they have the following: i) adequate capital to cover for potential operating risks related to performing its custody functions; ii) competent management team to manage the company with responsibility and proper corporate ethics; iii) robust technology system to operate the custody business efficiently; and iv) favorable track record or significant experience in the custody business or related business. They will also undergo regular audit by the BSP to ensure that they comply with BSP rules and regulations and will be subject to penalties and administrative sanctions for any violation thereof.

As of date, BSP has accredited the following registrars and custodians: Bank of the Philippine Islands, CITIBANK N.A., Deutsche Bank, Hongkong and Shanghai Banking Corporation, Philippine Depository and Trust Corporation, and Standard Chartered Bank.

The Registry of Scripless Securities (RoSS) operated by the Bureau of Treasury (BTR) which is acting as a registry for government securities, is automatically accredited as securities registry. However, the BTR, as registry, cannot act as custodian of government securities pursuant to the opinion of the Secretary of Justice rendered on 17 January 2005 due to irreconcilable conflict of loyalties that is anathema to agency if the same institution were to act as registrar and custodian at the same time.

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The custodian shall render periodic reports on your account balances on a quarterly basis, or at such interval as you may require. Moreover, the custodian shall issue to you a confirmation of any transfer of ownership as it occurs, in either electronic or printed forms. Said reports shall be delivered/mailed directly at your address unless you give a written instruction directly to the custodian to deliver the said reports to your designated person/entity. You are, however, required to acknowledge in the written instruction that you are designating another person/entity to receive the periodic reports from the custodian, notwithstanding contrary advice of the BSP.

Please note that the abovementioned arrangements may change once the BSP issues more detailed implementing rules and guidelines to the abovementioned circulars. We will update you if and when these developments occur.

Please fill up and sign the required documentation of your chosen custodian and we will forward the same to them so that your securities account can be opened as soon as possible. You may, however, designate/appoint an agent for this purpose. In either case, the custody arrangement may or may not entail additional fees.

If you have any further questions, please call us so that we can refer the matter to the appropriate custodian/registrar.

Very truly yours,

(Circular No. 524 dated 31 March 2006 and as amended by M-2007-002 dated 23 January 2007)

DELIVERY OF GOVERNMENT SECURITIES TO THE INVESTOR’S PRINCIPAL SECURITIES ACCOUNT WITH THE REGISTRY OF SCRIPLESS SECURITIES
(Appendix to Sec. X441, and Subsecs. X235.5 and X238.1)

The following are the guidelines on the delivery of government securities by the selling bank and/or NBFIs under the supervision of the Bangko Sentral to an investor’s Principal Securities Account with the Registry of Scripless Securities (RoSS) through the Client Interface System (CIS) facility as compliance with the requirement of effective delivery under Sec. X441 and Subsecs. X235.5, X235.12, X238.1 and X441.12:

(a) Banks/NBFIs, acting either as accredited government securities eligible dealers (GSEDs) or licensed government securities dealers, shall execute the attached Memorandum of Agreement (MOA) with the BTr regarding the creation of the Principal Securities Account with the RoSS on or

before 31 January 2007. The MOA between the BTr and the GSED is attached as Annex A.

(b) The dealing bank shall provide BTr with the following documents:

(1) Agency document issued by investor/client if the dealing bank is designated as the agent; and

(2) Investor’s undertaking (attached as Annex B)

(c) No new Investors Principal Securities Account shall be created unless the foregoing documents are submitted to the BTr. Otherwise, the dealing bank will be subject to the appropriate penalties prescribed under Sec. X441 and Subsecs. X235.5 and X238.1.

(M-2007-002 dated 23 January 2007, as amended by Circular 873 dated 25 March 2015)

MEMORANDUM OF AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

This agreement made and entered into this _____ at _____, Philippines by and between:

The **BUREAU OF THE TREASURY**, a duly constituted government bureau under the Department of Finance, Republic of the Philippines, with principal office at Palacio del Gobernador Building, Gen. Luna corner A. Soriano Avenue, Intramuros, Manila, represented herein by the Treasurer of the Philippines, _____, and hereinafter referred to as “**BTr**”;

-and-

_____, a domestic/ international banking/financial institution organized and existing pursuant to the laws of the Republic of the Philippines/*(country of incorporation)*, duly licensed by the Securities and Exchange Commission (SEC) to deal in securities, represented herein by _____ in her/his capacity as _____, and hereinafter referred to as the “**Dealer**”;

(the “BTr” and the “Dealer” may be referred to as a “Party” in the singular tense, as “Parties” in the plural/collective tense)

WITNESSETH: THAT

WHEREAS, the Registry of Scripless Securities (“RoSS”) is the official registry of government securities issued by the National Government through the Bureau of the Treasury;

WHEREAS, the RoSS is an electronic registry of recording ownership of or interest in and transfers of government securities;

WHEREAS, the delivery of government securities sold by the Dealer, on a without recourse basis, to the investor’s Principal Securities Account with the RoSS through the Client Interface System (“CIS”) Facility shall be sufficient compliance with the delivery requirement under Subsec. X238.1, of the Bangko Sentral ng Pilipinas (“BSP”) Manual of Regulations for Banks (MORB) and Circular No. 524 dated 31 March 2006.

WHEREAS, the Dealer is a government securities eligible dealer, accredited by the BTr to participate in the primary auction of government securities pursuant to Finance

Department Order No. 141-95, as amended, and/or a bank/financial institution licensed by the SEC to deal in government securities in the secondary market;

WHEREAS, investors of government securities purchase/trade the same in the secondary market through any of the dealers;

WHEREAS, recording of ownership of, or interest in government securities requires the creation/opening of a Principal Securities Account with the RoSS through the CIS Facility;

WHEREAS, to promote transparency, investor confidence and deepening of the government bond market, investors must be given adequate assistance in the opening/creation of his/its Principal Securities Account with the RoSS (“Name-on- Registry”);

NOW, THEREFORE, in view of the foregoing premises and the mutual covenants hereinafter provided, the parties hereby agree as follows:

Section 1. Obligations of BTr.

1. Receive instruction from the Dealer as authorized by the investor, through the RoSS-CIS for the creation/opening of the Principal Securities Account;
2. Create/open in the RoSS a Principal Securities Account for the requesting investor of scripless government securities through which all transactions affecting said securities will be recorded;
3. Provide and forward to the investor an electronic confirmation of his/its RoSS Principal Securities Account Number and notices and statements of account under any of the modes indicated in the Investor’s Oath of Undertaking submitted to the BTr;
4. On relevant coupon/maturity payment dates and for payments made through the BSP, instruct the BSP to credit the regular demand deposit account (DDA) of the investor’s settlement bank: *Provided*, That if the coupon/maturity payment date falls on a Saturday, Sunday, or Holiday or on a day during which business operations of the BTr is suspended, payment/s shall be made by the BTr on the next business day, without adjustment in the amount of interest to be paid.
5. Ensure that all government securities bought by investors from the Dealer are accurately recorded under the investor’s Principal Securities Account or to the Securities Custody Account of the investor’s designated third-party custodian, or to the Securities Deposit Account of the investor’s designated depository.
6. Furnish the investor with Statement(s) of Securities Account, at least quarterly and whenever there is a movement in the investor’s Principal Securities Account, through the investor’s preferred mode of receipt of notice and/or statement;

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7. Consistent with BTr Memoranda dated 28 December 2005, 12 January 2006 and 31 January 2006 and applicable BSP regulations, disallow any increase in the holdings of beneficial owners of securities recorded in the sub-account of the Dealer, if any, existing as of 02 February 2006, for beneficial owners of securities who have either (a) declined in writing the delivery of his/its securities to a direct registry account under his or its name or a third-party custodian or (b) not responded to the Dealer's letter to the investor as regards the disposition of his/its securities. Any withdrawal or sale of the securities, either partial or total, under the sub-account of the Dealer for the beneficial owners may only be allowed if the Dealer is authorized in writing by the client/Investor. Such written authority shall be furnished by the Dealer to the BTr prior to the execution of the transaction.

Sec. 2. Obligations of the Dealer

The Dealer shall:

1. Assist the investor to open his/its individual Principal Securities Account (Name-On-Registry) with the RoSS through the CIS facility;
2. Conduct the Know your Client ("KYC") screening of its investors/clients referred to the BTr for the creation of the Principal Securities Account (Name-On-Registry) with the RoSS. In this connection it shall: (a) issue a certification to the BTr that it has conducted the necessary "KYC" screening; (b) maintain client identification records; (c) report any suspicious transaction in accordance with the provisions of R.A. No. 9160, otherwise known as the "Anti-Money Laundering Act of 2001", as amended, and its implementing rules and regulations; and whenever necessary, (d) afford BTr unchallenged access to said KYC records/documents. The same KYC or customer identification documents shall likewise be made available to regulators for verification upon request.
3. Transmit the investor's instructions to the RoSS for the creation/opening of a Principal Securities Account. For this purpose, the Dealer shall submit and/or inform the investor to submit to the BTr his/her settlement account maintained in a settlement bank of his/her choice, through which all relevant payments on the securities will be made by the BTr;
4. Upon the creation of the investor's Principal Securities Account with the BTr's RoSS to which the securities subject of a sale will be credited, immediately furnish the investor with the BTr's electronic confirmation of its creation. The Dealer shall also provide to the investor the BTr electronic confirmation that includes a statement on the credited amount of securities;
5. Ensure that all the necessary documents executed by the client investor are complete and submitted to BTr upon request;
6. Ensure that all government securities sold to investors are delivered to their appropriate Principal Securities Account with the RoSS, or to the account of the investor's designated custodian or securities depository;

7. Undertake not to misuse the investor's RoSS Account No., which may come into its possession upon the creation of a Principal Securities Account for the investor or on previous transactions with the investor;

8. Acquaint/apprise investors on the rules and procedure prescribed by the BTr in connection with investment and trading of scripless government securities, including but not limited to coupon payment, redemption value/proceeds of the investor's securities, legal encumbrances, and other relevant information relative to investor's security holdings. As a minimum, investors must be apprised of the Revised RoSS Procedure on Buy and Sell of Securities and recording of transfers through the RoSS-CIS facility found in the BTr website, with particular emphasis on the feature of non-tagging of securities to GSEDs, or non-exclusivity of the selling GSEDs for subsequent transactions;

9. Whenever designated as authorized agent and/or settlement bank, ensure confidentiality and prompt delivery of all notices and statements of securities account/s to investors; and

10. Ensure that all instructions transmitted to BTr concerning the securities account of clients-investors are legal, valid and duly authorized pursuant to an agreement, a special power of attorney, or any written authority executed by the client-investor in favor of the dealer;

NOTE: TO BE SUBMITTED TO THE
BUREAU OF THE TREASURY

INVESTOR'S UNDERTAKING

I/We,

For Individual Investors
of legal age

Name:
Address:
Civil Status:

For Juridical Entity
authorized to do business
in the Philippines

Name:
Principal Office Address:
Place of Incorporation:
Name of Representative:
Capacity/Position of Representative:

- A. Hereby agree to execute, the necessary written authority in favor of either the dealing Government Securities Eligible Dealer¹ (GSED) or Securities Dealer² for the creation of a Principal Securities Account with the RoSS or for the execution of trade transactions (i.e. buying and selling instructions, including relaying of instructions to “the CUSTODIAN” or “Central Securities Depository” to receive or deliver securities in order to consummate the buy/sell transactions) and to be bound by the provisions of a written authority or any relevant agreement I/we have entered into concerning my/our government security holdings, thereby confirming my/our authority for BTr-RoSS to carry out and execute the acts or instructions referred to in the aforesaid documents;
- B. It is understood that the RoSS administered by the BTr is the official registry of ownership of or interest in government securities; that all government securities floated/originated by NG under its scripless policy are recorded in the RoSS as well as subsequent transfer of the same; and that I/we will abide by the rules and regulations of BTr-RoSS concerning government securities.

And further undertake as follows:

- 1. To create/open through the Client Interface System a Principal Securities Account with the RoSS to ensure that title of said scripless securities is officially recorded in my/our name and under my/our control.
- 2. That as a condition for the creation/opening of my/our Principal Securities Account with the RoSS, I/we have opened a bank account with (_____ as Settlement Bank) to which coupon and maturity proceeds and any other payments to be made on my/our government securities holdings will be credited; undertake to furnish the RoSS of said bank

¹ Accredited by the Bureau of the Treasury
² Licensed by the Securities and Exchange Commission

account number; and give notice at least three (3) business days prior to any coupon and/or maturity payment of any change in the Settlement Bank and/or bank account number.

- 3. That no transfer of securities shall be made (i) during the period of two (2) business days ending on (and including) the due date of any redemption payment of principal and (ii) during the period of two (2) business days ending on (and including) the due date of any coupon payment date (the “Closed Period”). I/We further acknowledge that the BTr shall prevent any transfer of the securities to be recorded in the RoSS during any Closed Period.
- 4. That in the case of outright sale transactions of government securities, including that of RTBs, I/we undertake to sell the same to any of the GSEDs or Securities Dealers, save those provided for under existing rules and regulations on government securities applicable to tax-exempt institutions, government-owned or controlled corporations and local government units. Otherwise, I/we shall have the said securities delivered to my/our agent/custodian for trading or any other transactions pursuant to a relevant written instruction/authority.
- 5. To receive notices and/or statements of account on a quarterly basis or whenever there is a movement in my Principal Securities Account from the RoSS through any of the following modes:
(Please indicate choice)

- ☐ Pick-up at the RoSS
- ☐ Registered Mail to Home/Office Address _____
- ☐ Deliver electronically to Agent
- ☐ Deliver electronically to Settlement Bank (for pick up)
- ☐ Email - email address_____

In the absence of an indicated choice, I/we understand that the BTr shall electronically deliver all Notices and Statements to my/our designated settlement bank.

Note: In addition to the indicated manner of receiving notice(s) and statement(s), Investor can directly secure from the BTr written copy of any notice, statement of account, or confirmation report, subject to prior notice to and in accordance with the procedures of the BTr.

I/We hereby agree to abide with the Schedule of Fees and the manner of collection, as may be prescribed by the BTr from time to time.

- 6. That I/we expressly agree and acknowledge that the crediting to the regular DDA of my/our settlement bank of coupons and/or redemption value due my/our scripless securities, shall constitute actual receipt of payment by me/us.
- 7. To hold the BTr, its officers, employees and agents free and harmless against all suits, actions, damages or claims arising from failure of my/our Settlement Bank to credit my/our bank account for coupons and maturity values on due date.

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- 8. That all instructions affecting my/our scripless securities which are transmitted to or received in good faith the RoSS from myself/ourselves or my/our designated agent/custodian are covered by relevant documentation indicating my/our express consent and authority.
- 9. That I/we expressly warrant and authorize the delivery of copies of all evidence of authority granted to my/our designated agent/custodian to transact on my/our scripless securities upon reasonable demand by BTr.
- 10. That I/we undertake to immediately notify the RoSS of any unauthorized trade of my/our scripless securities, and until receipt of such notice, transactions effected by BTr in good faith are deemed valid.
- 11. To render free and harmless the BTr, its officers, employees and agents for any claim or damages with respect to trade instructions carried out in good faith.
- 12. That while it is understood that BTr shall maintain the strict confidentiality of records in the RoSS, I/we hereby expressly waive and authorize BTr, to the extent allowed by law, to disclose relevant information in compliance with Anti-Money Laundering laws, rules and regulations.
- 13. To submit to the BTr the relevant authorizations issued to my/our agent, upon demand of BTr.

IN WITNESS WHEREOF, I/We hereunto affix our hands this _____ day of _____ at _____, Philippines.

Name & Signature of Investor

Conforme:

Settlement Bank

ACKNOWLEDGMENT

BEFORE ME, a Notary Public for and in the City of _____, personally appeared:

Name:	CTC No.	Date:	Place of Issue:
_____	_____	_____	_____
(Investor or Representative of Juridical Entity)			

known to me to be the same person who executed the foregoing instrument and he/she acknowledged to me that the same is his/her free and voluntary act and deed (and the free act and deed of the entity they represent).

WITNESS MY HAND AND NOTARIAL SEAL this _____ at _____ ,
Philippines.

NOTARY PUBLIC

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

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**DELIVERY OF GOVERNMENT SECURITIES TO THE INVESTOR’S PRINCIPAL
SECURITIES ACCOUNT WITH THE REGISTRY OF SCRIPLESS SECURITIES**
(Appendix to Sec. X441, and Subsecs. X235.5 and X238.1)

(Renumbered as Appendix 68a by Circular No. 873 dated 25 March 2015)

PROMPT CORRECTIVE ACTION FRAMEWORK
[Appendix to Sec. X193 (2008 - X106.4)]

In carrying out its primary objective of maintaining price stability conducive to a balanced and sustainable growth of the economy¹, the BSP must necessarily maintain stability of the financial system through preservation of confidence therein. While preservation of confidence in the financial system may call for closure of mismanaged banks and/or financial entities under its jurisdiction, such closure is not the only option available to the BSP. When a bank’s closure, for instance, is adjudged by the Monetary Board to have adverse systemic consequences, the State may act in accordance with law to avert potential financial system instability or economic disruption.²

It is recognized that the closure of a bank or its intervention can be a costly and painful exercise. For this reason, the BSP, as supervisor, can enforce PCA³ as soon as a bank’s condition indicates higher-than normal risk of failure.

PCA essentially involves the BSP directing the board of directors of a bank, prior to an open outbreak of crisis, to institute strong measures to restore the entity to normal operating condition within a reasonable period, ideally within one (1) year. These measures may include any or all of the following components:

- (1) Implementation of a capital restoration plan;
- (2) Implementation of a business improvement plan; and
- (3) Implementation of corporate governance reforms.

Capital restoration plan - this component contains the schedule for building up a bank’s capital base (primarily through an increase in Tier 1 capital) to a

level commensurate to the underlying risk exposure and in full compliance with minimum capital adequacy requirement. In conjunction with this plan, the BSP may also require any one (1), or a combination of the following:

- 1. Limit or curtail dividend payments to common stockholders;
- 2. Limit or curtail dividend payments to preferred stockholders; and
- 3. Limit or curtail fees and/or other payments to related parties.

Business improvement plan - this component contains the set of actions to be taken immediately to bring about an improvement in the entity’s operating condition, including but not limited to any one (1), or a combination of the following:

- 1. Reduce risk exposures to manageable levels;
- 2. Strengthen risk management;
- 3. Curtail or limit the bank’s scope of operations including those of its subsidiaries or affiliates where it exercises control;
- 4. Change or replace management officials;
- 5. Reduce expenses; and
- 6. Other measures to improve the quality of earnings.

Corporate governance reforms - this component contains the actions to be immediately taken to improve the composition and/or independence of the board of directors and to enhance the quality of its oversight over the management and operation of the entity. This also includes measures to minimize potential shareholder conflicts of interest detrimental to its creditors, particularly, depositors in a bank. This likewise lays down measures to provide an acceptable level of financial

¹ Section 3 of Republic Act No. 7653
² Section 17 and 18 of Republic Act No. 3591, as amended
³ Section 4.6 of Republic Act No. 8791

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transparency to all stakeholders. Such actions could include, but are not limited to, any one (1), or a combination of the following:

1. A change in the composition of the board of directors or any of the mandatory committees (under the MORB);
2. An enhancement to the frequency and/or depth of reporting to the board of directors;
3. A reduction in exposures to and/or a termination or reduction of business relationships with affiliates that pose excessive risk or are inherently disadvantageous to the supervised financial institution; and
4. A change of external auditor.

A bank may be subject to PCA whenever any or all of the following conditions obtain:

(1) When either of the Total Risk-Based Ratio¹, Tier 1 Risk-Based Ratio, or Leverage Ratio² falls below ten percent (10%), six percent (6%) and five percent (5%), respectively, or such other minimum levels that may be prescribed for the said ratios under relevant regulations, and/or the combined capital account falls below the minimum capital requirement prescribed under Subsec. X106.1;

(2) The CAMELS composite rating is less than “3” or a Management component rating of less than “3”;

(3) A serious supervisory concern has been identified that places a bank at more-than-normal risk of failure in the opinion of the director of the Examination Department concerned, which opinion is confirmed by the Monetary Board. Such concerns could include, but are not limited, to any one (1) or a combination of the following:

- a. Finding of unsafe and unsound activities that could adversely affect the interest of depositors and/or creditors;
- b. A finding of repeat violations of law or the continuing failure to comply with Monetary Board Directives; and

c. Significant reporting errors that materially misrepresent the bank’s financial condition.

The initiation of PCA shall be recommended by the Deputy Governor, SES to the Monetary Board for approval. Any initiation of PCA shall be reported to the PDIC for notation. Upon PCA initiation, the BSP shall require the bank to enter into a MOU committing to the PCA plan. The MOU shall be subject to approval by the Deputy Governor, SES and confirmation by the Monetary Board.

In order to monitor compliance with the PCA, quarterly progress reports shall be made. The BSP reserves the right to conduct periodic on-site visits outside of regular examination to validate compliance with the PCA plan.

Subject to Monetary Board approval, sanctions may be imposed on any bank subject to PCA whenever there is unreasonable delay in entering into a PCA plan or when PCA is not being complied with. These may include any or all of the following:

- (1) monetary penalty on or curtailment or suspension of privileges enjoyed by the board of directors or responsible officers;
- (2) restriction on existing activities that the supervised financial institution may undertake;
- (3) denial of application for branching and other special authorities;
- (4) denial or restriction of access to BSP credit facilities; and
- (5) restriction on declaration of dividends.

On the other hand, if the bank subject to PCA promptly implements a PCA plan and substantially complies with its conditions, it may continue to have access to BSP credit facilities notwithstanding non-compliance with standard conditions of access to such facilities. The Deputy

¹ Otherwise known as Capital Adequacy Ratio (“CAR”)

² Total Capital /Total Assets

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Governor, SES shall recommend such exemption to the Monetary Board for approval.

In cases where a bank's problems are deemed to be exceptionally serious from the outset, or when a bank is unwilling to submit to the PCA or unable to substantially comply with an agreed PCA plan, the Deputy Governor, SES may immediately recommend to the Monetary Board more drastic actions as prescribed under Section 29 (conservatorship) and Section 30 (receivership) of R.A. No. 7653.

Subject to Monetary Board approval, the PCA status of a bank may be lifted: *Provided*, That the bank fully complies with the terms and conditions of its MOU and: *Provided, further*, That the Deputy Governor, SES has determined that the financial and operating condition of the bank no longer presents a risk to itself or the financial system. Such improved assessment shall be immediately reported to the PDIC.

(Circular No. 523 dated 23 March 2006, as amended by Circular Nos. 729 dated 08 July 2011, 664 dated 15 September 2009)

CONSUMER PROTECTION FOR ELECTRONIC BANKING

(Transferred to X705)

AUTOMATED TELLER MACHINE SAFETY MEASURES
[Appendix to Sec. X705 (2008 - X624)]

(Deleted by Circular No. 808 dated 22 August 2013)

(Transferred to App. 75f pursuant to Circular No. 808 dated 22 August 2013)

INTERNET AND WIRELESS BANKING SECURITY MEASURES
[Appendix to Sec. X705 (2008 - X624)]

(Deleted by Circular No. 808 dated 22 August 2013)

(Transferred to App. 75f pursuant to Circular No. 808 dated 22 August 2013)

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ELECTRONIC BANKING CONSUMER AWARENESS PROGRAM
[Appendix to Sec. X705 (2008 - X624)]

(Deleted by Circular No. 808 dated 22 August 2013)

(Transferred to App. 75f pursuant to Circular No. 808 dated 22 August 2013)

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DISCLOSURE REQUIREMENTS
[Appendix to Sec. X705 (2008 - X624)]

(Deleted by Circular No. 808 dated 22 August 2013)

(Transferred to App. 75f pursuant to Circular No. 808 dated 22 August 2013)

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**GUIDELINES FOR THE CHANGE IN THE MODE OF COMPLIANCE WITH THE
LIQUIDITY RESERVE REQUIREMENT
(Appendix to Subsecs. X253.2 & X405.5)**

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

GUIDELINES ON SUPERVISION BY RISK
(Appendix to Sec. X173)

I. Background

It must be recognized that banking is a business of taking risks in order to earn profits. While banking risks historically have been concentrated in traditional banking activities, the financial services industry has evolved in response to market-driven, technological, and legislative changes. These changes have allowed FIs to expand product offerings, geographic diversity, and delivery systems. They have also increased the complexity of the FI's consolidated risk exposure. Because of this complexity, FIs must evaluate, control, and manage risk according to its significance. The FI's evaluation of risk must take into account how non-bank activities within a banking organization affect the FI. Consolidated risk assessments should be a fundamental part of managing the FI. Large FIs assume varied and complex risks that warrant a risk-oriented supervisory approach.

II. Statement of policy

The existence of risk is not necessarily a reason for concern. Likewise, the existence of high risk in any area is not necessarily a concern, so long as management exhibits the ability to effectively manage that level of risk. Under this approach, the BSP will not necessarily attempt to restrict risk-taking but rather ensure that FIs identify, understand, and control the risks they assume. As an organization grows more diverse and complex, the FI's risk management processes must keep pace. When risk is not properly managed, BSP will direct FI management to take corrective action such as reducing exposures, increasing capital, strengthening risk management processes or a combination of these actions. In all

cases, the primary concern of the BSP is that the FI operates in a safe and sound manner and maintains capital commensurate with its risks. Further guidance on risk management issues will be addressed in subsequent issuances that are part of the overall risk assessment program.

III. Guidelines for risk management

For purposes of the discussion of risk, the BSP will evaluate banking risk relative to its impact on capital and earnings. From a supervisory perspective, risk is the potential that events, expected or unanticipated, may have an adverse impact on the FI's capital or earnings.

The BSP-SES has defined eight (8) categories of risk for FI supervision purposes. These risks are: credit, market, interest rate, liquidity, operational, compliance, strategic, and reputation. These categories are not mutually exclusive; any product or service may expose the FI to multiple risks. In addition, they can be interdependent. Increased risk in one (1) category can increase risk in other categories.

Types and definitions of risk

1. *Credit risk* arises from a counterparty's failure to meet the terms of any contract with the FI or otherwise perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer, or borrower performance. It arises any time FI funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Credit risk is not limited to the loan portfolio.

2. *Market risk* is the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments.

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This risk arises from market-making, dealing, and position-taking in interest rate, foreign exchange, equity and commodities markets.

3. *Interest rate risk* is the current and prospective risk to earnings or capital arising from movements in interest rates. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting FI activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in FI products (options risk).

4. *Liquidity risk* is the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

5. *Operational risk* is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. Risk is inherent in efforts to gain strategic advantage, and in the failure to keep pace with changes in the financial services marketplace. Operational risk is evident in each product and service offered. Operational risk encompasses: product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

6. *Compliance risk* is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures,

or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain FI products or activities of the FI's clients may be ambiguous or untested. This risk exposes the FI to fines, payment of damages, and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and lack of contract enforceability.

7. *Strategic risk* is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

8. *Reputation risk* is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the FI's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the FI to litigation, financial loss, or a decline in its customer base. In extreme cases, FIs that lose their reputation may suffer a run on deposits. Reputation risk exposure is present throughout the organization and requires the responsibility to exercise an abundance of caution in dealing with customers and the community.

IV. FI management of risk

Because market conditions and company structures vary, there is no

single risk management system that works for all FIs. Each FI should tailor its risk management program to its needs and circumstances. Sound risk management systems, however, have several things in common; for example, they are independent of risk-taking activities. Regardless of the risk management program's design, each program should:

1. *Identify risk*: To properly identify risks, an FI must recognize and understand existing risks or risks that may arise from new business initiatives, including risks that originate in non-bank subsidiaries and affiliates. Risk identification should be a continuing process, and should occur at both the transaction and portfolio level.

2. *Measure risk*: Accurate and timely measurement of risk is essential to effective risk management systems. An FI that does not have a risk measurement system has limited ability to control or monitor risk levels. Further, the more complex the risk, the more sophisticated should be the tools that measure it. An FI should periodically conduct tests to make sure that the measurement tools it uses are accurate. Good risk measurement systems assess the risks of both individual transactions and portfolios. During the transition process in FI mergers and consolidations, the effectiveness of risk measurement tools is often impaired because of the technological incompatibility of the merging systems or other problems of integration. Therefore, the resulting FI must make a strong effort to ensure that risks are appropriately measured across the consolidated entity. Larger, more complex FIs must assess the impact of increased transaction volume across all risk categories.

3. *Monitor risk*: FIs should monitor risk levels to ensure timely review of risk positions and exceptions. Monitoring

reports should be frequent, timely, accurate, and informative and should be distributed to appropriate individuals to ensure action, when needed. For large, complex FIs, monitoring is essential to ensure that management's decisions are implemented for all geographies, products, and legal entities.

4. *Control risk*: The FI should establish and communicate risk limits through policies, standards, and procedures that define responsibility and authority. These control limits should be valid tools that management should be able to adjust when conditions or risk tolerances change. The FI should have a process to authorize exceptions or changes to risk limits when warranted. In merging or consolidating FIs, the transition should be tightly controlled; business plans, lines of authority, and accountability should be clear. Large, diversified FIs should have strong risk controls covering all geographies, products, and legal entities.

The Board must establish the FI's strategic direction and risk tolerances. In carrying out these responsibilities, the Board should approve policies that set operational standards and risk limits. Well-designed monitoring systems will allow the Board to hold management accountable for operating within established tolerances. Capable management and appropriate staffing are also essential to effective risk management. FI management is responsible for the implementation, integrity, and maintenance of risk management systems. Management also must keep the directors adequately informed. Management must:

- a. Implement the FI's strategy;
- b. Develop policies that define the FI's risk tolerance and ensure that they are compatible with strategic goals;
- c. Ensure that strategic direction and risk tolerances are effectively

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communicated and adhered to throughout the organization;

d. Oversee the development and maintenance of management information systems to ensure that information is timely, accurate, and pertinent.

V. Assessment of risk management

When assessing risk management systems, the BSP will consider the FI's policies, processes, personnel, and control systems. Significant deficiencies in any one of these areas will cause the BSP to expect the FI to compensate for these deficiencies in their overall risk management process.

1. *Policies* are statements of the FI's commitment to pursue certain results. Policies often set standards (on risk tolerances, for example) and recommend courses of action. Policies should express an FI's underlying mission, values, and principles. A policy review should always be triggered when an FI's activities or risk tolerances change.

2. *Processes* are the procedures, programs, and practices that impose order on the FI's pursuit of its objectives. Processes define how daily activities are carried out. Effective processes are consistent with the underlying policies, are efficient, and are governed by checks and balances.

3. *Personnel* are the staff and managers that execute or oversee processes. Good staff and managers perform as expected, are qualified, and competent. They understand the FI's mission, values, policies, and processes. Compensation programs should be designed to attract, develop, and retain qualified personnel. In addition, compensation should be structured to reward contributions to effective risk management.

4. *Control systems* include the tools and information systems (e.g, internal/external audit programs) that FI managers use to measure performance, make

decisions about risk, and assess the effectiveness of processes. Feedback should be timely, accurate, and pertinent.

VI. Supervision by Risk

Using the core assessment standards of the BSP as guide, an examiner will obtain both a current and prospective view of an FI's risk profile. When appropriate, this profile will incorporate potential material risks to the FI from non-bank affiliates' activities conducted by the FI. Subsidiaries and branches of foreign FIs should maintain sufficient documentation onsite to support the analysis of their risk management. This risk assessment drives supervisory strategies and activities. It also facilitates discussions with FI management and directors and helps to ensure more efficient examinations. The core assessment complements the RAS. Examiners document their conclusions regarding the quantity of risk, the quality of risk management, the level of supervisory concern (measured as aggregate risk), and the direction of risk using the RAS. Together, the core assessment and RAS give the appropriate department of the SES the means to assess existing and emerging risks in FIs, regardless of size or complexity.

Specifically, supervision by risk allocates greater resources to areas with higher risks. The appropriate department of the SES will accomplish this by:

1. Identifying risks using common definitions. The categories of risk, as they are defined, are the foundation for supervisory activities.

2. Measuring risks using common methods of evaluation. Risk cannot always be quantified in pesos. For example, numerous internal control deficiencies may indicate excessive operational risk.

3. Evaluating risk management to determine whether FI systems and

processes permit management to manage and control existing and prospective levels of risk.

The appropriate department of the SES will discuss preliminary conclusions regarding risks with FI management. Following these discussions, the appropriate department of the SES will adjust conclusions when appropriate. Once the risks have been clearly identified and communicated, the appropriate department of the SES can then focus supervisory efforts on the areas of greater risk within the FI, the

consolidated banking organization, and the banking system.

To fully implement supervision by risk, the appropriate department of the SES will also assign CAMELS ratings to the lead FI and all affiliated FIs. It may determine that risks in individual FIs are increased, reduced, or mitigated in light of the consolidated risk profile of the FI as a whole. To perform a consolidated analysis, it will obtain pertinent information from FIs and affiliates, and verify transactions flowing between FIs and affiliates.

(Circular No. 510 dated 03 February 2006)

GUIDELINES ON MARKET RISK MANAGEMENT
(Appendix to Sec. X175)

I. Background

The globalization of financial markets, increased transaction volume and volatility, and the introduction of complex products and trading strategies have made market risk management take on a more important role in risk management. FIs now use a wide range of financial products and strategies, ranging from the most liquid fixed income securities to complex derivative instruments and structured products. The risk dimensions of these products and strategies must be fully understood, monitored, and controlled by an FI.

II. Statement of policy

For purposes of these guidelines, FIs refer to banks and NBFIs supervised by the Bangko Sentral and their respective financial subsidiaries.

The level of market risk assumed by an FI is not necessarily a concern, so long as the FI has the ability to effectively manage the risk. Therefore, the Bangko Sentral will not restrict the level of risk assumed by an FI, or the scope of its financial market activities, so long as the FI is authorized to engage in such activities and:

- Understands, measures, monitors and controls the risk assumed,
- Adopts risk management practices whose sophistication and effectiveness are commensurate to the risk being monitored and controlled, and
- Maintains capital commensurate with the risk exposure assumed.

If the Bangko Sentral determines that an FI's risk exposures are excessive relative to the FI's capital, or that the risk assumed is not well managed, the Bangko Sentral will direct the FI to reduce its exposure to an appropriate level and/or strengthen its risk management systems.

In evaluating the above parameters, the Bangko Sentral expects FIs to have sufficient knowledge, skills and appropriate system and technology necessary to understand and effectively manage their market risk exposures. The principles set forth in these guidelines shall be used in determining the adequacy and effectiveness of an FI's market risk management process, the level and trend of market risk exposure and adequacy of capital relative to exposure. The Bangko Sentral shall consider the following factors:

1. The major sources of market risk exposure and the complexity and level of risk posed by the assets, liabilities, and off-balance-sheet activities of the FI;
2. The FI's actual and prospective level of market risk in relation to its earnings, capital, and risk management systems;
3. The adequacy and effectiveness of the FI's risk management practices and strategies as evidenced by:
 - The adequacy and effectiveness of Board and senior management oversight;
 - Management's knowledge and ability to identify and manage sources of market risk as measured by past and projected financial performance;
 - The adequacy of internal measurement, monitoring, and management information systems;
 - The adequacy and effectiveness of risk limits and controls that set tolerances on income and capital losses;
 - The adequacy and frequency of the FI's internal review and audit of its market risk management process.

Further, an FI's market risk management system shall be assessed under the FI's general risk management framework, consistent with the guidelines on supervision by risk as set forth under *Appendix 72*.

III. Market risk management process

An FI's market risk management process should be consistent with its general risk management framework and should be commensurate with the level of risk assumed. Although there is no single market risk management system that works for all FIs, an FI's market risk management process should:

1. *Identify market risk.* Identifying current and prospective market risk exposures involves understanding the sources of market risk arising from an FI's existing or new business initiatives. An FI should have procedures in place to identify and address the risk posed by new products and activities prior to initiating the new products or activities.

Identifying market risk also includes identifying an FI's desired level of risk exposure based on its ability and willingness to assume market risk. An FI's ability to assume market risk depends on its capital base and the skills/capabilities of its management team. In any case, market risk identification should be a continuing process and should occur at both the transaction and portfolio level.

2. *Measure market risk.* Once the sources and desired level of market risk have been identified, market risk measurement models can be applied to quantify an FI's market risk exposures. However, market risk cannot be managed in isolation. Market risk measurement systems should be integrated into an FI's general risk measurement system and results from models should be interpreted in coordination with other risk exposures. Further, the more complex an FI's financial market activities are, the more sophisticated the tools that measure market risk exposures arising from such complex activities should be.

3. *Control market risk.* Quantifying market risk exposures help an FI align existing exposures with the identified desired level of exposures. Controlling market risk

usually involves establishing market risk limits that are consistent with an FI's market risk measurement methodologies. Limits may be applied through an outright prohibition on exposures above a pre-set threshold, by restraining activities or deploying strategies that alter the risk-return characteristics of on- and off- balance sheet positions. Appropriate pricing strategies may likewise be used to control market risk exposures.

4. *Monitor market risk.* Ensuring that market risk exposures are adequately controlled requires the timely review of market risk positions and exceptions. Monitoring reports should be frequent, timely and accurate. For large, complex FIs, consolidated monitoring should be employed to ensure that management's decisions are implemented for all geographies, products, and legal entities.

IV. Definition and sources of market risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institution's overall portfolio, both on or off-balance sheet. Market risk arises from market-making, dealing, and position-taking in interest rate, foreign exchange, equity and commodities markets.

Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates.

Foreign exchange risk refers to the risk to earnings or capital arising from adverse movements in foreign exchange rates.

Equity risk is the risk to earnings or capital arising from movements in the value of an institution's equity-related holdings.

Commodity risk is the risk to earnings or capital due to adverse changes in the value of an institution's commodity-related holdings.

While there are generally four sources of market risk, as defined herein, the focus

of this Appendix is *interest rate risk* and *foreign exchange risk*. Nevertheless, the principles set forth in the market risk management process and sound risk management practices are generally applicable to all sources of market risk.

a. *Interest rate risk*

Interest rate risk is the risk that changes in market interest rates will reduce current or future earnings and/or the economic value of an FI. Accepting interest rate risk is a normal part of financial intermediation and is a major source of profitability and shareholder value. Excessive or inadequately understood and controlled interest rate risk, however, can pose a significant threat to an FI's earnings and capital. Thus, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of FIs.

1. Sources of interest rate risk

a. *Re-pricing risk*

This is the most common type of interest rate risk and arises from differences in the maturity (for fixed-rate instruments) and re-pricing (for floating-rate instruments) of an FI's assets, liabilities and off-balance sheet (OBS) positions. While such re-pricing mismatches are fundamental to the business of financial intermediation, they also expose an FI's earnings and underlying economic value to changes based on fluctuations in market interest rates.

b. *Basis risk*

Basis risk arises from imperfect correlations among the various interest rates earned and paid on financial instruments with otherwise similar re-pricing characteristics. A shift in the relationship between these rates or interest rates in different markets can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and OBS instruments of similar maturities or re-pricing frequencies.

c. *Yield curve risk*

Yield curve risk is the risk that rates of different maturities may change by a different magnitude. It arises from variations in the movement of interest rates across the maturity spectrum of the same index or market. Yield curves can steepen, flatten or even invert. Unanticipated shifts of the yield curve may have adverse effects on an FI's earnings or underlying economic value.

d. *Option risk*

Option risk is the risk that the payment patterns of assets and liabilities will change when interest rates change. Formally, an option gives the option holder the right, but not the obligation to buy, sell, or in some manner alter the cash flow of an instrument or financial contract. Options may be stand-alone instruments or may be embedded within otherwise standard instruments. Examples of instruments with embedded options include various types of bonds, notes, loans or even deposits which give a counterparty the right to prepay or even extend the maturity of an instrument or to change the rate paid. In some cases, the holder of an option can force a counterparty to pay additional notional, or to forfeit notional already paid.

The option holder's ability to choose to alter cash flows creates an asymmetric performance pattern. If not adequately managed, the asymmetrical payoff characteristics of instruments with optionality can pose significant risk particularly to those who sell the options, since the options held, both explicit and embedded, are generally exercised to the advantage of the holder and the disadvantage of the seller.

2. Measuring the effects of interest rate risk.

Changes in interest rates affect both earnings and the economic value of an FI. This has given rise to two separate, but complementary, perspectives for evaluating an FI's exposure to interest rate risk.

Exposure to earnings typically receives the most attention. Many FIs use a modified interest rate gap or earnings simulation model to forecast earnings over a running next twelve (12) month time horizon under a variety of interest rate scenarios. Given that a large portion of a typical FI's liabilities and even assets re-price in less than one (1) year, there is value in such a system. For example, earnings are a key measure in determining if the board of directors is creating value for the shareholders.

However, earnings over the next twelve (12) months do not present a complete picture of an FI's exposure to interest rate risk. Many FIs hold assets such as bonds and fixed rate loans with extended terms. The full effect of changes in interest rates on the value of these assets cannot be fully captured by a short-term earnings model. Thus, it is also important to consider a more comprehensive picture of the FI's exposure to interest rate risk through an assessment of the FI's economic value.

The BSP will not consider market risk to be "well managed" unless the FI has fully implemented an effective risk measurement system whose sophistication is commensurate with the nature and complexity of the risk assumed. Smaller FIs with non-complex single currency balance sheets may be able to use a single non-complex measurement methodology, such as re-pricing gap analysis to manage their interest rate risk. However, large commercial or universal banks with complex, multi-currency balance sheets, or FIs that accept large exposures of interest rate risk relative to capital will be expected to measure interest rate risk through a combination of earnings simulation and economic value. Trading activities should continue to be managed through the use of an effective, and independently validated Value-at-Risk (VaR) methodology.

a. *Earnings perspective*

An FI should consider how changes in interest rates may affect future earnings.

The focus of analysis under the earnings perspective is the impact of changes in interest rates on accrual or reported earnings. Volatility in earnings should be monitored and controlled because reduced earnings or outright losses can threaten the financial stability of an FI by undermining its capital adequacy. Further, unexpected volatility in earnings can undermine an FI's reputation and result in an erosion of public confidence.

Fluctuations in interest rates generally have the greatest impact on reported earnings through changes in net interest income (i.e., the difference between total interest income and total interest expense). Thus, the BSP will expect FIs to adopt systems that are capable of estimating changes to net interest income under a variety of interest rate scenarios. For example, non-complex FIs with traditional business lines and balance sheets could potentially limit their simulations to a single ± 100 basis point parallel rate shock. However, FIs that hold significant levels of derivatives and structured products relative to capital should incorporate more severe rate movements (e.g. ± 100 , 200 and 300 basis points) to determine what happens if strike prices are breached or "events" are triggered. Further, the BSP will expect an FI to employ alternative scenarios such as changes to the shape of the yield curve if the FI is exposed to significant levels of yield curve or basis risk.

Changes in market interest rates may also affect the volume of activities that generate fee income and other non-interest income. Thus, FIs should incorporate a broader focus on overall net income – incorporating both interest and non-interest income and expenses – if the FI reports significant levels of interest rate sensitive non-interest income.

b. *Economic value perspective*

The economic value of an FI can be viewed as the present value of an FI's

expected net cash flows, defined as the expected cash flows from assets minus the expected cash flows from liabilities plus the expected net cash flows on OBS positions. As such, it provides a more comprehensive view of the potential long-term effects of changes in interest rates than is offered by the earnings perspective.

While a variety of models are available, the BSP expects that economic value models will incorporate all significant classes of assets, liabilities and OBS. As with earnings at risk, the FI should incorporate a variety of interest rate scenarios to ensure that any strike prices, caps, limits, or “events” are breached in the simulation. Also, FIs with significant levels of basis or yield curve risk are expected to add scenarios such as alternative correlations between interest rates and/or a flatter or steeper yield curve.

Managing earnings and economic exposures

Management must make certain tradeoffs when immunizing earnings and economic value from interest rate risk. When earnings are immunized, economic value becomes more vulnerable, and vice versa. The economic value of equity, like that of other financial instruments, is a function of the discounted net cash flows it is expected to earn in the future. If an FI has immunized earnings, such that expected earnings remain constant for any change in interest rates, the discounted value of those earnings will be lower if interest rates rise. Hence, its economic value will fluctuate with rate changes. Conversely, if an FI fully immunizes its economic value, its periodic earnings must increase when rates rise and decline when interest rates fall.

b. Foreign exchange risk

Foreign exchange risk (FX risk) is the risk to earnings or capital arising from changes in foreign exchange rates.

In contracting to meet clients’ foreign currency needs or simply buying and

selling foreign exchange for its own account, an FI undertakes a risk that exchange rates might change subsequent to the time the contract is consummated. Foreign exchange risk may also arise from maintaining an open foreign exchange (FX) position. Thus, managing FX risk includes monitoring an FI’s net FX position.

An FI has a net position in a foreign currency when its assets, including spot and future contracts to purchase, and its liabilities, including spot and future contracts to sell, in that currency are not equal. An excess of assets over liabilities is called a net “long” position and liabilities in excess of assets, a net “short” position.

It should be noted that when engaging in FX activities, FIs are also exposed to other risks including liquidity and credit risks, particularly related to the settlement of FX contracts. FIs should have an integrated approach to risk management in relation to its FX activities: FX risk should be reviewed together with other risks to determine the FI’s overall risk profile. Liquidity and settlement risks related to FX activities are outside the scope of these guidelines. Nevertheless, future guidelines may be issued on these risk areas.

V. Sound market risk management practices

When assessing an FI’s market risk management system, the BSP expects an FI to address the four (4) basic elements of a sound risk management system:

1. Active and appropriate Board and senior management oversight;
2. Adequate risk management policies and procedures;
3. Appropriate risk measurement methodologies, limits structure, monitoring and management information systems; and
4. Comprehensive internal controls and independent audits.

The specific manner in which an FI applies these elements in managing its market risk will depend upon the

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complexity and nature of its activities, as well as the level of market risk exposure assumed. What constitutes adequate market risk management practices can therefore vary considerably. Regardless of the systems used, the BSP will not consider market risk to be well managed unless all four of the above elements are deemed to be at least “satisfactory”.

As with other risk factor categories, banking groups (banks and subsidiaries/affiliates) should monitor and manage market risk exposures of the group on a consolidated and comprehensive basis. At the same time, however, FIs should fully recognize any legal distinctions and possible obstacles to cash flow movements among affiliates and adjust their risk management practices accordingly. While consolidation may provide a comprehensive measure in respect of market risk, it may also underestimate risk when positions in one affiliate are used to offset positions in another affiliate. This is because a conventional accounting consolidation may allow theoretical offsets between such positions from which an FI may not in practice be able to benefit because of legal or operational constraints.

A. Active and appropriate board and senior management oversight¹

Effective board and senior management oversight of an FI’s market risk activities is critical to a sound market risk management process. It is important that these individuals are aware of their responsibilities with regard to market risk management and how market risk fits within the organization’s overall risk management framework.

Responsibilities of the board of directors

The board of directors has the ultimate responsibility for understanding the

nature and the level of market risk taken by the FI. In order to carry out its responsibilities, the Board should:

1. Establish and guide the FI’s strategic direction and tolerance for market risk. While it is not possible to provide a comprehensive list of documents to consider, the BSP should see a clear and documented pattern whereby the Board reviews, discusses and approves strategies and policies with respect to market risk management. In addition, there should be evidence that the Board periodically reviews and discusses the overall objectives of the FI with respect to the level of market risk acceptable to the FI.

2. Identify senior management who has the authority and responsibility for managing market risk and ensure that senior management takes the necessary steps to monitor and control market risk consistent with the approved strategies and policies. The BSP should be able to discern a clear hierarchal structure with a clear assignment of responsibility and authority.

3. Monitor the FI’s performance and overall market risk profile, ensuring that the level of market risk is maintained within tolerance and at prudent levels supported by adequate capital. The Board should be regularly informed of the market risk exposure of the FI and any breaches to established limits for appropriate action. Reporting should be timely and clearly presented. In assessing an FI’s capital adequacy for market risk, the Board should consider the FI’s current and potential market risk exposure as well as other risks that may impair the FI’s capital, such as credit, liquidity, operational, strategic, and reputation risks.

¹ This section refers to a management structure composed of a board of directors and senior management. The BSP is aware that there may be differences in some FIs as regards the organizational framework and functions of the board of directors and senior management. For instance, branches of foreign banks have board of directors located outside of the Philippines and are overseeing multiple branches in various countries. In this case, “board-equivalent” committees are appointed. Owing to these differences, the notions of the board of directors and the senior management are used in these guidelines not to identify legal constructs but rather to label two decision-making functions within a FI.

4. Ensure that the FI implements sound fundamental principles that facilitate the identification, measurement, monitoring and control of market risk. The board of directors should encourage discussions among its members and senior management – as well as between senior management and others in the FI – regarding the FI’s market risk exposures and management process.

5. Ensure that adequate resources, both technical and human resources, are devoted to market risk management. While board members need not have detailed technical knowledge of complex financial instruments, legal issues or sophisticated risk management techniques, they have the responsibility to ensure that the FI has personnel available who have the necessary technical skills to evaluate and control market risk. This responsibility includes ensuring that there is continuous training of personnel on market risk management and providing competent technical staff for the internal audit function.

Responsibilities of senior management

Senior management is responsible for ensuring that market risk is adequately managed for both long-term and day-to-day basis. In managing the FI’s activities, senior management should:

1. Develop and implement policies, procedures and practices that translate the board’s goals, objectives and risk tolerances into operating standards that are well understood by personnel and that are consistent with the board’s intent. Senior management should also periodically review the organization’s market risk management policies and procedures to ensure that they remain appropriate and sound.

2. Ensure adherence to the lines of authority and responsibility that the board has established for measuring, managing, and reporting market risk exposures.

3. Maintain appropriate limits structure, adequate systems for measuring market risk, and standards for measuring performance.

4. Oversee the implementation and maintenance of management information and other systems to identify, measure, monitor, and control the FI’s market risk.

5. Establish effective internal controls over the market risk management process.

6. Ensure that adequate resources are available for evaluating and controlling market risk. Senior management of FIs, including branches of foreign banks, should ensure that analysis and market risk management activities are conducted by competent staff with technical knowledge and experience consistent with the nature and scope of the FI’s activities. There should be sufficient depth in staff resources to manage these activities and to accommodate the temporary absence of key personnel and normal succession.

In evaluating the quality of oversight, the BSP shall evaluate how the board and senior management carry out the above functions/responsibilities. Further, sound management oversight is highly related to the quality of other areas/elements of an FI’s risk management system. Thus, even if board and senior management exhibit active oversight, the FI’s policies, procedures, measurement methodologies, limits structure, monitoring and information systems, controls and audit must be considered adequate before quality of board and senior management can be considered at least “satisfactory”.

Lines of responsibility and authority

FIs should clearly define the individuals and/or committees responsible for managing market risk and should ensure that there is adequate separation of duties in key elements of the risk management process to avoid potential conflicts of interest.

Management should ensure that sufficient safeguards exist to minimize the potential that individuals initiating risk-taking

positions may inappropriately influence key control functions of the market risk management process. FIs should therefore have risk measurement, monitoring, and control functions with clearly defined duties that are sufficiently independent from position-taking functions of the FI and which report risk exposures directly to the board of directors.

The nature and scope of safeguards to minimize potential conflicts of interest should be in accordance with the size and structure of an FI. Larger or more complex FIs should have a designated independent unit responsible for the design and administration of the FI’s market risk measurement, monitoring and control functions.

B. Adequate risk management policies and procedures

An FI’s market risk policies and procedures should be clearly defined, documented and duly approved by the board of directors. Policies and procedures should be consistent with the nature and complexity of the FI’s activities. When reviewing banking groups, the BSP will assess whether adequate and effective policies and procedures have been adopted and implemented across all levels of the organization.

Policies and procedures should delineate lines of responsibility and accountability and should clearly define authorized instruments, hedging strategies, position-taking opportunities, and the market risk models used to quantify market risk. Market risk policies should also identify quantitative parameters that define the acceptable level of market risk for the FI. Where appropriate, limits should be further specified for certain types of instruments, portfolios, and activities. All market risk policies should be reviewed periodically and revised as needed. Management should define the specific procedures to be used for identifying,

reporting and approving exceptions to policies, limits, and authorizations.

It is important that FIs identify market risk, as well as other risks, inherent in new products and activities and ensure these are subject to adequate procedures and controls before the new products and activities are introduced or undertaken. Specifically, new products and activities should undergo a careful pre-acquisition review to ensure that the FI understands their market risk characteristics and can incorporate them into its risk management process. Major hedging or risk management initiatives should be approved in advance by the board or its appropriate delegated committee.

Proposals and the subsequent new product/activity review should be formal and written. For purposes of managing market risk inherent in new products, proposals should, at a minimum, contain the following features:

1. Description of the relevant product or strategy;
2. Use/purpose of the new product/activity;
3. Identification of the resources required and unit/s responsible for establishing sound and effective market risk management of the product or activity;
4. Analysis of the reasonableness of the proposed activities in relation to the FI’s overall financial condition and capital levels; and
5. Procedures to be used to measure, monitor, and control the risks of the proposed product or activity.

C. Appropriate risk measurement methodologies, limits structure, monitoring, and management information system

Market risk measurement models/methodologies

It is essential that FIs have market risk measurement systems that capture all material sources of market risk and that assess the effect of changes in market risk

factors in ways that are consistent with the scope of their activities. Depending upon the size, complexity, and nature of activities that give rise to market risk, the ability to capture all material sources of market risk in a timely manner may require an FI's market risk measurement system to be interfaced with other systems, such as the treasury system or loan system. The assumptions underlying the measurement system should be clearly understood by risk managers and senior management.

Market risk measurement systems should:

1. Assess all material market risk associated with an FI's assets, liabilities, and OBS positions;
2. Utilize generally accepted financial concepts and risk measurement techniques; and
3. Have well-documented assumptions and parameters.

There are a number of methods/techniques for measuring market risks. Complexity ranges from simple marking-to-market or valuation techniques to more advanced static simulations using current holdings to highly sophisticated dynamic modeling techniques that reflect potential future business activities. In designing market risk measurement systems, FIs should ensure that the degree of detail regarding the nature of their positions is commensurate with the complexity and risk inherent in those positions.

At a minimum, smaller non-complex FIs should have the ability to mark-to-market or revalue their investment portfolio and construct a simple re-pricing gap. When using gap analysis, the precision of interest rate risk measurement depends in part on the number of time bands into which positions are aggregated. Clearly, aggregation of positions/cash flows into broad time bands implies some loss of precision. In addition, the use of reasonable and valid assumptions is important for a measurement system to be precise. In

practice, the FI must assess the significance of the potential loss of precision in determining the extent of aggregation and simplification to be built into the measurement approach. Assumptions and limitations of the measurement approach, such as the loss of precision, should be documented.

On the other hand, banks holding an expanded derivatives license and FIs engaging in options or structured products with embedded options cannot capture all material sources of market risk by using static models such as the re-pricing gap. These FIs should have interest rate risk measurement systems that assess the effects of rate changes on both earnings and economic value. These systems should provide meaningful measures of an FI's current levels of interest rate risk exposure, and should be capable of identifying any excessive exposures that might arise. Pricing models and simulation techniques will probably be required.

There is also a question on the extent to which market risk should be viewed on a whole institution basis or whether the trading book, which is marked to market, and the accrual book, which is often not, should be treated separately. As a general rule, it is desirable for any measurement system to incorporate market risk exposures arising from the full scope of an FI's activities, including both trading and non-trading sources. A single measurement system can facilitate analysis of market risk exposure. However, this does not preclude different measurement systems and risk management approaches being used for similar or different activities. For example, a bank with expanded derivatives license will use pricing models as basic tools in valuing position from its derivatives activities and structured products. In addition, the bank should use simulation models to assess the potential effects of changes in market risk factors by simulating the future path of market risk factors and their impact on cash flows from these activities.

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Different methodologies may also be applied to the trading and accrual books. Regardless of the number of models or measurement systems used, management should have an integrated view of market risk across products and business lines.

Regardless of the measurement system used, the BSP will expect the FI to ensure that input data are timely and correct, assumptions can be supported and are valid, the methodologies used produce accurate results, and the results can be easily understood by senior management and the board.

(1) Model input. All market risk measurement methodologies require various types of inputs, including hard data, readily observable parameters such as asset prices, and both quantitatively and qualitatively-derived assumptions. This applies equally to simple gap as well as complex simulation models.

The integrity and timeliness of data is a key component of the market risk measurement process. The BSP expects that adequate controls will be established to ensure that all material positions and cash flows from on- and off- balance sheet positions are incorporated into the measurement system on a consistent and timely basis. Inputs should be verified through a process that validates data integrity. Assumptions and inputs should be subject to control and oversight review. Any manual adjustments to underlying data should be documented, and the nature and reasons for the adjustments should also be clearly understood.

Critical to model accuracy is the validity of underlying assumptions. Assumptions regarding maturity of deposits, for example, are critical in measuring interest rate risk. The treatment of positions where behavioral maturity is different from contractual maturity requires the use of assumptions and may complicate the measurement of interest rate risk exposure, particularly when using the

economic value approach. The validity of correlation assumptions to aggregate market risk exposures is likewise important as breakdowns in correlations may significantly affect the validity of model results. Key assumptions should therefore be subject to rigorous documentation and review. Any significant changes should be approved in advance by the board of directors.

(2) Model risk. While accuracy is key to an effective market risk measurement system, methodologies cannot be expected to flawlessly predict potential losses arising from market risk. The use of models introduces the potential for model risk. Thus, model risk is the risk of loss arising from inaccurate or incorrect quantification of market risk exposures due to weaknesses in market risk methodologies. It may arise from relying on assumptions that are inconsistent with market realities, from employing input parameters that are unreliable, or from calibrating, applying and implementing models incorrectly.

Model risk is more likely to arise for instruments that have non-standard or option-like features. The use of proprietary models that employ unconventional techniques that are not widely agreed upon by market participants is likewise more sensitive to model risk. Even the use of standard models may lead to errors if the financial tools are not appropriate for a given instrument.

The BSP expects FIs to implement effective policies and procedures to manage model risk. The scope of policies and procedures will depend upon the type and complexity of models developed or purchased. However, FIs holding an expanded license or significant levels of complex investments including structured products, should at a minimum implement the following controls:

a. Model development/acquisition, implementation and revisions. The BSP expects larger, complex FIs to adopt policies

governing development/acquisition, implementation and revision of market risk models. These policies should clearly define the responsibilities of staff involved in the development/acquisition process. FIs should ensure that modeling techniques and assumptions are consistent with widely accepted financial theories and market practices. Policies and procedures should be duly approved by the board of directors and properly documented. An inventory of the models in use should be maintained along with documentation explaining how they operate.

The BSP also expects that revisions to models will be performed in a controlled environment by authorized personnel and changes should be made or verified by a control function. Written policies should specify when changes to models are acceptable and how those revisions should be accomplished.

b. Model validation. Before models are authorized for use, they should be validated by individuals who are neither directly involved in the development process nor responsible for providing inputs to the model. Independent model validation is a key control in the model development process and should be specifically addressed in an FI's policies. Further, the BSP expects that the staff validating the models will have the necessary technical expertise.

A sound validation process should rigorously and comprehensively evaluate the sensitivity of the model to material sources of model risk and includes the following:

1. Tests of internal logic and mathematical accuracy;
2. Development of empirical support for the model's assumptions;
3. Back-testing. The BSP expects FIs to conduct backtesting of model results. Back-testing is a method of periodically evaluating the accuracy and predictive capability of an FI's market risk measurement system by monitoring and comparing actual movements

in market prices or market risk factors with projections produced by the model. To be more effective, back-testing should be conducted by parties independent of those developing or using the model. Policies should address the scope of the back-testing process, frequency of back-testing, documentation requirements, and management responses. Complex models should be back-tested continually while simple models can be back-tested periodically. Significant discrepancies should prompt a model review.

4. Periodic review of methodologies and assumptions. The BSP expects that FIs will periodically review or reassess their modeling methodologies and assumptions. Again, the frequency of review will depend on the model but complex models should be reviewed at least once a year, when changes are made, or when a new product or activity is introduced. Model review could also be prompted when there is a need for the model to be updated to reflect changes in the FI or market. The review process should be performed by an independent group as it is considered to be part of the risk control and audit function.

The use of vendor models can present special challenges, as vendors often claim proprietary privilege to avoid disclosing information about their models. Thus, FIs may be constrained from performing validation procedures related to internal logic, mathematical accuracy and model assumptions. However, vendors should provide adequate information on how the models were constructed and validated so that FIs have reasonable assurances that the model works as intended.

c. Stress testing. The underlying statistical models used to measure market risk summarize the exposures that reflect the most probable market conditions. Regardless of size and complexity of activities, the BSP expects FIs to supplement their market risk measurement models with stress tests. Stress testing are simulations that show how a

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portfolio or balance sheet might perform during extreme events or highly volatile markets.

Stress testing should be designed to provide information on the kinds of conditions under which the FI's strategies or positions would be most vulnerable. Thus stress tests must be tailored to the risk characteristics of the FI. Possible stress scenarios might include abrupt changes in the general level of interest rates, changes in the relationships among key market rates (i.e., basis risk), changes in the slope and the shape of the yield curve (i.e., yield curve risk), changes in the liquidity of key financial markets, or changes in the volatility of market rates.

In addition, stress scenarios should include conditions under which key business assumptions and parameters break down. The stress testing of assumptions used for illiquid instruments and instruments with uncertain contractual maturities are particularly critical to achieving an understanding of the FI's risk profile. When conducting stress tests, special consideration should be given to instruments or markets where concentrations exist. FIs should consider also "worst case" scenarios in addition to more probable events.

Further, the BSP will expect FIs with material market risk exposure, particularly from derivatives and/or structured products to supplement their stress testing with an analysis of their exposure to "interconnection risk." While stress testing typically considers the movement of a single market factor (e.g., interest rates), interconnection risk considers the linkages across markets (e.g., interest rates and foreign exchange rates) and across the various categories of risk (e.g., credit, and liquidity risk). For example, stress from one market may transmit shocks to other markets and give rise to otherwise dormant risks, such as liquidity risk. Evaluating

interconnected risk involves assessing the total or aggregate impact of singular events.

Guidelines for performing stress testing should be detailed in the risk management policy statement. Management and the board of directors should periodically review the design, major assumptions, and the results of such stress tests to ensure that appropriate contingency plans are in place.

(3) Model output. Reports should be provided to senior management and the board as a basis for making decisions. Report content should be clear and straightforward, indicating the purpose of the model, significant limitations, the quantitative level of risk estimated by the simulation, a comparison to Board approved limits and a qualitative discussion regarding the appropriateness of the FI's current exposures. Sophisticated simulations should be used carefully so that they do not become "black boxes" producing numbers that have the appearance of precision but may not be very accurate when their specific assumptions and parameters are revealed.

Market limits structure

The FI's board of directors should set the institution's tolerance for market risk and communicate that tolerance to senior management. Based on these tolerances, senior management should establish appropriate risk limits, duly approved by the Board, to maintain the FI's exposure within the set tolerances over a range of possible changes in market risk factors such as interest rates.

Limits represent the FI's actual willingness and ability to accept real losses. In setting risk limits, the board and senior management should consider the nature of the FI's strategies and activities, past performance, and management skills. Most importantly, the board and senior management should consider the level of the FI's earnings and capital and ensure that

both are sufficient to absorb losses equal to the proposed limits. Limits should be approved by the board of directors. Furthermore, limits should be flexible to changes in conditions or risk tolerances and should be reviewed periodically.

An FI's limits should be consistent with its overall approach to measuring market risk. At a minimum, FIs using simple gap should establish limits on mismatches in each time bucket on a stand-alone and cumulative basis. In addition, limits should be adopted to control potential losses in the investment portfolio to a pre-set percentage of capital.

Larger, more complex FIs should establish limits on the potential impact of changes in market risk factors on reported earnings or/and the FI's economic value of equity. Market risk limits may include limits on net and gross positions, volume limits, stop-loss limits, value-at-risk limits, re-pricing gap limits, earnings-at-risk limits and other limits that capture either notional or (un)expected loss exposures. In assigning interest rate risk limits under the earnings perspective, FIs should explore limits on the variability of net income as well as net interest income in order to fully assess the contribution of non-interest income to the interest rate risk exposure of the FI. Such limits usually specify acceptable levels of earnings volatility under specified interest rate scenarios.

For example, interest rate risk limits may be keyed to specific scenarios of movements in market interest rates such as an increase or decrease of a particular magnitude. The rate movements used in developing these limits should represent meaningful stress situations taking into account historic rate volatility and the time required for management to address exposures. Limits may also be based on measures derived from the underlying statistical distribution of interest rates, such as earnings at risk or economic value-at-risk techniques. Moreover, specified scenarios should take

account of the full range of possible sources of interest rate risk to the FI including re-pricing, yield curve, basis, and option risks. Simple scenarios using parallel shifts in interest rates may be insufficient to identify such risks. This is particularly important for FIs with significant exposures to these sources of market risk.

The form of limits for addressing the effect of rates on an FI's economic value of equity should be appropriate for the size and complexity of its underlying positions. For FIs engaged in traditional banking activities, relatively simple limits may suffice. However, for FIs with significant holdings of long-term instruments, options, instruments with embedded options, or other structured instruments, more detailed limit systems may be required.

Depending on the nature of an FI's holdings and its general sophistication, limits can also be identified for individual business units, portfolios, instrument types, or specific instruments. The level of detail of risk limits should reflect the characteristics of the FI's holdings including the various sources of market risk the FI is exposed to.

The BSP also expects that the limits system will ensure that positions that exceed predetermined levels receive prompt management attention. Limit exceptions should be communicated to appropriate senior management without delay. Policies should include how senior management will be informed and what action should be taken by management in such cases. Particularly important is whether limits are absolute in the sense that they should never be exceeded or whether, under specific circumstances, breaches of limits can be tolerated for a short period of time. The circumstances leading to a tolerance of breaches should be clearly described.

Market risk monitoring and reporting

An accurate, informative, and timely management information system is

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essential for managing market risk exposures both to inform management and to support compliance with board policy. Reporting of risk measures should be done regularly and should clearly compare current exposure to policy limits. In addition, past forecasts or risk estimates should be compared with actual results to identify any modeling shortcomings.

Reports detailing the market risk exposure of the FI should be reviewed by the board on a regular basis. While the types of reports prepared for the board and for various levels of management will vary based on the FI's market risk profile, they should at a minimum include the following:

1. Summaries of the FI's aggregate exposures;
2. Reports demonstrating the FI's compliance with policies and limits;
3. Summary of key assumptions, for example, non-maturity deposit behavior, prepayment information, and correlation assumptions;
4. Results of stress tests, including those assessing breakdowns in key assumptions and parameters; and
5. Summaries of the findings of reviews of market risk policies, procedures, and the adequacy of the market risk measurement systems, including any findings of internal and external auditors and retained consultants.

D. Risk controls and audit

Adequate internal controls ensure the integrity of an FI's market risk management process. These internal controls should be an integral part of the institution's overall system of internal control and should promote effective and efficient operations, reliable financial and regulatory reporting, and compliance with relevant laws, regulations, and institutional policies. An effective system of internal control for market risk includes:

1. A strong control environment;
2. An adequate process for identifying and evaluating risk;

3. The establishment of control activities such as policies, procedures, and methodologies;

4. Adequate information systems;

5. Continual review of adherence to established policies and procedures; and

6. An effective internal audit and independent validation process.

Policies and procedures should specify the approval processes, exposure limits, reconciliations, reviews, and other control mechanisms designed to provide a reasonable assurance that the institution's market risk management objectives are achieved. Many attributes of a sound risk management process, including risk measurement, monitoring, and control functions, are actually key aspects of an effective system of internal control. FIs should ensure that all aspects of the internal control system are effective, including those aspects that are not directly part of the risk management process.

An important element of an FI's internal control system is regular evaluation and review. The BSP expects that FIs will establish a process to ensure that its personnel are following established policies and procedures, and that its procedures are actually accomplishing their intended objectives. Such reviews and evaluations should also address any significant change that may impact the effectiveness of controls, and that appropriate follow-up action was implemented when limits were breached. Management should ensure that all such reviews and evaluations are conducted regularly by individuals who are independent of the function they are assigned to review. When revisions or enhancements to internal controls are warranted, there should be a mechanism in place to ensure that these are implemented in a timely manner.

Independent reviews of the market risk measurement system should also include assessments of the assumptions,

parameters, and methodologies used. Such reviews should seek to understand, test, and document the current measurement process, evaluate the system’s accuracy, and recommend solutions to any identified weaknesses. If the measurement system incorporates one or more subsidiary systems or processes, the review should include testing aimed at ensuring that the subsidiary systems are well-integrated and consistent with each other in all critical respects. The results of this review, along with any recommendations for improvement, should be reported to senior management and/or the board.

The BSP expects that FIs with complex risk exposures should have their measurement, monitoring, and control functions reviewed on a regular basis by an independent party (such as an internal or external auditor). In such cases, reports written by external auditors or other outside parties should be available to the BSP. It is essential that any independent reviewer ensures that the FI’s risk measurement system is sufficient to capture all material elements of market risk, whether arising from on- or off-balance-sheet activities. Among the items that an audit should review and validate are:

1. The appropriateness of the FI’s risk measurement system(s) given the nature, scope, and complexity of its activities.
2. The accuracy and completeness of the data inputs - This includes verifying that balances and contractual terms are

correctly specified and that all major instruments, portfolios, and business units are captured in the model. The review should also investigate whether data extracts and model inputs have been reconciled with transactions and general ledger systems.¹

3. The reasonableness and validity of scenarios and assumptions – This includes a review of the appropriateness of the interest rate scenarios as well as customer behaviors and pricing/volume relationships to ensure that these assumptions are reasonable and internally consistent.²

4. The validity of the risk measurement calculations - The scope and formality of the measurement validation will depend on the size and complexity of the FI. At large FIs, internal and external auditors may have their own models against which the FI’s model is tested. FIs with more complex risk profiles and measurement systems should have the model or calculations audited or validated by an independent source. At smaller and less complex FIs, periodic comparisons of actual performance with forecasts may be sufficient.³

The frequency and extent to which an FI should re-evaluate its risk measurement methodologies and models depend, in part, on the particular market risk exposures created by holdings and activities, the pace and nature of market rate changes, and the pace and complexity of innovation with respect to measuring and managing market risk.

¹ It is acceptable for parts of the reconciliation to be automated; e.g., routines may be programmed to investigate whether the balances being extracted from various transaction systems match the balances recorded on the FI’s general ledger. Similarly, the model itself often contains various audit checks to ensure, for example, that maturing balances do not exceed original balances.

² Key areas of review include the statistical methods that were used to generate scenarios and assumptions (if applicable), and whether senior management reviewed and approved key assumptions. The review should also compare actual pricing spreads and balance sheet behavior to model assumptions. For some instruments, estimates of value changes can be compared with market value changes. Unfavorable results may lead the FI to revise model relationships.

³ The validity of the model calculations is often tested by comparing actual with forecasted results. When doing so, FIs can compare projected net income results with actual earnings. Reconciling the results of economic valuation systems can be more difficult because market prices for all instruments are not always readily available, and the FI does not routinely mark all of its balance sheet to market. For instruments or portfolios with market prices, these prices are often used to benchmark or check model assumptions.

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VI. Capital adequacy

In addition to adequate risk management systems and controls, capital has an important role to play in mitigating and supporting market risk. FIs must hold capital commensurate with the level of market risk they undertake. As part of sound market risk management, FIs must translate the level of market risk they undertake whether as part of their trading or non-trading activities, into their overall evaluation of capital adequacy. Where market risk is undertaken as part of an FI’s trading activities, existing capital adequacy ratio requirements shall prevail.

The BSP will periodically evaluate the market risk measurement system for the accrual book to determine if the FI’s capital is adequate to support its exposure to market risk and whether the internal measurement systems of the FI are adequate. In performing this assessment, the BSP may require information regarding the market risk exposure of the FI, including re-pricing gaps, earnings and economic value simulation estimates, and the results of stress tests. This information will typically be found in internal management reports.

If an FI’s internal measurement system does not adequately capture the level of market risk, the BSP may require an FI to

improve its system. In cases where an FI accepts significant market risk in its accrual book, the BSP expects that a portion of capital will be allocated to cover this risk.

When performing these evaluations, the BSP will determine if:

(a) All material market risk associated with an institution’s assets, liabilities, and OBS positions in the accrual book are captured by the risk management systems;

(b) Generally accepted financial concepts and risk measurement techniques are utilized. For larger, complex FIs, internal systems must be capable of measuring risk using both an earnings and economic value approach.

(c) Data inputs are adequately specified (commensurate with the nature and complexity of an FI’s holdings) with regard to rates, maturities, re-pricing, embedded options, and other details;

(d) The system’s assumptions (used to transform positions into cash flows) are reasonable, properly documented, and stable over time.¹

(e) Market risk measurement systems are integrated into the institution’s daily risk management practices. The output of the systems should be used in characterizing the level of market risk to senior management and board of directors.

(Circular No. 544 dated 15 September 2006)

¹ This is especially important for assets and liabilities whose behavior differs markedly from contractual maturity or re-pricing, and for new products. Material changes to assumptions should be documented, justified, and approved by management.

GUIDELINES ON LIQUIDITY RISK MANAGEMENT
(Appendix to Sec. X176)

I. Background

The on-going viability of institutions, particularly financial organizations, is heavily influenced by their ability to manage liquidity. Innovations in investment and funding products, growth in off-balance sheet activities and continuous competition for consumer funds have affected the way FI do business and intensified the need for proactive liquidity risk management. FIs need to fully understand, measure and control the resulting liquidity risk exposures.

II. Statement of Policy

For purposes of these guidelines, FI include banks, NBFIs supervised by the Bangko Sentral and their financial subsidiaries. The Bangko Sentral recognizes the liquidity risk inherent in FI activities and how these activities expose an FI to multiple risks which may increase liquidity risk.

The Bangko Sentral will not restrict risk-taking activities as long as FIs are authorized to engage in such activities and:

1. Understand, measure, monitor and control the risk they assume;
2. Adopt risk management practices whose sophistication and effectiveness is commensurate to the risk assumed; and
3. Maintain capital commensurate with their risk exposures.

The principles set forth in these guidelines shall be used to determine the level and trend of liquidity risk exposure and adequacy and effectiveness of an FI's liquidity risk management process. In evaluating the adequacy of an FI's liquidity position, the Bangko Sentral shall consider the FI's current level and prospective sources of liquidity as compared to its funding needs. Further, the Bangko Sentral will evaluate the adequacy of funds management

practices relative to the FI's size, complexity, and risk profile.

In general, liquidity risk management practices should ensure that an institution is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and to fulfill the legitimate funding needs of its community. Practices should reflect the ability of the institution to manage unplanned changes in funding sources, as well as react to changes in market conditions that affect the ability to quickly liquidate assets with minimal loss. In addition, funds-management practices should ensure that liquidity is not consistently maintained at a high cost, from concentrated sources, or through undue reliance on funding sources that may not be available in times of financial stress or adverse changes in market conditions.

In evaluating the above parameters, the Bangko Sentral shall consider the following factors:

1. The actual and potential level of liquidity risk posed by the FI's products and services, balance sheet structure and off-balance sheet activities;
2. The cost of an FI's access to money markets and other alternative sources of funding;
3. The diversification of funding sources (on and off-balance sheet);
4. The adequacy and effectiveness of board and senior management oversight, particularly the Board's ability to recognize the effects of interrelated risk areas, such as market and reputation risks, to liquidity risk;
5. The reasonableness of liquidity risk limits and controls in relation to earnings, as affected by the cost of access to money markets and other alternative sources of funding, and capital;
6. The adequacy of measurement methodologies, monitoring and management information systems;

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7. The adequacy of foreign currency liquidity management;

8. The appropriateness and reasonableness of contingency plans for handling liquidity crises;

9. The adequacy of internal controls and audit of liquidity risk management process.

The sophistication of liquidity risk management shall depend on the size, nature and complexity of an FI's activities. However, in all instances, FIs are expected to measure their liquidity position on an ongoing basis, analyze net funding requirements under alternative scenarios, diversify funding sources and adopt contingency funding plans.

An FI's liquidity risk management system shall be assessed under the FI's general risk management framework, consistent with the guidelines on supervision by risk as set forth under *Appendix 72*. If an FI's risk exposures are deemed excessive relative to the FI's capital, or that the risk assumed is not well managed, the BSP will direct the FI to reduce its exposure and/or strengthen its risk management system.

III. Liquidity Risk Management Process

Liquidity risk management process should be tailored to an FI's structure and scope of operations and application can vary across institutions. Regardless of the structure, an FI's liquidity risk management process should be consistent with its general risk management framework and should be commensurate with the level of risk assumed. At a minimum, the process should:

1. *Identify liquidity risk*. Proper identification of liquidity risk requires that management understand both existing risk and prospective risks from new products and activities. It involves determining the volume and trends of liquidity needs and the sources of liquidity available to meet these needs. Identifying liquidity risk necessitates expressing the FI's desired level of risk exposure based on its ability and willingness to assume risk which may primarily depend

on the FI's capital base and access to funds providers. Liquidity risk identification should be a continuing process and should occur at both the transaction, portfolio and entity level.

2. *Measure liquidity risk*. Adequate measurement systems enable FIs to quantify liquidity risk exposures on a per entity basis and across the consolidated organization. A relatively large organization with extensive scope of operations would generally require a more robust management information system to properly measure risk in a timely and comprehensive manner.

3. *Control liquidity risk*. The FI should establish policies and standards on acceptable product types, activities, counterparties and set risk limits on a transactional, portfolio and aggregate/consolidated basis to control liquidity risk. In setting limits, the FI should recognize any legal distinctions and possible obstacles to cash flow movements among affiliates or across separate books. Lines of authority and accountability should be clearly defined to ensure liquidity risk exposures remain reasonable and within the risk tolerance expressed by the board.

4. *Monitor liquidity risk*. Monitoring liquidity risk requires timely review of liquidity risk positions and exceptions, including day-to-day liquidity management. Monitoring reports should be frequent, timely, and accurate and should be distributed to appropriate levels of management.

IV. Definition of Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

In terms of capital markets and trading activities, FIs face two (2) types of liquidity risk: *funding liquidity risk* and *market liquidity risk*. *Funding liquidity risk* refers to the inability to meet investment and funding requirements arising from cash flow mismatches without incurring unacceptable losses or costs. This is synonymous with the general definition of liquidity risk.

Market liquidity risk, on the other hand, refers to the risk that an institution cannot easily eliminate or offset a particular position because of inadequate liquidity in the market. The size of the bid/ask spread of instruments in a market provides a general indication of its depth, hence its liquidity, under normal circumstances. Market liquidity risk is also associated with the probability that large transactions may have a significant effect on market prices in markets that lack sufficient depth. In addition, market liquidity risk is associated with structured or complex investments as the market of potential buyers is typically small. Finally, FIs are exposed to the risk of an unexpected and sudden erosion of market liquidity. This could be the result of sharp price movement or jump in volatility, or internal to the FI such as that posed by a general loss of market confidence. Understanding market liquidity risk is particularly important for institutions with significant holdings of instruments traded in financial markets.

Market and liquidity risks are highly interrelated, particularly during times of uncertainty when there is a high correlation between the need for liquidity and market volatility. Likewise, an FI's exposure to other risks such as reputation, strategic, and credit risks, can likewise significantly affect an institution's liquidity risk. It is therefore important that an FI's liquidity risk

management system is consistent with its general risk management framework.

V. Sound Liquidity Risk Management Practices

When assessing an FI's liquidity risk management system, the BSP shall consider how an FI address the four basic elements of a sound risk management system:

1. Active and appropriate board and senior management oversight;
2. Adequate risk management policies and procedures;
3. Appropriate risk measurement methodologies, limits structure, monitoring and management information system; and
4. Comprehensive internal controls and independent audits

Evaluation of the adequacy of the FI's application of the above elements will be relative to the FI's risk profile. FIs with less complex operations may generally use more basic practices while larger, and/or more complex institutions will be expected to adopt more formal and sophisticated practices. Large organizations should likewise take a comprehensive perspective to measuring and controlling liquidity risk by understanding how subsidiaries and affiliates can raise or lower the consolidated risk profile.

A. Active and appropriate Board and senior management oversight¹

Effective liquidity risk management requires that the Board and senior management be fully informed of the level of liquidity risk assumed by the FI and ensure that the activities undertaken are within the prescribed risk tolerance. Senior management should have a thorough understanding of how other risks such as credit, market, operational and reputation risks impact the FI's overall liquidity strategy.¹

¹ This section refers to a management structure composed of a board of directors and senior management. The BSP is aware that there may be differences in some financial institutions as regards the organizational framework and functions of the board of directors and senior management. For instance, branches of foreign banks have board of directors located outside of the Philippines and are overseeing multiple branches in various countries. In this case, "board-equivalent" committees are appointed. Owing to these differences, the notions of the board of directors and the senior management are used in these guidelines not to identify legal constructs but rather to label two decision-making functions within a financial institution.

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Responsibilities of the board of directors

The Board has the ultimate responsibility for understanding the nature and level of liquidity risk assumed by the FI and the processes used to manage it.

The board of directors should:

1. Establish and guide the FI’s strategic direction and tolerance for liquidity risk by adopting a formal written liquidity/funding policy that specifies quantitative and qualitative targets;
2. Approve policies that govern or influence the FI’s liquidity risk, including reasonable risk limits and clear guidelines which are adequately documented and communicated to all concerned;
3. Identify the senior management staff who has the authority and responsibility for managing liquidity risk and ensure that this staff takes the necessary steps to monitor and control liquidity risk;
4. Monitor the FI’s performance and overall liquidity risk profile in a timely manner by requiring frequent reports that outline the liquidity position of the FI along with information sufficient to determine if the FI is complying with established risk limits;
5. Mandate and track the implementation of corrective action in instances of breaches in policies and procedures;
6. Establish, review and to the extent possible, test contingency plans for dealing with potential temporary and long-term liquidity disruptions; and
7. Ensure that the FI has sufficient competent personnel, including internal audit staff, and adequate measurement systems to effectively manage liquidity risk.

Responsibilities of senior management

Senior management is responsible for effectively executing the liquidity strategy and overseeing the daily and long-term management of liquidity risk. In managing the FI’s activities, senior management should:

1. Develop and implement procedures and practices that translate the Board’s goals, objectives, and risk tolerances into operating standards that are transmitted to and well understood by personnel. Operating standards should be consistent with the Board’s intent;
 2. Plan for adequate sources of liquidity to meet current and potential funding needs and establish guidelines for the development of contingency funding plans;
 3. Adhere to the lines of authority and responsibility that the Board has established for managing liquidity risk;
 4. Oversee the implementation and maintenance of management information and other systems that identify, measure, monitor, and control the FI’s liquidity risk; and
 5. Establish effective internal controls over the liquidity risk management process.
- In evaluating the quality of oversight provided by the Board and senior management, the BSP will evaluate how the Board and senior management carry out the above functions/responsibilities. Further, sound management practices are highly related to the quality of other areas/elements of risk management system. Thus, even if Board and senior management exhibit active oversight, the FI’s policies, procedures, measurement methodologies, limits structure, monitoring and information systems, controls and audit should be adequate before quality of Board and senior management can be considered “satisfactory”.

Lines of Responsibility and Authority

Management of liquidity risk generally requires collaboration from various business areas of the FI, thus a clear delineation of responsibilities is necessary. The management structure should clearly define the duties of senior level committees, members of which have authority over the units responsible for executing liquidity-related transactions. There should be a clear

delegation of day-to-day operating responsibilities to particular departments such as the Treasury Department.

To ensure proper management of liquidity risk, the FI should designate an independent unit responsible for measuring, monitoring and controlling liquidity risk. Said unit should take a comprehensive approach and directly report to the board of directors or a committee thereof.

B. Adequate risk management policies and procedures

An FI's liquidity risk policies and procedures should be comprehensive, clearly defined, documented and duly approved by the board of directors. Policies and procedures should cover the FI's liquidity risk management system in order to provide appropriate guidance to management. These policies should be applied on a consolidated basis and, as appropriate, at the level of individual affiliates, especially when recognizing legal distinctions and possible obstacles to cash movements among affiliates.

Liquidity risk policies should identify the quantitative parameters used by the FI to define the acceptable level of liquidity risk such as risk limits and financial ratios as well as describe the measurement tools and assumptions used. Qualitative guidelines should include description of the FI's acceptable products and activities, including off-balance sheet transactions, desired composition of assets and liabilities, and approach towards managing liquidity in different currencies, geographies and across subsidiaries and affiliates. Where appropriate, a large FI should apply these policies on a consolidated basis to address risk exposures resulting from inter-connected funding structures and operations among members of an FI's corporate group.

It is essential that policies include the development of a formal liquidity risk

measurement system that addresses business-as-usual scenarios and a contingency funding plan that addresses a variety of stress scenarios. FIs should likewise have specific procedures for addressing breaches in policies and implementation of corrective actions.

Management should periodically review its liquidity risk policies and ensure that these remain consistent with the level and complexity of the FI's operations. Policies should be updated to incorporate effects of new products/activities, changes in corporate structure and in light of its liquidity experience.

C. Appropriate risk measurement methodologies, limits structure, monitoring, and management information system

Liquidity risk measurement models/ methodologies

An FI should have a measurement system in place capable of quantifying and capturing the main sources of liquidity risk in a timely and comprehensive manner. Liquidity management requires ongoing measurement, from intra-day liquidity to long-term liquidity positions. Depending on its risk profile, an FI can use techniques of simple calculations, static simulations based on current holdings or sophisticated models. What is essential is that the FI should be able to identify and avoid potential funding shortfalls such that the FI can consistently meet investment, funding and/or strategic targets.

FIs with simple operations can generally use a static approach to liquidity management. Static models are based on positions at a given point in time. While an exact definition of "simple operations" will not be provided, the BSP expects that banks using a static approach to liquidity management would limit their operations to core banking activities such as accepting plain vanilla deposits and making traditional loans. Such banks would not have active Treasury Departments, would not hold or

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offer structured products and would not be exposed to significant levels of FX risk. Board reporting could be less frequent than in more complex banks but in no event should be less than quarterly.

Complex FIs, on the other hand, will be expected to adopt more robust approaches such as a dynamic maturity/liquidity gap reporting or even simulation modeling. At a minimum, universal banks should use maximum cash outflow/liquidity or maturity gap models. FIs engaged in holding or offering significant levels of structured products and/or derivatives will be expected to have the capability to model the cash flows from these instruments under a variety of scenarios. Specifically, scenarios should be designed to measure the effects of a breach of the triggers (strike price) on these instruments.

Where the FI's organizational structure and business practices indicate cash flow movements and liquidity support among corporate group members, the FI should adopt consolidated risk measurement tools to help management assess the group's liquidity risk exposure. Depending on the degree of inter-related funding, non-complex measurement and monitoring systems may be acceptable. However, large, complex FIs that display a high degree of inter-related and inter-dependent funding will be expected to utilize more sophisticated monitoring and management systems. These systems should enable the Board of the consolidated entity to simulate and anticipate the funding needs of the FIs on both a consolidated basis and in each of its component parts.

Liquidity risk measurement methodologies/models should be documented and approved by the board and should be periodically independently reviewed for reasonableness and tested for accuracy and data integrity. Assumptions used in managing liquidity should be periodically revisited to ensure that these remain valid.

Liquidity models require projecting all relevant cash flows. As such, FIs engaged in complex activities should have the capability to model the behavior of all assets, liabilities, and off-balance sheet items both under normal/business-as usual and a variety of stressed conditions. Stressed conditions may include liquidity crisis confined within the institution, or a systemic liquidity crisis, in which all FIs are affected. For FIs operating in a global environment, cash flow projections should reflect various foreign-currency funding requirements.

When projecting cash flows, management should also estimate customer behavior in addition to contractual maturities. Many cash flows are uncertain and may not necessarily follow contractual maturities. Cash flows may be influenced by interest rates and customer behavior, or may simply follow a seasonal or cyclical pattern. When modeling liquidity risk, it is important that assumptions be documented. Assumptions should be reasonable and should be based on past experiences or with consideration of the potential impact of changes in business strategies and market conditions. Measurement tools should include a sufficient number of time bands to enable effective monitoring of both short- and long-term exposures. This expectation applies not only to complex simulation modeling, but to the construction of simple liquidity GAP models as well.

To sufficiently measure an FI's liquidity risk, management should analyze how its liquidity position is affected by changes in internal (company-specific) and external (market-related) conditions. Management will need to assess how a shift from a normal scenario to various levels of liquidity crisis can affect its ability to source external funds and at what cost, liquidate certain assets at expected prices within expected timeframes, or hasten the need to settle obligations (e.g., limited ability to roll-over deposits).

Management should, at a minimum, consider stress scenarios where securities are sold at prices lower than anticipated and credit lines are partially or wholly cancelled.

Regardless of the liquidity risk models used, an FI should adopt an appropriate contingency plan for handling liquidity crisis. Well before a liquidity crisis occurs, management should carefully plan how to handle administrative matters in a crisis. Management credibility, which is essential to maintaining the public's confidence and access to funding, can be gained or lost depending on how well or poorly some administrative matters are handled. A contingency funding/liquidity plan ensures that an FI is ready to respond to liquidity crisis.

The sophistication of a contingency plan should be commensurate with the FI's complexity and risk exposure, activities, products and organizational structure. The plan should identify the types of events that will trigger the contingency plan, quantify potential funding needs and sources and provide the specific administrative policies and procedures to be followed in a liquidity crisis.

Specifically, the contingency plan should:

1. Clearly identify, quantify and rank all sources of funding by preference including, but not limited to:
 - Reducing assets
 - Modifying the liability structure or increasing liabilities
 - Using off-balance-sheet sources, such as securitizations
 - Using other alternatives for controlling balance sheet changes
2. Consider asset and liability strategies for responding to liquidity crisis including, but not limited to:
 - Whether to liquidate surplus money market assets
 - When (if at all) HTM securities might be liquidated
 - Whether to sell liquid securities in the repo markets

- When to sell longer-term assets, fixed assets, or certain lines of business
- Coordinating lead bank funding with that of the FI's other banks and non-bank affiliates
- Developing strategies on how to interact with non-traditional funding sources (e.g., whom to contact, what type of information and how much detail should be provided, who will be available for further questions, and how to ensure that communications are consistent)

3. Address administrative policies and procedures that should be used during a liquidity crisis:

- The responsibilities of senior management during a funding crisis
- Names, addresses, and telephone numbers of members of the crisis team
- Where, geographically, team members will be assigned
- Who will be assigned responsibility to initiate external contacts with regulators, analysts, investors, external auditors, press, significant customers, and others
- How internal communications will flow between management, ALCO, investment portfolio managers, traders, employees, and others
- How to ensure that the ALCO receives management reports that are pertinent and timely enough to allow members to understand the severity of the FI's circumstances and to implement appropriate responses.

The above outline of the scope of a good contingency plan is by no means exhaustive. FIs should devote significant time and consideration to scenarios that are most likely, given their activities. Regardless of the strategies employed, an FI should consider the effects of such strategies on long-term liquidity positions and take appropriate actions to ensure that level of risk exposures shall remain or be brought down within the risk tolerance of the Board.

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Limits structure

The Board and senior management should establish limits on the nature and amount of liquidity risk they are willing to assume. In setting limits, management should consider the nature of the FI's strategies and activities, its past performance, the level of earnings and capital available to absorb potential losses and costs of an FI's access to money markets and other alternative sources of funding.

Limits can take various forms. FIs should address limits on types of funding sources and uses of funds, including off-balance sheet positions. In addition, policies should set targets for minimum holdings of liquid assets relative to liabilities. Complex FIs, or FIs engaged in complex activities should set maximum cumulative cash-flow mismatches over particular time horizons and establish counterparty limits. Such limits should be applied to all currencies to which the FI has a significant exposure. In particular, FIs should take into consideration any legal distinctions and possible obstacles to cash flow movements between the RBU and the FCDU.

When evaluating a bank's liquidity position, the BSP will consider low levels of liquid assets relative to liabilities, and significant negative funding gaps to be indicative of high liquidity risk exposure. Further, negative cash-flow mismatches in the short term time buckets will receive heightened scrutiny by the BSP and should also receive the attention of senior management and the board of directors.

Before accepting negative funding gaps, or setting limits that allow negative funding gaps, the board and senior management should consider the FI's ability to fund these negative gaps. Factors include, but are not limited to: the availability of on-balance sheet liquidity, the amount of firm credit lines available

from commercial sources that can be drawn to fund the shortfall, and the amount of unencumbered on-balance sheet assets that can be sold without excessive loss and in a reasonable time-frame.

Further, actual positions and limits should reflect the outcome of possible stress scenarios caused by internal and external factors, particularly those related to reputation risk. Stress scenarios should consider the possibility that securities may be sold at a greater discount and/or may take more time to sell than expected or that credit lines and other off-balance sheet sources of funding may be cancelled or may be unavailable at reasonable cost.

Management should define specific procedures for the prompt reporting and documentation of limit exceptions and the management approval and action required in such cases.

Liquidity risk monitoring and reporting

An adequate management information system is critical in the risk monitoring process. The system should be able to provide the Board, senior management and other personnel with timely information on the FI's liquidity position in all the major currencies it deals in, on an individual and aggregate basis, and for various time periods.

Effective liquidity risk monitoring requires frequent routine liquidity reviews and more in-depth and comprehensive reviews on a periodic basis. In general, monitoring should include sufficient information and a clear presentation such that the reader can determine the FI's ongoing degree of compliance with risk limits. For example, reports should address funding concentrations, funding costs, projected funding needs and available funding sources.

Monitoring and board reporting should be robust. It is not unreasonable to expect complex FIs or FIs engaged in complex

activities to monitor liquidity on a daily basis. Board reporting should be no less frequent than monthly. However, the BSP would expect Board-level committees or sub-committees to receive more frequent reporting.

Comprehensive and accurate internal reports analyzing an FI's liquidity risk should be regularly prepared and reviewed by senior management and submitted to the board of directors.

D. Risk controls and audit

An FI should have adequate internal controls in place to protect the integrity of its liquidity risk management process. Fundamental to the internal control system is for the Board to prescribe independent reviews to evaluate the effectiveness of the risk management system and check compliance with established limits, policies and procedures.

An effective system of internal controls for liquidity risk includes:

1. A strong internal control environment;
2. An adequate process for identifying and evaluating liquidity risk;
3. Adequate information systems; and
4. Continual review of adherence to established policies and procedures.

To ensure that risk management objectives are achieved, management needs to focus on the following areas: appropriate approval processes, limits monitoring, periodic reporting, segregation of duties, restricted access to information systems and the regular evaluation and review by independent competent personnel.

Internal audit reviews should cover all aspects of the liquidity risk management process, including determining the appropriateness of the risk management system, accuracy and completeness of measurement models, reasonableness of assumptions and stress testing methodology. Audit staff should have the skills commensurate with the sophistication of the FI's risk management systems. Audit results should be promptly reported to the board. Deficiencies should be addressed in a timely manner and monitored until resolved/corrected.

E. Foreign currency liquidity management

The principles described in this Appendix also apply to the management of any foreign currency to which the FI maintains a significant exposure. Specifically, management should ensure that its measurement, monitoring and control systems account for these exposures as well. Management needs to set and regularly review limits on the size of its cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. In addition, an FI should consider effects of other risk areas, particularly settlement risks from its off-balance sheet activities. An FI should also conservatively assess its access to foreign exchange markets when setting up its risk limits. As with overall liquidity risk management, foreign currency liquidity should be analyzed under various scenarios, including stressful conditions.

(Circular No. 545 dated 15 September 2006)

**BASEL III FRAMEWORK ON LIQUIDITY STANDARDS-
LIQUIDITY COVERAGE RATIO**
(Appendix to Subsections 1176.1, 1176.2 and 1176.3)

Introduction

This Appendix outlines the Bangko Sentral guidelines implementing a quantitative liquidity regulatory framework consistent with the liquidity coverage ratio (LCR) standard introduced under the *Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools*, January 2013 by the Basel Committee on Banking Supervision (BCBS)¹.

With this new liquidity standard, the Bangko Sentral aims to further strengthen the risk management of banks by enhancing their ability to draw information from their various operations, and assess the impact of external events on the liquidity of financial instruments and on the availability of funding under both normal and stressed conditions. With liquidity risk measurement standards in place, banks are expected to manage their liquidity positions more prudently by better aligning their funding models with their risk preferences and incorporating liquidity risk into product pricing. Overall, the new liquidity regime shall give market participants greater confidence in the ability of the banking sector to absorb shocks arising from financial and economic stress, and hence, lowering the probability of acute shortfalls in liquidity.

The liquidity framework is part of the comprehensive set of complementary and mutually reinforcing measures for regulatory

reform that are consistent with global standards that have been introduced by the Bangko Sentral to strengthen the risk management of banks and the supervision of the banking system. The liquidity standard shall complement existing supervisory guidance on liquidity risk management.

Part I. Liquidity Coverage Ratio (LCR) Framework

I. Definition of terms

For the purpose of the LCR standard, the following terms and phrases shall be understood as follows:

1. *Beneficiary*- refers to a legal entity that receives, or may become eligible to receive, benefits under will, insurance policy, retirement plan, annuity, trust, or other contract.

2. *Cash management operation*- refers to the provision of products and services intended to manage customers' cash flows, assets and liabilities, and for the conduct of financial transactions necessary to the customer's ongoing operations.

3. *Clearing operation*- refers to a service arrangement that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients.

4. *Committed business facilities*- are off-balance sheet facilities or funding commitments issued by banks to clients under explicit contractual agreements or

¹ The Basel Committee on Banking Supervision is a committee of banking supervisory authorities that was established by the central bank governors of the Group Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Spain, Singapore, South Africa, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. It usually meets at the Bank for International Settlements in Basel, Switzerland where its permanent Secretariat is located.

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obligations to extend funds at a future date that are contractually irrevocable (i.e., "committed") or conditionally revocable. The terms governing the facility prohibit the bank from refusing to extend credit or funding to the counterparty, except where certain conditions specified by the terms of the facility- other than customary notice, administrative conditions, or changes in financial condition of the client-have been met.

5. *Correspondent banking*- refers to arrangements under which one (1) bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services in order to settle foreign currency transactions (e.g., so-called nostro and vostro accounts used to settle transactions in a currency other than the domestic currency of the respondent bank for the provision of clearing and settlement of payments).

6. *Current market value*- refers to the value of liquid assets included in the stock of HQLA, measured in accordance with the existing guidelines on mark-to-market valuation under Appendix 33a.

7. *Custody operation*- refers to the provision of safekeeping, reporting, processing of assets or the facilitation of the operational and administrative elements of related activities on behalf of customers in the process of their transacting and retaining financial assets.

8. *Downgrade triggers*- pertain to clauses or provisions in contracts governing derivatives and other transactions that require the posting of additional collateral, drawdown of contingent facilities, or early repayment of existing liabilities upon the bank's downgrade by a recognized credit rating organization.

9. *Financial corporates*- refer to corporations, whether resident or non-resident, that are primarily engaged in financial intermediation or in auxiliary

financial activities that are closely related to financial intermediation. These include non-bank financial institutions with quasi-banking functions, securities firms, and insurance companies, among others.

10. *Financial stress*- pertains to a condition where a bank cannot meet or has difficulty paying off its financial obligations as brought about by firm-specific and/or market-wide stress events. In such financial circumstance, the bank may be having difficulty accessing credit and financing facilities, and has no reasonable alternative other than to monetize its HQLA to the extent necessary to meet obligations such as but not limited to:

- Servicing of deposit withdrawals;
- Posting of additional collateral requirements;
- Servicing of unscheduled drawdowns on committed but unused credit lines and business facilities that are extended to clients;

-In the interest of mitigating reputational risk, buying back of debt, extending of funds to honor non-contractual obligations, or accommodation of any unexpected liquidity demand from counterparty.

11. *Haircut*- refers to a percentage by which the market value of an asset is reduced. A haircut is applied by a collateral taker as a risk control measure to protect itself from losses resulting from decline in the market value of an asset in the event that it needs to liquidate said collateral.

12. *High-quality liquid asset (HQLA)*- refers to an asset that can be converted easily and immediately into cash at little or no loss of value in private markets to meet the banks's liquidity needs during times of stress. To qualify as HQLA, the liquid asset should possess the asset and market liquidity characteristics, and should satisfy the operational requirements for monetization prescribed under the LCR standard. HQLAs

shall be categorized as either Level 1 or Level 2 assets. The stock of HQLA makes up the numerator of the LCR.

13. *Inflow/Outflow rates*- pertain to the various percentages that are designed to reflect the observed behavior and characteristics of different assets, funding sources, obligations, and commitments during periods of liquidity stress. Inflow rates provide the assumption at which assets or contractual receivables are expected to flow in during times of stress. Outflow rates assume the level at which funding sources, obligations, and commitments are expected to run off or be drawn down during stress periods.

14. *LCR measurement date*- refers to end-of-moth/quarter date which serves as the reference date for the calculation of the LCR.

15. *LCR period*- refers to the thirty (30)-calendar day period following the LCR measurement date, which serves as the standard horizon for HQLA availability and for total net cash outflows calculation.

16. *Liquidity metrics*- refer to a set of market-based indicators which enable assessment of the fundamental attributes of an asset that are generally found to be determinants of liquidity (i.e., measure of asset characteristics), and the essential aspects of the broader market structure within which the asset is traded (i.e., measure of market liquidity). These criteria provide guidance on which specific asset to qualify as liquid and readily marketable within an asset class.

17. *Multilateral organizations*- pertain to the Bank of International Settlements, the International Monetary Fund, the European Central Bank and European Community and the multilateral development banks (MDBs).

18. *Non-financial corporates*- refer to corporations, whether resident or non-resident, whose principal activity is the production of goods or non-financial services.

19. *Non-HQLAs*- pertain to debt securities and equity shares that are neither qualified as Level 1 nor Level 2 assets.

20. *Operational deposit*- refers to a deposit account maintained by a wholesale client for the primary purpose of obtaining a specific operational service from the bank as an independent third party intermediary, agent or administrator.

21. *Operational service*- refers to any of the following contractual services performed by the bank related to clearing, cash management operations, and custody (but excluding correspondent banking or brokering activities), which effectively facilitate the clients' access and ability to use payment and settlement systems and otherwise make payments:

<u>Clearing</u>	<u>Cash Management</u>
a. Overnight financing and maintenance of post-settlement balances;	e. Payment remittance;
b. Transmission, reconciliation, and confirmation of payment orders;	f. Collection and aggregation of funds;
c. Intraday overdraft;	g. Payroll administration and control over the disbursement of funds;
d. Determination of intraday and final settlement positions;	h. Administration of payments and cash flows related to the safekeeping of investment assets, not including the purchase or sale of assets;
<u>Custody</u>	
i. Settlement of securities transactions;	
j. Client subscriptions and redemptions;	
k. Processing of collateral;	
l. Transfer of contractual payments, including collection and payment of dividends and other income from financial assets under custodianship; and	
m. Escrow, funds transfer, stock transfer, and agency services, including payment and settlement services (excluding correspondent banking), payment of fees, taxes, and other expenses.	

22. *Other contingent funding obligations*- refer to either contractual or non-contractual contingent funding

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obligations (excluding lending commitments) that are contingent upon a credit or other event that is not always related to the liquidity events simulated in the LCR stress scenario, but may nevertheless have the potential, especially out of reputation risk considerations, to cause significant liquidity drains to the bank in times of stress. Non-contractual contingent funding obligations are funding liabilities that are:

- associated with the issuance or sponsorship of products (including structured financial instruments) or provision of services that may require the funding support or extension of funds by the bank in times of stress; or

- embedded in financial products and instruments sold, sponsored, marketed or originated by the bank that might prompt the bank to repurchase said products and instruments from a customer in order to satisfy or manage the customer's reasonable expectations about the liquidity and marketability of the product or instrument. Failure to do so would likely cause material reputational damage to the bank or otherwise impair its ongoing viability.

23. *Philippine National Government (NG)*- refers to the Philippine NG and its agencies such as departments, bureaus, offices, and instrumentalities, but excluding local government units (LGUs) and government-owned and controlled corporations (GOCCs).

24. *Public Sector entities (PSE)*- refer to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

25. *Rehypothecation and/or re-use of collateral*- Rehypothecation refers to the right of financial intermediaries to sell, pledge, invest, or perform transactions with the client assets they hold, thereby allowing them to obtain funding using said client collateral. Re-use of collateral, on the other hand, usually covers a broader context

where securities delivered in one transaction are used to collateralize another transaction, including own trades, borrowings or short sellings. The terms rehypothecation and re-use of securities are used interchangeably in this standard.

26. *Retail deposits*- refer to deposit liabilities raised by the bank from individual clients including sole proprietorships and partnerships, and those classified as micro and small enterprises (hereinafter called retail clients).

27. *Securities financing transactions (SFTs)*- these involve repurchase (repos), and reverse repurchase (reverse repos) agreements, securities lending and borrowing, or margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements.

28. *Secured funding*- refers to any liability and general obligation of the bank arising from securities transaction that is covered by collateral in the form of duly constituted mortgage, pledge, or lien on specifically designated asset owned by the bank or by its related party that gives the counterparty priority over said asset in case of bankruptcy, insolvency, liquidation, or resolution. This consists of repos, collateral swaps, collateral lending to customers to cover short positions and other similar secured funding arrangements. Forward repos and forward collateral swaps that start previous to and mature within the LCR horizon are included in this category.

29. *Secured lending*- refers to any securities transaction that is subject to a legally binding agreement that gives rise to a cash obligation of a counterparty to a bank that is secured under applicable law by a lien on specifically designated asset owned by the counterparty or by its related party, which gives the bank, as holder of the lien, priority over said asset in the event the counterparty enters into bankruptcy, insolvency, liquidation, receivership,

resolution, or similar proceeding. This will include reverse repos, margin loans, and securities borrowing transactions. Forward reverse repos and forward collateral swaps that start previous to and mature within the LCR horizon are included in this category.

30. *Special purpose entity (SPE)*- as defined in the Basel II Framework, SPE is a corporation, trust, or other entity organized for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE, and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures. SPEs are commonly used as financing vehicles in which exposures are sold to a trust or similar entity in exchange for cash or other assets funded by debt issued by the trust.

31. *Total expected cash inflows*- pertain to the various types of contractual receivables which outstanding balances as of the LCR measurement date are multiplied by relevant inflow rates. The total inflow amounts are capped at seventy-five percent (75%) of aggregated total expected cash outflows.

32. *Total expected cash outflows*- pertain to the various on- and off-balance sheet funding sources and commitments which outstanding balances as of the LCR measurement date are multiplied by relevant outflow rates. The outflow amounts are aggregated to determine the total expected cash outflows.

33. *Total net cash outflows*- pertains to the sum of the total expected outflow amounts less the sum of the total expected inflow amounts, with the inflow amounts limited to seventy-five percent (75%) of outflow amounts. The calculated amount makes up the denominator of the LCR, thereby establishing the amount of HQLA that a bank would be required to hold.

34. *Trust and other fiduciary*- refers to a legal entity or to a specifically designated business unit that is authorized to

administer, hold or manage assets for the use or in behalf of a third party. These shall include trust entities as defined under Section X403, mutual funds, exchange-traded funds and other collective investment vehicles.

35. *Unencumbered*- means free of legal, regulatory, tax, accounting, contractual or other impediments or practical restrictions on the ability of the bank to liquidate, sell, transfer, or assign the asset. Liquid assets may also be considered unencumbered if the potential credit or funding for which the assets are pre-positioned, deposited with or pledged to the Bangko Sentral, to a clearing and settlement system, or to another financial entity is not currently extended to the bank or to any of its related parties¹.

36. *Unsecured wholesale funding*- refers to liabilities and general obligations of the bank, other than deposits, to wholesale clients that are not collateralized by legal rights to specifically designated assets owned by the bank or by its related party. This includes deposit substitutes, unsecured loans and advances, unsecured notes, bonds and other debt securities, and other unsecured funding obligations.

37. *Wholesale deposits*- refer to deposit liabilities raised by the bank from legal entities (excluding sole proprietorships and partnerships and those entities classified as micro and small enterprises) (hereinafter called wholesale clients).

II. Scope of Application

1. The LCR requirement shall apply to all U/KBs. Under normal situation, banks shall hold at all times an adequate stock of HQLA such that it maintains its LCR, both on solo (head office plus branches/other offices) and consolidated bases (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies), at a level no lower than the minimum requirements specified below:

¹As defined under Subsec. X146.1 of the MORB.

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	01 July 2016	01 January 2017	01 January 2018	01 January 2019 & thereafter
Minimum LCR	Observation Period		90%	100%

2. The LCR is required to be met and reported in a “single currency” (i.e., in peso-equivalent terms). However, banks are also required to separately monitor on an ongoing basis, using the same LCR Report template, their liquidity requirements in currencies in which they have significant activity as of LCR measurement date. A currency is considered “significant” if the aggregate liabilities denominated in that currency amount to five percent (5%) or more of the banks’ total liabilities as of LCR measurement date. Banks are expected to be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency, so as to manage potential currency mismatch issues that could arise.

3. While the LCR establishes one (1) scenario for stress testing, this should be viewed as a minimum supervisory requirement. Banks are expected to conduct their own stress tests as part of their liquidity risk management process in order to identify the risk drivers that may lead to drastic fluctuations in their liquidity position. Accordingly, in view of the stress scenarios constructed that reflect the actual and specific risks they are exposed to, banks should be able to assess the level of liquidity they should hold, which could possibly go beyond the regulatory minimum. Such internal stress tests should incorporate time horizons longer than the thirty (30)-day stress period prescribed by this standard. Banks are expected to share the results of these additional stress tests when requested by the authorized representative/s of the appropriate departments of the Bangko Sentral-SES for examination/inspection or review purposes.

4. The Bangko Sentral liquidity requirement is generally consistent with the Basel III liquidity framework except for the few parameters relating to certain net cash outflows and the outflow rates used in its determination, where the Bangko Sentral gives regard to supervisory and market conditions that are distinctive to the Philippine financial market. As may be necessary, the Bangko Sentral may issue amendments on refinements of the definition and qualification of HQLA, and/or recalibration of the parameters related to cash flow items.

III. LCR Calculation

A. General requirements

1. The LCR is designed to promote the short-term resilience of the liquidity risk profile of a bank. To meet funding obligations and draws on contingent liabilities over the next thirty (30) calendar days, the LCR requires the bank to hold a stock of unencumbered HQLA equal to or greater than total net cash outflows. Hence, the LCR is calculated as the:

LCR =

Stock of HQLA

Total net cash outflows over the next 30 calendar days

2. The standard requires that, under normal situation, the value of the liquidity ratio be no lower than 100%¹ on a daily basis because the stock of the unencumbered HQLA is intended to serve as a defense against potential onset of liquidity stress.

3. When calculating the LCR, the bank should maintain a consistent categorization of a given entity/counterparty across all HQLA, outflow and inflow categories.

4. To facilitate LCR monitoring and ongoing compliance, the bank must maintain a reliable system that has the ability to calculate liquidity positions on a day-to-day basis, regardless of the frequency of mandatory reporting to the Bangko Sentral.

¹ The 100% threshold is the minimum requirement under a normal situation, and after the phase-in arrangement is complete. The minimum requirement is initially set at 90% for 2018, and shall rise to the minimum required level of 100% on 01 January 2019.

It should capture, at a minimum, specific information related to the bank’s available unencumbered assets and collaterals, cash flows, and certain market and liquidity indicators prescribed in the standard. It must have the ability to deliver granular and time-sensitive information particularly during periods of stress.

B. Stock of HQLA

(1) HQLA eligibility criteria

5. *Asset and market liquidity characteristics.* To qualify as HQLA, assets should have a high potential to generate funds easily and immediately through outright sale or secured borrowing, during a stress scenario without incurring large discounts due to fire-sales. These assets must be liquid and readily-marketable, and ideally, eligible to be pledged at the Bangko Sentral as collateral for intraday liquidity needs and overnight borrowing facilities, to enable banks to meet financial obligations when their other sources of funding are reduced or unavailable.

6. The liquidity and ready-marketability of an asset is influenced both by its own specific features and by the characteristics of the broader market structure within which it is traded. Set forth in Annex A are some of these key attributes that likely capture the dimensions of asset and market liquidity. To assess the relative liquidity and ready-marketability of an asset, each characteristic outlines relevant “liquidity metrics” that need to be met to be eligible to qualify as HQLA.

7. These liquidity metrics shall be determined using historical data with special focus on performance during periods of financial stress. The metrics will be periodically and at least annually reviewed, and shall be updated as necessary to reflect current market liquidity perspective. Said metrics, including the analytical tools, guidelines and methodologies, data used,

and the threshold levels set to make such determinations, as well as its updates shall be developed in coordination with the banking industry.

8. *Operational requirements for monetization.* Not all assets considered to be liquid and readily-marketable are immediately eligible for the stock as there are other operational restrictions on the availability of HQLA that can prevent timely monetization during a stress period. The immediate availability of the liquid assets for monetization in times of stress as well as the unrestricted use of the funds generated from outright sale or secured borrowing of said assets must also be established in order for the liquid assets to be appropriately considered as HQLA.

9. The following operational requirements are designed to ensure that the stock of HQLA is managed in such a way that the bank can, and is able to demonstrate that it can, immediately use the stock of assets as a source of contingent funds that is available for the bank to convert into cash through outright sale or repo, to fill funding gaps between cash inflows and outflows at any time during the thirty (30)-day stress period, with no restriction on the use of the liquidity generated:

a. *Encumbrance and transferability of the liquid assets*

i. The liquid asset must be unencumbered. It should neither be pledged, explicitly or implicitly, to secure, collateralize, or credit-enhance any transaction¹.

ii. No operational constraint that may impede the monetization of the liquid asset must be attached to it, such as, but not limited to:

(1) Whether the monetization of the asset would directly conflict with another business or risk management strategy of the bank. For example, an asset should not be included in the stock if the sale of that asset, without replacement throughout the

¹ If a bank has deposited, pre-positioned or pledged Level 1, Level 2 and other assets in a collateral pool and no specific securities are assigned as collateral for any transactions, it may assume that assets are encumbered in order of increasing liquidity value in the LCR, i.e., assets ineligible for the stock of HQLA are assigned first, followed by Level 2 assets, and finally Level 1.

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thirty (30)-day period, would remove a hedge that would create an open risk position to the bank in excess of internal limits;

(2) Potential differences in financial market conventions in other jurisdictions, where applicable (e.g., settlement period, processing time, etc.) that affect timely monetization of the asset; and

(3) Whether the asset is internally designated to cover operational costs (e.g., rents, salaries, facility maintenance, etc.).

iii. The liquid asset received, such as those in SFTs or as collateral for derivatives transaction that is not segregated, must not have been rehypothecated and is legally and contractually available for the bank's use.

iv. Assets or liquidity generated from said assets, which have been received under right of rehypothecation or under brokering agreements, shall be excluded from the bank's stock of HQLA if the beneficial owner has the contractual right to withdraw those assets during the LCR period.

b. *Capability to monetize the HQLA*

v. The bank must implement policies, procedures and appropriate systems that establish the proper authority and operational capacity of a liquidity management function (e.g., the treasurer) to monetize any HQLA at any point in the thirty (30)-day stress period. To ensure effective monetization from an operational perspective, said function must have:

(1) Continuous authority to invoke the contingency funding plan of the bank when deemed necessary;

(2) Access to all necessary information to execute monetization of any HQLA;

(3) Control to any HQLA at any time. Control must be evidenced either by maintaining the assets in a separate pool managed by the function with the sole intent for use as a source of contingent funds, or by demonstrating that the function can monetize the asset at any point in the thirty (30)-day stress period; and

(4) Access and control over the monetization proceeds such that the funds

will be available to the function throughout the thirty (30)-day stress period without directly conflicting with another business or risk management strategy of the bank.

vi. The bank, as led by the liquidity management function, must demonstrate its operational capability to monetize the HQLA, through repo or outright sale to the market, by:

(1) Implementing policies that set out the approach to periodic monetization of its HQLA, which are consistent with existing regulatory standards and accounting principles;

(2) Establishing and maintaining appropriate procedures and systems to monetize any of the bank's HQLA at any time in accordance with the relevant standard settlement periods and procedures for the asset class; and

(3) Periodically monetizing a sample of HQLA in order for the bank to test its access to the market, the effectiveness of its processes for monetization, the availability of the assets, and to minimize the risk of negative signaling during a period of actual stress.

Such periodic monetization may be carried out through the ordinary business activities of the bank or be done without reference to its day-to-day liquidity needs depending on the liquidity profile exhibited by the HQLA.

The asset must be monetized in varying amounts, at varying durations in case of repos, and in various related trading or financing markets in which the bank has access to. The cumulative effect of said periodic monetization over any twelve (12) month period must reasonably reflect a representative proportion of the minimum required HQLA, including with respect to asset type, maturity, and counterparty characteristics.

vii. The bank must implement policies and procedures and maintain systems that monitor the current market value, as well as the composition of the stock of HQLA as to:

- (1) Identification by legal entity, location, currency, custodial account, or other relevant identifying factors;
- (2) Appropriate diversification within asset classes (except for cash, government securities, and accounts with the Bangko Sentral) by asset type, counterparty, issuer, currency, borrowing capacity, or other factors associated with the liquidity risk of the assets; and
- (3) Continuous qualification as eligible HQLA.

(2) Calculation and composition of HQLA

10. Two (2) categories of eligible assets¹, which must be held by the bank on the first day of the thirty (30)-day stress test period irrespective of residual maturity, shall be included in the stock of HQLA. The highest quality liquid assets, the Level 1 assets, shall be included without limit, while other HQLA, the Level 2 assets, can only comprise up to forty percent (40%) of the stock.

11. The calculation of the stock of HQLA, specifically the forty percent (40%) cap on Level 2 assets, must take into account the required haircuts, as applicable, and the assumed unwinding of all short-term SFTs and collateral swap transactions maturing within thirty (30) calendar days that involve the exchange of HQLA. The details of the adjustment on calculation of the stock of HQLA are provided in *Annex B*.

12. The specific individual assets within an asset class that would be considered as liquid and readily-marketable shall be determined in accordance with the liquidity metrics. However, the designation of these specific individual assets as HQLA is not fixed and absolute as the liquidity characteristics and/or the liquidity derived from these assets that qualify them under

this criterion may change over time.

13. If a liquid asset will no longer qualify as HQLA during the immediate LCR period, the bank shall be allowed to keep such liquid asset as HQLA during the said LCR period. This would give the bank additional time to adjust its stock of HQLA as needed or to replace the liquid asset.

14. For purpose of LCR, assets included in the stock of HQLA should be measured at its current market value². However, in case the bank hedges the market risk associated with the eligible HQLA, the current market value of the HQLA must be reduced by the outflow amount that would arise if the hedge were to be closed out early (in the event of the asset being sold).

15. For purpose of computing the consolidated LCR, the qualifying HQLA that are held at the branch/es abroad of domestic banks or subsidiary level (where applicable) shall be counted towards the stock of HQLA in an amount up to the total net cash outflows of said branch or subsidiary that are included in the consolidated LCR: *Provided*, That the HQLA are freely available and transferrable (i.e., without any regulatory, legal, tax, accounting or other impediment) to the parent bank for monetization.

(a) Level 1 Assets

16. Level 1 assets shall not be subject to any haircut under the LCR. These are not limited to the following asset classes:

- a. Cash on hand;
- b. Bank reserves in the Bangko Sentral;
- c. Overnight and term deposits³ with the Bangko Sentral, including reserve repos where the Bangko Sentral is the counterparty; and
- d. Eligible securities representing claims on or guaranteed⁴ by -

¹ To qualify as HQLA, the assets must satisfy the asset and market liquidity characteristics, and the operational requirements for monetization eligibility criteria.

² Eligible HQLAs that are recognized at book value or at amortized cost such as securities designated as “held-to-maturity” must be included in the HQLA amount calculation at current market value.

³ To the extent allowed to be drawn down in times of stress.

⁴ Securities which are guaranteed by the Philippine NG but were issued and remain as liabilities of a bank will not qualify for the stock of HQLA. The only exception is when the bank also qualifies as a GOCC with the highest credit quality, in which case, the securities issued by said bank could qualify for Level 2 assets if all necessary conditions are satisfied.

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- i. the Philippine National Government (NG) and the Bangko Sentral¹; or
- ii. sovereigns, central banks, or PSEs of foreign countries, or by multilateral organizations, that are assigned a 0% risk weight under the Basel II Standardized Approach for credit risk, and are not an obligation by a bank or any of a bank's financial allied undertakings².

(b) Level 2 Assets

17. Specific haircuts shall be applied to each Level 2 asset held in the stock. Level 2 assets are limited to the following asset classes:

Level 2 Asset	Haircut
a. Eligible securities representing claims on or guaranteed by LGUs, GOCCs, by sovereigns, central banks, or PSEs of foreign countries, or by MDBs, that are assigned with the following risk weight under the Basel II Standardized Approach for credit risk, and are not an obligation by a bank or any of a bank’s financial allied undertakings ² :	
i. Twenty percent (20%)	15%
ii. Fifty percent (50%)	50%

Level 2 Asset	Haircut
b. Eligible corporate debt securities (including commercial papers) ³ that are assigned with the following long-term credit rating ⁴ by a third party credit assessment agency recognized by the Bangko Sentral ⁵ , and are not issued by a bank or any of a bank's financial allied undertakings ² :	
i. At least AA- or its equivalent	15%
ii. Between A+ and BBB- or their equivalent	50%
c. Eligible common equity shares that are included in the main index of an organized exchange, and are not issued by a bank or any of a bank's financial allied undertakings ² .	50%

C. Total Net Cash Outflows

18. The total net cash outflows, which should include interests and installments that are expected to be received and paid during the LCR period, are calculated as follows:

Total net cash outflows over the next thirty (30) calendar days = Total expected cash outflows - Min {total expected cash inflows; seventy-five percent (75%) of the total expected cash outflows}

¹ Issuances in foreign currencies shall be included in the stock to the extent of the bank’s net cash outflows in that specific foreign currency.

² For LCR purpose, a holding company shall only be deemed a financial corporate and/or a financial allied undertaking if the holding company is primarily engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation.

³ Corporate debt securities (including commercial paper) in this respect include only plain-vanilla assets which valuation is readily available based on standard methods and does not depend on private knowledge, i.e., these do not include complex structured products or subordinated debt.

⁴ In the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating shall be used. In case the security does not have a credit assessment by a recognized third party credit assessment agency, an internal rating equivalent to the probability of default corresponding to the required long-term credit rating shall be applied. In cases where there are two or more ratings which map into different risk weights, the higher of the two lowest risk weights should be used. External credit assessments for one entity within a corporate group cannot be used to proxy for the credit assessment of other entities within the same group. Such other entities should secure their own ratings.

⁵ The list of third party credit assessment agencies and the mapping of ratings given by these rating agencies are in Part IV.C of Appendix 63b.

19. The bank is not allowed to double count items in the calculation of the LCR. If a liquid asset is included as part of the stock of HQLA (which is the numerator), the cash inflows associated with that liquid asset should no longer count as part of the total expected cash inflows (which is part of the denominator).

20. Where there is potential that a liability or obligation could be counted in multiple outflow categories (e.g., committed business facilities granted to cover debt maturing within the thirty (30)-calendar day period), only such liability or obligation that will yield the maximum amount of expected cash outflow must be included in the calculation of total expected cash outflows, except when a specific outflow treatment is clearly prescribed herein.

21. Cash flows arising from purchase/sale of non-HQLA that are executed but not yet settled at the LCR measurement date shall count towards other cash outflows/inflows. Outflows and inflows of HQLA-type assets that are or will be excluded from the bank's stock of HQLA due to operational requirements are treated like outflows or inflows of non-HQLA.

22. In calculating cash outflows and inflows, if considered to mature within the LCR period, the bank shall make the most conservative assumptions for determining the maturity or transaction date for an instrument or transaction:

a. In general, the maturity of an instrument or obligation that would result in an outflow amount must be assumed to occur on the earliest possible contractual maturity date or the earliest possible date the obligation could be fulfilled; while the maturity of an instrument or transaction that would result in an inflow amount must be assumed to occur on the latest possible contractual maturity date or the latest possible date the transaction could occur;

b. With respect to any option that would modify the maturity date, either explicit or

embedded in the instrument or transaction, the bank shall assume that the option would be exercised at the earliest possible date in case of an outflow, and at the latest possible date in case of an inflow. In the event of an actual financial stress, however, the bank shall be allowed not to exercise the option and to treat the original maturity date of the instrument or transaction as the maturity for purpose of computing the LCR: *Provided*, That the decision not to exercise the option would not subject the bank to any legal or reputational risk;

c. If an option to adjust the maturity date is subject to a notice period, the bank must determine, for cash outflows, the earliest possible contractual maturity date regardless of the notice period; and for cash inflows, the latest possible contractual maturity date based on the borrower using the entire notice period;

d. In the absence of a specific maturity date, i.e., there is no defined maturity or is an open maturity, the bank must consider the instrument or transaction to mature within the LCR period for cash outflows calculation; and after the LCR period for cash inflows calculation.

(3) Cash Outflows

23. When the bank, at LCR measurement date and in accordance with trade rules or market conventions, has specifically pre-positioned or deposited cash or any asset with a clearing and settlement system or with another financial institution to cover an obligation or settle a transaction that is set to mature within the LCR period, the cash outflow related to the obligation or transaction shall be excluded from cash outflow calculation: *Provided, however*, That the cash or any asset pre-positioned or deposited is neither treated as cash inflow nor counted in the stock of HQLA.

24. Funds subject to special arrangements whereby cash balances are cleared and transferred into a main account,

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other than those maintained within the bank, at the end of each day or within the LCR period (e.g., the Treasury Single Account System) shall automatically receive a 100% outflow rate.

(a) Deposits

25. Regardless of maturity, all deposits, unless otherwise excluded under the cases specified in the succeeding paragraph, shall be included in the calculation of total expected cash outflows. These accounts are categorized either as retail or wholesale, with wholesale accounts classified as either operational or non-operational, with different outflow rates assigned accordingly. To capture the relative volatility of a deposit account during a period of stress, the outflow rates for retail deposits are calibrated on a per account basis. Wholesale operational and non-operational deposits, on the other hand, receive outflow rates that are based on the established operational relationship of the depositor with the bank.

26. A deposit account with residual maturity or withdrawal notice period of greater than thirty (30) calendar days may be excluded from the calculation of the total expected cash outflows under the following circumstances:

- a. The deposit is contractually pledged to the bank as collateral to secure a credit facility or loan, where:
 - i. the loan will not mature or be settled during the LCR period; and
 - ii. the pledge or hold-out arrangement is subject to a legally enforceable contract disallowing withdrawal of the deposit before the loan is fully settled or repaid.

Said exclusion, however, does not apply to a deposit which is pledged against an undrawn facility, in which case the higher expected cash outflow between the undrawn facility or the pledged deposit shall be used; or

- b. The depositor has no contractual or legal discretion to withdraw said deposit or

pre-terminate the account within the thirty (30)-day horizon of the LCR (e.g., negotiable certificates of time deposits).

(i) *Retail deposits: 5%, 10% or 15% run-off rate*

27. Retail deposits shall be assigned with specific run-off rates depending on the outstanding balance per account:

Outstanding Balance Per Account	Run-off Rate
P500,000 and below	5%
P500,000.01 to P4,000,000	10%
Over P4,000,000	15%

(ii) *Wholesale deposits: Operational deposits: 30% run-off rate*

28. Operational deposits, which are maintained by wholesale clients to avail the operational services offered by the bank, shall receive a thirty percent (30%) outflow rate.

29. For LCR calculation, all current and savings (CASA) accounts, including negotiable order of withdrawal (NOW) accounts, shall automatically be categorized as operational deposits considering that said accounts are generally characterized by the following:

- a. The client is reliant on the bank as an independent third party that provides the operational service that will fulfill the client’s normal business operation, rendering it unlikely for the client to transfer its banking activity to another bank within thirty (30) days;
- b. The funds held in this account are utilized for the operational needs of the client and no excess balance is assumed to be retained for the purpose of earning interest, or any economic incentive (i.e., rewards, rebates, reduction of fees or charges for other bank services, etc.) from the bank; and
- c. The operational service is usually governed by a legally binding written agreement, which can only be terminated by the client either by giving prior notice of at least thirty (30) days or by paying

significant switching costs (such as those related to transaction, information technology, early termination or legal costs) if the operational deposit is withdrawn before thirty (30) days.

30. In the case of the Philippine branch of a foreign bank, the amount of “Net Due To Head Office/Branches/Agencies Abroad” account shall be treated as operational deposit for LCR purpose. The “Due From” and “Due To” accounts are essentially clearing accounts through which the head office and branch transactions of the foreign bank are cleared, hence, for LCR purpose, the “Net Due To” balance shall be assumed as operational in nature. However, accumulated “Unremitted Profits” and “Losses in Operation” shall not be included in the LCR calculation considering that these balances are part of regulatory capital for purposes of computing risk-based capital adequacy ratio and adjusted net worth.

31. Deposits received specifically for clearing and settlement of foreign exchange transactions (e.g., amount of funding provided by the Philippine Domestic Dollar Transfer System [PDDTS] participants) shall be classified as operational accounts. These accounts are deemed maintained with the settlement/depository bank solely for effecting credits and debits arising from foreign exchange transactions, without having to go through a correspondent bank in the country where the foreign currency to be settled originated.

(iii) *Wholesale deposits: Non-Operational deposits: 20%, 40% or 100% run-off rate*

32. The bank shall apply a run-off rate of twenty percent (20%) on term and other deposits of wholesale clients not classified as operational, provided the outstanding balance is fully insured by the PDIC. Otherwise, said accounts shall be assigned with the following run-off rates:

Depositors	Run-off Rate
Philippine NG; LGUs; GOCCs; Bangko Sentral; sovereigns, central banks, PSEs of foreign countries; MDBs	40%
Non-financial corporates	40%
Other entities not included in the prior categories	100%

33. Irrespective of outstanding balance, the term and other non-operational deposits provided by banks, financial corporates, trust and other fiduciaries, beneficiaries, conduits and special purpose vehicles (SPVs), and by affiliated entities of the bank shall receive a 100% run-off rate at all times.

(iv) *Deposits received under correspondent banking and brokering services agreements*

34. The criterion for an operational deposit where the client has a substantive dependency on the continued operation of the deposit account, which serves as a practical impediment to closing or moving such account to another bank, is not consistently the case with correspondent banking and brokering services activities. Thus, deposits arising from correspondent banking and brokering services will be treated as wholesale non-operational deposit accounts.

35. Customer cash balances arising from the provision of brokering services should be considered separate from any required segregated accounts related to client protection regimes, and should not be netted against other customer exposures included in this LCR standard.

(b) Unsecured wholesale funding

36. The expected cash outflow that will be calculated for other unsecured wholesale funding shall generally comprise of:

a. Any obligation or instrument issued by the bank that is not eligible as capital, and hence, treated as borrowings which the bank expects to fulfill within the LCR period;

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b. All unsecured wholesale funding that is callable, or has an earliest contractual maturity date within the next thirty (30) calendar days; and

c. Unsecured wholesale funding with undetermined maturity.

37. A range of outflow rates is assigned to this wholesale fund depending on the assumed stability of the funding in times of stress, i.e., in consideration of the sensitivity of the fund providers to the rate offered and to the credit quality and solvency of the borrowing bank, the type of wholesale client and their level of sophistication. However, this category excludes:

a. Debt instruments issued by the bank exclusively in the retail market, such that those instruments cannot be bought and held by parties other than retail clients, which shall be treated appropriately under the retail funding category; and

b. Liabilities and obligations related to derivative contracts, which outflow calculation shall be taken up under the derivatives contracts category.

(i) *Unsecured wholesale funding provided by the Philippine NG, LGUs, GOCCs, Bangko Senral; by sovereigns, central banks, PSEs of foreign countries; by MDBs and by non-financial corporates: 40% outflow rate*

38. The bank shall apply a cash outflow rate of forty percent (40%) on all unsecured funds received from the abovementioned entities.

(ii) *Unsecured wholesale funding from banks, financial corporates and from other wholesale clients: 100% outflow rate*

39. Unsecured funding provided by banks, financial corporates, trust and other fiduciaries, beneficiaries, conduits and SPVs, by affiliated entities of the bank, and by other entities not included in the prior category shall receive a 100% outflow factor.

(c) Secured funding

40. The cash outflow on secured funding shall be calculated based on the amount of funds raised through the transaction and not on the value of the underlying collateral. In case of collateral swaps or collateral lending transactions, the outflow amount shall be based on the current market value of the asset received.

41. The outflow rates to be applied to outstanding secured funding transactions maturing within the thirty (30)-calendar day period shall depend on the quality of the underlying collateral and/or the counterparty, as follows:

Underlying Collateral and/or Counterparty	Outflow Rate
Level 1 assets OR funding provided by the Bangko Sentral	0%
Level 2 assets with 15% haircut	15%
Non-HQLA AND funding provided by the Philippine NG or by LGUs that are assigned with 20% credit risk weight or lower, or by MDBs	25%
Level 2 assets without 50% haircut	50%
All other maturing secured funding transactions not specified in the prior categories	100%

(d) Derivatives contracts

42. The bank shall calculate the expected contractual derivative cash inflows and outflows in accordance with existing valuation methodologies. A 100% outflow factor shall be assigned to the sum of all cash outflows arising from derivatives contracts maturing or expected to be preterminated within the LCR period.

43. For LCR purpose, expected derivatives cash flows shall be reported on gross amounts, i.e., the derivative contractual payments that the bank will make or deliver to a specific counterparty shall be included in the derivative cash outflow amount and the derivative

contractual payments that the bank will receive from that counterparty shall be included in the derivative cash inflow amount, without any netting and subject to the LCR cap on total inflows. However, for contracts that inherently require net settlement (e.g., non-deliverable forward foreign exchange contract), the expected derivatives cash flows shall be reported on a net basis.

44. Where derivative payments are collateralized by HQLA, the cash outflows shall be calculated net of any corresponding cash payment or collateral inflows that would result, all other things being equal, from contractual obligations for cash payment or collateral to be posted to the bank: *Provided*, That the bank will be legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the collateral is received. This is in line with the principle that banks should not double count liquidity inflows and outflows.

45. In case of “in the money” options, said options shall be assumed to be exercised when they are “in the money” to the option buyer. Hence, any expected cash flows from contractual derivatives that are “in the money” (to the option buyer) shall count towards derivatives cash flows in the LCR.

46. Additional cash outflows¹ for liquidity requirements resulting from contingent obligations embedded in derivative contracts, if any, shall be included in the calculation of total expected cash outflows, with outflow rates assigned as follows:

(i) *Potential valuation changes on posted collateral securing derivative and other transactions: 20% outflow rate*

47. When the mark-to-market exposure of a derivative position of the

bank is secured by non-Level 1 HQLA, an additional outflow equivalent to twenty percent (20%) of the value of such posted collateral, net of collateral received on a counterparty basis: *Provided*, That the collateral received is not subject to restrictions on re-use or rehypothecation, shall be included in the calculation of total expected cash outflows. This twenty percent (20%) shall be calculated based on the amount required to be posted as collateral after applying the relevant haircut prescribed for Level 2 assets and as agreed for non-HQLA assets. Any collateral that is in a segregated margin account can only be used to offset outflows that are associated with payments that are eligible to be offset from that same account.

(ii) *Market valuation changes on derivative or other transactions: 100% outflow rate*

48. As bank faces potentially substantial liquidity risk exposures to the valuation changes of collaterals posted by the bank on its derivatives and other transactions, the increased liquidity needed to cover these market valuation changes should be included in the LCR. Using the historical look-back approach, the collateral outflows shall be based on the fluctuations in the total current market value amount of collaterals posted for all derivatives for each day within consecutive periods of thirty (30) days. The amount of additional expected cash outflows shall be equal to the largest difference between the highest and the lowest amount of accumulated collateral posted during any thirty (30)-day period in the last twenty four (24) months² preceding the date of the LCR calculation. The collateral amounts pledged towards the bank shall not be taken into account.

¹ If a bank posted a pool of HQLA and non-HQLA collateral to secure derivative and other transactions, the bank shall compute the collateral requirement in the order of increasing liquidity value of said assets, consistent with the methodology set out in footnote 4 of this standard.

²The two (2)-year observation period consists of approximately 730 periods of thirty (30)-day, partly overlapping, rolling window.

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(iii) *Downgrade triggers embedded in financing transactions, derivatives and other contracts*¹: 100% outflow rate

49. For a contract where downgrade trigger exists, the bank shall assume that 100% of the additional collateral or contractual cash outflow required in the contract will have to be posted or funded for any downgrade up to and including a 3-notch downgrade of the bank's long-term credit rating. Triggers linked to a bank's short-term rating should be assumed to be triggered at the corresponding long-term rating in accordance with published ratings criteria. The bank should assess the impact of the downgrade on all types of margin collateral and contractual triggers which may change rehypothecation rights for non-segregated collateral.

(iv) *Excess non-segregated collateral held by the bank*: 100% outflow rate

50. An additional 100% cash outflow based on the market value of the collateral held must be calculated as part of the total expected cash outflows in cases where the bank holds a collateral that:

- a. Can be contractually called at any time by the counterparty because the collateral posted exceeds the counterparty's current collateral requirement under the contract;
- b. Is not segregated from the bank's other assets such that it cannot be rehypothecated; and
- c. Is not already excluded as eligible HQLA by the bank.

(v) *Contractually required collateral which are not yet posted*: 100% outflow rate

51. For a collateral that is contractually due but the posting of which is not yet demanded by the counterparty, the bank shall

increase the total expected cash outflows by an amount equivalent to 100% of the market value of the collateral.

(vi) *Collateral substitution to non-HQLA or lower-quality HQLA*²: 100% outflow rate

52. When a contract for a transaction that has not been segregated allows the received HQLA collateral to be substituted for other collateral without the consent of the bank, an additional 100% outflow shall be included in the calculation of the total expected cash outflows. If the potential substitute collateral is a non-HQLA, the outflow amount shall be based on the market value of the received HQLA collateral after applying the respective haircut in the LCR (i.e., in the case of Level 2 assets). For substitution for other HQLA collateral of a lower liquidity value, an outflow amounting to the market value of the received collateral multiplied by the difference between the haircuts of the received collateral and the potential substitute collateral should be applied.

(e) Loss of funding from structured financing instruments (SFIs)

(i) *Asset-backed securities and other SFIs allowed under existing regulations*: 100% outflow rate

53. Under the assumption that the funding required to refinance the bank-issued SFIs will not be available, the bank shall assign a 100% outflow rate to the total outstanding amount of these instruments maturing within the thirty (30)-day period.

(ii) *Asset-backed commercial paper, conduits, securities investment vehicles (SIVs) and other such financing facilities*

¹ This applies to contracts governing derivatives and other transactions that have clauses that require the posting of additional collateral, drawdown of contingent facilities, or early repayment of existing liabilities upon the bank's downgrade by a recognized credit rating organization. Contracts that include early termination agreements if a triggering event occurs (e.g., credit rating downgrade) shall not be covered by this requirement.

² This provision for additional liquidity requirement shall be applicable only when the received HQLA collateral actually counts toward the bank's stock of HQLA, and its maturity value after applying the respective haircut is lower than the liquidity value of the potential collateral substitution.

allowed under existing regulations: 100% outflow rates

54. To take account of the potential liquidity risks pertaining to the bank’s own structured financing facilities that include the issuance of short-term asset-backed commercial paper, the bank shall assume that its ability to refinance the outstanding maturing instrument will be uncertain and shall include in the calculation of expected cash outflows 100% of the amount of the maturing debt.

55. In cases where the documentation associated with the financing arrangement contractually includes derivatives or derivative-like components that allow the “return” of assets, or that require the bank (as original asset transferor) to provide liquidity, effectively ending the financing arrangement (liquidity puts) within the thirty (30)-day period, the bank shall increase its expected cash outflows by another 100% based on the amount of assets that could potentially be returned, or on the liquidity required.

56. Where the structured financing activities of the bank are conducted through a special purpose entity (such as a special purpose vehicle, conduit or structured investment vehicle), the bank should look through to the maturity of the debt instruments issued by the entity and to any embedded options in financing arrangements that may potentially trigger the “return” of assets or the need for liquidity, irrespective of whether or not the SPV is consolidated.

(f) Drawdowns on committed business facilities

57. For LCR purpose, committed business facilities shall include:

(a) lending commitments (e.g., Committed Credit Line for Commercial Paper Issued); (b) direct credit substitutes and transaction-related contingencies that are assigned 100% and fifty percent (50%) credit conversion factors under the Basel II Standardized Approach for credit risk, respectively; and (c) all other committed funding facilities extended by the bank excluding credit card lines and trade-related guarantees.

58. For purpose of expected cash outflows calculation, all committed obligations that are assumed to be drawn will remain outstanding at the amounts assigned throughout the duration of the stress test, regardless of maturity. The currently undrawn portion of each committed obligation shall be calculated net of HQLA collateral, if any¹: *Provided:*

a. The bank is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the facility is drawn; and

b. There is no undue correlation between the probability of drawing the facility and the market value of the collateral.

The collateral can be netted against the outstanding amount of the committed obligation to the extent that this collateral is not already counted in the stock of HQLA.

59. To calculate the expected cash outflows, the bank shall assume the amount of contractual loan drawdowns from irrevocable committed obligations and the estimated drawdowns from conditionally revocable obligations within the thirty (30)-day period using the following drawdown rates against the undrawn portion of these committed obligations:

¹ The HQLA in this case could have already been posted as collateral by the counterparty to secure the facility or is contractually obliged to be posted when the counterparty will draw down the facility.

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Counterparties	Drawdown Rate
Retail clients	5 %
Philippine NG; LGUs; GOCCs; sovereigns, central banks, PSEs of foreign countries; MDBs	10 %
Non-financial corporates	10%
Banks subject to prudential supervision	40 %
Financial corporates, trust and other fiduciaries, beneficiaries, SPEs conduits and SPVs (excluding bank's own structured financing facilities)	100 %
Other entities not included in the prior categories	100 %

(g) Other contractual obligations within a thirty (30)-day period

60. The bank shall calculate additional 100% cash outflows on each of the following contractual obligation to extend funds within the next thirty (30) calendar days:

a. Any contractual lending obligations to financial institutions not captured elsewhere in this standard;

b. If the total of all contractual obligations to extend funds to retail and non-financial corporates within the next thirty (30) calendar days (not captured in the prior categories) exceeds fifty percent (50%) of the total contractual inflows due in the next thirty (30) calendar days from these clients, the difference should be reported as a 100% outflow;

c. Forward reverse repos (with a binding obligation to accept) that start within and mature beyond the LCR period, where the cash outflow should be netted against the market value of the collateral received after deducting the applicable haircuts;

d. In case of forward collateral swaps, the net amount between the market values of the assets extended and received after deducting the haircuts applied to the respective assets in the LCR counts towards “other contractual outflows” or “other

contractual inflows” depending on which amount is higher;

e. Any other contractual cash outflows such as outflows to cover unsecured collateral borrowings, uncovered short positions¹, dividends or contractual interest payments, with explanation given as to what comprises this bucket. In case, however, the bank’s short position is being covered by a collateralized securities financing transaction, the bank should assume the short position will be maintained throughout the thirty (30)-day period and thus, will receive a 0% outflow rate.

61. Contractual obligations by the bank related to operating costs (such as rents, salaries, utilities, and other similar payments) are not included in the calculation of LCR.

(h) Other contingent funding obligations

62. These include products and instruments for which the client or holder has specific expectations regarding the liquidity and marketability of the product or instrument and for which failure to satisfy client expectations in a commercially reasonable manner would likely cause material reputational damage to the bank or otherwise impair ongoing viability.

63. Other contingent funding obligations referred to in this category shall consist, among others, of the following:

a. Unused portions of commitments to extend credit through credit cards;

b. Guarantees issued related to trade finance obligations directly underpinned by the movement of goods and/or the provision of services;

c. Unconditionally revocable “uncommitted” credit lines and business facilities;

d. Joint ventures or minority investments in entities which are not consolidated for financial reporting

¹ In the case of a bank’s short positions, if the short position is being covered by an unsecured security borrowing, the bank should assume the unsecured security borrowing of collateral from financial market participants would run-off in full, leading to a 100% outflow of either cash or HQLA to secure the borrowing, or cash to close out the short position by buying back the security.

purposes but there is expectation that the bank will be the main liquidity provider when the entity is in need of funding; and

e. Non-contractual contingent funding obligations related to:

i. debt repurchases of the bank’s own debt or that of related conduits, SIVs and other such financing facilities;

ii. structured products where customers anticipate ready marketability;

iii. managed funds such as money market funds and other types of collective investment funds that are marketed by the bank with the objective of maintaining stable value¹; and

iv. outstanding debt securities (unsecured and secured, term as well as short-term) having maturities greater than thirty (30) calendar days, where the bank (or its affiliated entity) is the issuer, the market maker or the dealer, or has acted as an originator, sponsor, marketing or selling agent, to cover the potential repurchase of such outstanding securities.

64. To account for the potential liquidity exposure to these contingent liabilities, a minimum of three percent (3%) drawdown based on the contracted amount, on the undrawn portion of the facility, or on the value of the fund or debt instruments, whichever is applicable, shall be calculated as additional expected cash outflows. However, when there is reasonable expectation based on the bank’s assessment that the contingent outflow will materialize within the LCR period, thereby rendering it necessary for the bank to provide funding support or to extend funds; or the Bangko Sentral has determined the bank’s systems and processes for identifying, measuring and monitoring contingent funding risks to be inadequate and ineffective in assessing the related risks that could potentially materialize, the full amount of the contingent funding obligation will receive a 100% outflow rate.

65. For non-contractual obligations where customer short positions are covered by other customers’ collateral that are not qualified as HQLA, a fifty percent (50%) run-off factor of the contingent obligations shall be calculated in the total cash outflows under the assumption that the bank may be obligated to find additional sources of funding for these positions in the event of client withdrawals.

66. To estimate the potential liquidity demand associated with these contingent funding obligations, the bank must have a robust framework (i.e., procedures, systems and tools) that at a minimum, allows assessment of contingent funding risks, as follows:

a. Identify the nature of the contingent obligation and credit worthiness of the counterparty, as well as the exposures to business and geographical sectors, as counterparties in the same sectors may be affected by stress at the same time;

b. Measure the normal level of cash outflows arising from the relevant off-balance sheet instruments under routine conditions and then estimate the scope of increase in these outflows during periods of stress;

c. Analyze the liquidity trigger events and the changes to underlying risk factors (e.g., changes in economic variables or conditions, credit rating downgrades, country risk issues, specific market disruptions and the alteration of contracts by governing legal, accounting, or tax systems and other similar changes) that would result to liquidity draws on these off-balance sheet positions. This analysis should include appropriate assumptions on the behavior of both the bank and its counterparties; and

d. Determine which among these contingent obligations and counterparties are of particular importance due to their prevalent use of liquidity, both under normal and adverse market conditions.

¹ This excludes funds managed by the bank’s trust department.

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(4) Cash inflows

67. *Cap on total inflows.* In order to prevent banks from relying solely on anticipated inflows to meet their liquidity requirement when there is a possibility that a portion of expected cash inflows may become unavailable in a short-term stressed environment, the amount of inflows that can offset outflows is capped at seventy five (75%) of total expected cash outflows. This requires that at a minimum, at least one-quarter of the total expected cash outflow amount should be covered by HQLA.

68. When considering available cash inflows, the bank should only include inflows (including interest payments and installments) from outstanding exposures that are contractually due within the LCR period, and are fully performing and for which the bank has no reason to expect a default within the LCR period.

69. For LCR purpose, the following shall not be counted as cash inflows:

- a. Market value of assets that already qualify in the stock of HQLA;
- b. Deposits held at other financial institutions for operational purposes, such as for clearing, custody, and cash management purposes, including funds provided for clearing and settlement of foreign exchange transactions (e.g., deposits placed to facilitate PDDTS transactions). These deposits are necessary for operational reasons, and are therefore not available to the depositing bank to repay other outflows.
- c. Amount of “Net Due From Head Office/Branches/Agencies Abroad” account in case of the Philippine branch of a foreign bank;
- d. Payments from loans, receivables and other assets that are considered past due, or that the bank has reason to expect will become non-performing exposure within the LCR period;

e. Potential or contingent inflows from committed credit lines, business or other funding facilities that the bank holds at other institutions for its own purposes;

f. Amounts related to non-financial revenues; and

g. Amounts payable to the bank with respect to any transaction that has no specific contractual maturity date, i.e., no defined maturity or is open maturity, or that matures after the LCR period.

(a) Secured lending, including reserve repos¹ and securities borrowings

70. For secured lending maturing within the LCR period, the bank shall calculate the expected cash inflow using the following inflow rates applied to the outstanding amount of the secured lending transaction:

Maturing Secured Lending Transactions Backed by the Following Asset Category	Inflow Rate
Level 1 assets	0 %
Level 2 assets with 15% Haircut	15%
Level 2 assets with 50% Haircut	50%
Margin lending backed by all other collateral	50%
All other collaterals	100 %

71. If the collateral obtained through reverse repo, securities borrowing, or collateral swap, which matures within the LCR period, is re-used (i.e., rehypothecated) and is used to cover short positions that could be extended beyond thirty (30) days, the bank should assume that such reverse repo or securities borrowing arrangements will be rolled-over. To reflect the need to continue to cover the short position or to re-purchase the relevant securities, no cash inflow will be expected, hence a 0% inflow rate.

(b) Loans, receivables and other credit facilities

¹ This excludes reverse repo transactions where the Bangko Sentral is the counterparty, as such is already treated as HQLA.

72. The bank shall be assumed to continue to extend and roll-over loans and other credits to clients, either secured or unsecured, at a certain level even during times of stress. In this view, all payments (including interest payments and installments) shall be assumed to be received by the bank at a net inflow rate, as follows:

Counterparties	Inflow Rate
Retail clients	50%
Philippine NG; LGUs; GOCCs; sovereigns, PSEs of foreign countries; MDBs	50%
Non-financial corporate	50%
Banks; financial corporates; trust and other fiduciaries; beneficiaries; Bangko Sentral; and central banks of foreign countries	100%
Other entities not included in the prior categories	100%

73. For revolving credit facilities, the bank shall assume that the existing loan or financing is rolled over and that no principal or interest payment shall be received from the counterparty. However, in similar arrangements where the bank is not under obligation to extend credit and/or the bank reserves the right to revoke or withdraw the agreement and the facility in its sole and absolute discretion at any time, the principal and interest payments for the loan shall be assumed to be received by the bank at the foregoing net inflow rates.

74. In case of loans with no specific maturity, the bank shall include as cash inflows, at the rates prescribed above, the minimum payments of principal, fee or interest associated with the open maturity loan, provided that such payments are contractually due within the LCR period.

(c) Other cash inflows

75. The following instruments or transactions maturing within the LCR period shall receive a 100% inflow percentage:

a. Deposits held at other financial institutions for non-operational purposes;

b. Deposits pledged against an undrawn credit line or business facility;

c. Cash balances arising from the provision of brokering services and similar arrangements;

d. Cash balances released from segregated accounts held for the protection of customer trading assets, provided that these segregated balances are maintained in HQLA;

e. Cash inflows associated with non-HQLA, as well with HQLA-type assets that are or will be excluded from the bank’s stock of HQLA due to operational requirement;

f. Forward repos that start within and mature beyond the LCR period, where the cash inflow should be netted against the market value of the collateral extended after deducting the applicable haircuts; and

g. The sum of all cash inflows from derivatives transactions calculated in accordance with paragraphs 42 to 45 under Section III.C – Total Net Cash Outflows.

IV. Supervisory Framework For Minimum Liquidity Requirement

A. General provisions

1. During a period of financial stress, banks are allowed to use their stock of HQLA as necessary in order to meet unforeseen liquidity needs that exceeds normal business fluctuations, thereby temporarily falling below the minimum.

2. Under this condition, the Bangko Sentral will assess the situation to determine the extent to which the reported decline in the LCR is due to a bank-specific or market-wide shock and will accordingly provide the supervisory response necessary to address the circumstances. The Bangko Sentral action shall be proportionate with the drivers, magnitude, duration and frequency of the reported liquidity deficit.

3. In all cases nevertheless, the Bangko Sentral will be cognizant of the procyclicality of supervisory actions if

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applied in circumstances of market-wide stress. Likewise, the Bangko Sentral will consider the potential for contagion to the financial system and the additional restricted flow of credit or reduced market liquidity due to actions to maintain a minimum LCR. Overall, the supervisory response will be based on a forward-looking assessment of macroeconomic and financial conditions of the financial system as a whole.

B. Actual LCR shortfall

4. In the event of an actual LCR shortfall (i.e., LCR falls below minimum threshold) for three (3) banking days within any two (2)-week rolling calendar period, the bank must notify the Bangko Sentral, through the appropriate Central Point of Contact Department (CPCD), of such non-compliances within the banking day immediately following the third shortfall, notwithstanding if the LCR has already been restored during that day.

5. The shortfall notice signed by the bank President or officer of equivalent rank, and by the officer charged with managing the liquidity of the bank, shall contain at a minimum the following information:

- a. The dates the LCR shortfall occur;
- b. The reason/s or factor/s leading to the utilization of the HQLA resulting to non-compliance with the minimum LCR;
- c. The action/s the bank has taken and/or will take to achieve full LCR compliance;
- d. The expected duration and possible extent of LCR shortfall (may no longer be applicable if LCR has been restored); and
- e. A commitment to submit weekly its LCR Report to the concerned CPCD (may no longer applicable if LCR has been restored).

6. An LCR shortfall below the prescribed minimum will not necessarily

result in supervisory or enforcement action, but, at a minimum, will entail heightened supervisory monitoring. The shortfall notice, together with the information gathered from the latest report of examination, from regular prudential reports submitted, from available market information, and if on file, from the internal management reports of the bank which may include the results of its own stress tests, will serve as the basis of the Bangko Sentral in making assessments about the extent of the liquidity deficit and on whether the non-compliance with the LCR will be temporary, is part of a regular pattern or practice, or is caused by an unusual event.

7. In the event that:

a. the LCR remains below the minimum requirement for a prolonged period of time or if the Bangko Sentral has determined that the bank is otherwise materially non-compliant with the LCR¹; and

b. the reported shortfall in the LCR is caused by a firm-specific stress situation, i.e., based on operational issues of the bank which is part of an outstanding supervisory concern (such as imprudent management of liquidity consisting of material and/or persistent breaches of liquidity policies and limits, large funding mismatches and/or concentrations, undue reliance on high cost funds, etc.),

the Bangko Sentral will require an effective and timely action from the bank to address the deficiency in its liquidity position within a committed timeline

8. During the period the liquidity requirement is being restored, the bank may continue to have access to Bangko Sentral credit and liquidity facilities notwithstanding non-compliance with standard conditions of access related to liquidity position to such facilities. The Deputy Governor, SES shall recommend

¹ In addition to the expected compliance with the provisions and requirements of the LCR standard, the adequacy of the bank's liquidity position given the current level and prospective sources of liability compared to funding needs, as well the adequacy of funds management practices relative to the bank's size, complexity and risk profile will be assessed.

such exemption to the Monetary Board (MB) for approval.

9. However, when the bank failed to restore its liquidity position within the committed timeline, or is unable to substantially comply with the remedial measures directed, sanctions may be imposed on the bank subject to MB approval. These may include any or all of the following:

- a. monetary penalty on or curtailment or suspension of privileges enjoyed by the BOD or responsible officers;
- b. restriction on existing activities that the bank may undertake;
- c. denial of application for branching and other special authorities;
- d. denial or restriction of access to Bangko Sentral credit and liquidity facilities; and restriction on declaration of cash dividends.

10. The Bangko Sentral shall not be precluded in any way from requiring accelerated remedial actions in the event the bank does not adequately address the deficiencies identified, or from deploying more robust and stringent supervisory or enforcement actions if further intrusive actions are deemed warranted. In cases where the bank’s liquidity problem is deemed to be exceptionally serious from the outset, or when the bank refused to restore the required liquidity position, the Bangko Sentral, upon the approval of the Monetary Board, may impose more drastic actions based on existing laws, rules, and regulations.

11. The Bangko Sentral reserves the right, upon the authority of the Deputy Governor, SES, to require submission of reports and information prescribed under Item “c” of Subsec. 1176.1 outside the regular reporting period, and to conduct on-site inspection outside of regular or special examination, for the purpose of ascertaining the accuracy of LCR calculations as well as the integrity of LCR monitoring and reporting systems.

Part II. LCR Disclosure Requirments

1. To provide the banking public with a broader picture of the bank’s liquidity risk position and management and to promote market discipline, the bank is required to disclose information related to LCR. Starting year 2019, the bank shall disclose its liquidity position in single currency and on a consolidated basis in the quarterly published balance sheet, and either, on the bank’s website or in its other published financial reports or publicly available regulatory reports (e.g., the audited financial statements).

2. In the quarterly published balance sheet, the bank, at a minimum, must publicly disclosed the: (i) total HQLA; (ii) total net cash outflows; and (iii) LCR ratio, based on the LCR position for the quarter.

3. On the bank’s website or in its other published reports, the disclosure must be presented in a format following a common template (*Annex C*), and must contain the following minimum requirements:

- a. Data must be reported as simple averages of quarterly observations over the last twelve (12) months. The number of data points used in calculating the average figures in the template must also be disclosed.
- b. Sufficient qualitative discussion around the LCR to facilitate understanding of the results and data must be provided. Where significant to the LCR, the bank should discuss:
 - i. the main drivers of the LCR results and the evolution of the contribution of inputs to the LCR’s calculation over time;
 - ii. intra-period changes as well as changes over time;
 - iii. the composition of HQLA;
 - iv. concentration of funding sources;
 - v. derivative exposures and potential collateral calls;
 - vi. currency mismatch in the LCR;
 - vii. a description of the degree of centralization of liquidity management and interaction between the bank’s units; and

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viii. other inflows and outflows in the LCR calculation that are not captured in the LCR common template but which the bank considers to be relevant for its liquidity profile.

4. The bank may also present additional information relevant to its business model that may not be adequately captured by the LCR standard. Additional quantitative information shall allow market participants to better understand and analyze any LCR figures disclosed while additional qualitative discussion of LCR results and its related components shall enable them to gain a more thorough understanding of the bank's internal liquidity risk management and positions. At the option of the bank, the following additional information may be provided:

- a. Quantitative disclosures:
 - a. concentration limits on collateral pools and sources of funding (both products and counterparties);
 - b. liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity; and
 - c. balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps.
- b. Qualitative disclosures:
 - a. governance of liquidity risk management, including: risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity reporting; and communication of liquidity risk strategy, policies and practices across business lines and with the board of directors;
 - b. funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralized or decentralized;
 - c. liquidity risk mitigation techniques;

d. an explanation of how stress testing is used; and

e. an outline of contingency funding plans.

5. The bank must also make available on its website, or through publicly available regulatory reports, an archive of all disclosure templates relating to prior reporting periods. Irrespective of the location of the disclosure, the minimum disclosure requirements must be presented in accordance with the format and template defined by this standard.

Part III. Transitional arrangements

The gradual transition timeframe will likewise afford the Bangko Sentral with enough time to: (i) ensure that the LCR functions as intended during both normal times and periods of stress; (ii) reduce perverse impacts on asset and funding markets; (iii) mitigate potential impediments to the smooth functioning of central bank operations; and (iv) limit unintended consequences for economic activity. As may be necessary, the Bangko Sentral may issue amendments on refinements of the definition and qualification of HQLA, and/or recalibration of the parameters related to cash flow items.

During the phased introduction of the LCR standard, the following shall be observed:

1. Compliance with the LCR minimum requirement will commence on 01 January 2018. The prescribed minimum shall be set initially at ninety percent (90%) for 2018, and shall rise to the minimum required level of 100% on 01 January 2019, as per transition periods given below:

	01 July 2016	01 January 2017	01 January 2018	01 January 2019 and thereafter
Minimum LCR	Observation Period		90%	100%

2. During the observation period, no minimum ratio is prescribed to be complied with. Hence, no sworn certification of compliance shall be required from the bank. However, for monitoring purpose, the bank shall submit quarterly the LCR Reports, in single currency and per significant currency, on both solo and consolidated bases, as follows:

Reporting Details	Solo	Consolidated
Measurement Date	End-of-quarter ¹	
LCR Calculation Period	30 calendar days from measurement date	
Submission Deadline	15 banking days from measurement date	30 banking days from measurement date

3. Any non-submission or delayed submission of said LCR reports shall subject the bank to appropriate sanctions provided under Subsec. 1176.3.
4. Starting 01 January 2018, a minimum LCR must be complied with at all times. Accordingly, the solo and consolidated LCR Reports, together with the sworn certification of compliance shall be submitted by the bank following the reportorial requirement prescribed under item “c” of Subsec. 1176.1.
5. Public disclosure of LCR position in single currency and on a consolidated basis shall be required starting year 2019, i.e., by

first quarter of 2019 for the quarterly published balance sheet, and by the year end 2019 for other published reports.

6. The phase-in arrangement is intended to facilitate compliance with the new liquidity requirement. Hence, banks with LCRs that are already at or near the prescribed minimum should not view the transition period as an opportunity to reduce their liquidity coverage. The LCR threshold is a minimum requirement and thus, banks are expected to achieve a liquidity position in line with their liquidity risk profile and as an effort towards better liquidity risk management.

7. During the transition period, the Bangko Sentral is not precluded to assess the level of compliance of the bank to the LCR requirement. Those banks which would not be able to comply with the minimum LCR by 01 January 2018 will be required to submit to the Bangko Sentral, through the appropriate CPCD, an acceptable liquidity build-up plan not later than 15 October 2017. The CPCD concerned will evaluate the continuing compliance of the bank to the said liquidity build-up plan. The Bangko Sentral may require the bank to undertake set of actions and/or impose sanctions for non-compliance with the liquidity build-up plan as provided under the LCR standard and existing banking laws and/or Bangko Sentral rules and regulations.

(Circular No. 905 dated 10 March 2016, as amended by Circular No. 930 dated 18 November 2016)

¹ Quarterly submissions shall start with quarter ended 30 June 2016 and shall conclude with quarter ended 30 September 2017 reports.

LIQUIDITY CHARACTERISTICS, CRITERIA
AND METRICS

Characteristics		Criteria	Examples of metrics/measures
Asset characteristics	Asset quality	Probability of default	Ratings
			Spreads
			Price drops during stress
		Flight to quality (performance during distress)	Performance relative to risk-free asset
			Correlation with financial stress
		Volatility	Implied and actual volatility
	Duration/time to maturity		
	Transparency and standardization	Collateral eligibility	Eligible/haircuts at financial market infrastructures
			Across private counterparties
		Standardization	Small number of standardized product types
			Standardized risk modeling
			Well-understood risk properties
Price transparency		Pre-trade pricing broadly available	
		Post-trade pricing broadly available	
Market structure characteristics		Trading venues	Electronic (including hybrids)
	Exchange-traded		
	Active and sizeable market		Size
			Related financing markets
		Outstandings	
		Market participation	Repo financing available
	Other secured/forward financing		
	Market liquidity	Liquidity	Depth/price impact of trading
Breadth of investors (low concentration)			
Breadth			Large number of active market maker
			Immediacy
Autocorrelations of returns			

(Circular No. 905 dated 10 March 2016)

Annex B

CALCULATION OF THE CAP ON LEVEL 2 ASSETS
WITH REGARD TO SHORT-TERM SECURITIES
FINANCING TRANSACTIONS

1. The formula for the calculation of the stock of HQLA is as follows:

Stock of HQLA = Unadjusted Level 1 Assets + Unadjusted Level 2 Assets - Adjusted for 40% cap on Level 2 Assets

Where:

Adjustment for 40% cap = Max (Adjustment Stock of Level 2 Assets - $\frac{2}{3}$ * Adjusted Stock of Level 1 Assets, 0)

Adjusted Level 1 Assets = Unadjusted Level 1 Assets + Level 1 assets lent or placed as collateral under short term¹ secured funding, secured lending or collateral swap transactions - Level 1 assets borrowed or received as collateral under short-term¹ secured funding, secured lending or collateral swap transactions

Adjusted Level 2 Assets = Unadjusted Level 2 Assets + Level 2 assets lent or placed as collateral under short-term¹ secured funding, secured lending or collateral swap transactions - Level 2 assets borrowed or received as collateral under short-term¹ secured funding, secured lending or collateral swap transactions

Alternatively, the formula can be expressed as:

Stock of HQLA = Unadjusted Level 1 Assets + Unadjusted Level 2 Assets - Max (Adjusted Stock of Level 2 Assets - $\frac{2}{3}$ Adjusted Level 1 Assets, 0)

2. The calculation of the forty percent (40%) cap on Level 2 assets should take into account the impact on the stock of HQLA of the amounts of Level 1 and Level 2 assets involved in secured funding, secured lending and collateral swap transactions maturing within thirty (30) calendar days. The maximum amount of adjusted Level 2 assets in the stock of HQLA is equal to two-thirds of the adjusted amount of Level 1 assets after haircuts have been applied.

3. The adjusted amount of Level 1 assets is defined as the amount of Level 1 assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 1 assets (including cash) that meet, or would meet if held unencumbered, the operational requirements for HQLA.

4. The adjusted amount of Level 2 assets is defined as the amount of Level 2 assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 2 assets that meet, or would meet if held unencumbered, the operational requirements for HQLA.

(Circular No. 905 dated 10 March 2016)

¹ Pertains to maturity date up to and including 30 calendar days

LIQUIDITY COVERAGE RATIO DISCLOSURE TEMPLATE (In Single Currency, Absolute Amount)			THIS PORTION IS FOR REFERENCE ONLY. DO NOT INCLUDE IN THE TEMPLATE.	
NATURE OF ITEM	TOTAL UNWEIGHTED ¹ VALUE (AVERAGE)	TOTAL WEIGHTED ² VALUE (AVERAGE)	Relevant Paragraph(s) of Appendix 74a (Section – Paragraph)	Instructions for Completion of Template
STOCK OF HIGH-QUALITY LIQUID ASSETS (HQLA)	No value to be reported			<p>Rows in the template are set and mandatory for all banks/QBs. The relevant paragraph(s) of the Consultative Draft as well as the LCR Reporting Template provide guidance on which relevant subcomponents of each category or line item are to be included in the calculation of each row.</p> <p>Values reported in the template must be averages of the observations of individual line items over the financial reporting period (i.e., the average of categories and the average LCR over the previous year of quarterly positions, irrespective of the financial reporting schedule). The averages are calculated after the application of any haircuts, outflow and inflow rates and caps, where applicable. For example:</p> <p><i>Total unweighted retail funding</i>_{Qi} =</p> $\frac{1}{T} \times \sum_{t=1}^T (Total \text{ unweighted retail funding})_t$ <p><i>Total weighted retail funding</i>_{Qi} =</p> $\frac{1}{T} \times \sum_{t=1}^T (Total \text{ weighted retail funding})_t$ <p>Where <i>T</i> equals the number of observations in period <i>Qi</i>.</p>
1. TOTAL STOCK OF HQLA		report calculated value		
EXPECTED CASH OUTFLOWS	No value to be reported			
2. Deposits, of which:	Sum of lines 3 & 4	Sum of lines 3 & 4		
3. Retail funding	report calculated value	report calculated value		
4. Wholesale funding, of which:	Sum of lines 5 & 6	Sum of lines 5 & 6		
5. Operational deposits	report calculated value	report calculated value		
6. Non-operational deposits (all counterparties)	report calculated value	report calculated value		
7. Unsecured wholesale funding (all counterparties)	report calculated value	report calculated value		
8. Secured funding		report calculated value		
9. Derivatives contracts, of which:	Sum of lines 10 & 11	Sum of lines 10 & 11		
10. Outflows related to derivatives exposures (net)	report calculated value	report calculated value		
11. Outflows related to collateral requirements	report calculated value	report calculated value		
12. Structured financing instruments	report calculated value	report calculated value		
13. Committed business facilities (all counterparties)	report calculated value	report calculated value		
14. Other contractual obligations within a 30-day period	report calculated value	report calculated value		
15. Other contingent funding obligations	report calculated value	report calculated value		
16. TOTAL EXPECTED CASH OUTFLOWS		Sum of lines 2, 7 to 9 & 12 to 15		

¹ Unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

² Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).

LIQUIDITY COVERAGE RATIO DISCLOSURE TEMPLATE (In Single Currency, Absolute Amount)			THIS PORTION IS FOR REFERENCE ONLY. DO NOT INCLUDE IN THE TEMPLATE.	
NATURE OF ITEM	TOTAL UNWEIGHTED ¹ VALUE (AVERAGE)	TOTAL WEIGHTED ² VALUE (AVERAGE)	Relevant Paragraph(s) of Appendix 74a (Section – Paragraph)	Instructions for Completion of Template
EXPECTED CASH INFLOWS	No value to be reported			Weighted values of HQLA (line 1, 3 rd column) must be calculated after the application of the respective haircuts but before the application of the 40% cap on Level 2 assets. Unweighted outflows and inflows (lines 3, 5–7, 10–15 and 17–19, 2 nd column) must be calculated as outstanding balances. Weighted outflows and inflows (lines 3, 5–8, 10–15 and 17–19, 3 rd column) must be calculated after the application of the outflow and inflow rates.
17. Secured lending	report calculated value	report calculated value		
18. Fully performing exposures (all counterparties)	report calculated value	report calculated value		
19. Other cash inflows	report calculated value	report calculated value		
20. TOTAL EXPECTED CASH INFLOWS	Sum of lines 17 to 19	Sum of lines 17 to 19		
		Total Adjusted ³ Value		Adjusted values of HQLA (line 21, 3 rd column) must be calculated after the application of both (i) haircuts and (ii) 40% cap on Level 2 assets. Adjusted values of net cash outflows (line 22, 3 rd column) must be calculated after the application of both (i) outflow and inflow rates and (ii) 75% cap on inflows. The LCR (line 23) must be calculated as the average of observations of the LCR:
21. TOTAL STOCK OF HQLA		report calculated value		
22. TOTAL EXPECTED NET CASH OUTFLOWS		report calculated value		
23. LIQUIDITY COVERAGE RATIO (%)		report calculated value		
Note: Not all reported figures will sum exactly, particularly in the denominator of the LCR. For example, “total expected net cash outflows” (line 22) may not be exactly equal to “total expected cash outflows” minus “total expected cash inflows” (line 16 minus line 20) considering the 75% cap on inflows is binding. Similarly, the disclosed LCR may not be equal to an LCR computed on the basis on the average values of the set of line items disclosed in the template.			$LCR_{Qi} = \frac{1}{T} \times \sum_{t=1}^T LCR_t$	

¹ Unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

² Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).

³ Adjusted values must be calculated after the application of both: (i) haircuts (for Total HQLA) and inflow and outflow rates (for Total Net Cash Outflows); and (ii) applicable cap and ceiling (i.e., cap on Level 2 assets for HQLA and ceiling on inflows).

(FORMAT)
SWORN CERTIFICATION OF COMPLIANCE WITH
THE LIQUIDITY COVERAGE RATIO (LCR) REQUIREMENTS

<NAME OF BANK>

CERTIFICATION

Pursuant to Subsection 1176.1 of the Manual of Regulations for Banks, we hereby certify that the Bank have fully complied with the minimum LCR requirement on all calendar days of the month ended _____ 20__.

We further certify to the best of our knowledge that above statement is true and correct.

President/CEO or Country Head
TIN: _____

[Other authorized signatories for Category A-1 report]
TIN: _____

TIN: _____

[Officer Charged with Liquidity
Management Function]
TIN: _____

Compliance Officer
TIN: _____

SUBSCRIBED AND SWORN TO before me this ____ day of _____ 20____,
at _____, Philippines affiant/s exhibiting their government-issued
identification cards as follows:

NAME	GOVERNMENT-ISSUED ID	DATE OF ISSUE	PLACE OF ISSUE

Witness my hand and notarial seal on the date and place above-written.

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Page No. _____;
Book No. _____;
Series of 20 ____.

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(In case there is/are non-compliance/s during the month, the certification should read as follows:)

Pursuant to Subsection 1176.1 of the Manual of Regulations for Banks (MORB), we hereby certify that the Bank have fully complied with the minimum LCR requirement on all calendar days of the month ended _____ 20____, except on (example):

Dates (Day)	LCR Compliance (%)
11 January 2018 (Thursday)	99.56%
15 January 2018 (Monday)	98.10%
16 January 2018 (Thursday)	98.97%

A shortfall notice containing the minimum information required under *Appendix 74a* of the MORB had been submitted to the Bangko Sentral on _____ through the appropriate Central Point of Contact Department (CPCD).

We further certify to the best of our knowledge that above statement is true and correct.

President/CEO or Country Head
TIN:

[Other authorized signatories for Category A-1 report]
TIN:

TIN:

[Officer Charged with Liquidity
Management Function]
TIN:

Compliance Officer
TIN:

SUBSCRIBED AND SWORN TO before me this _____ day of _____ 20____,
at _____, Philippines affiant/s exhibiting their government-issued
identification cards as follows:

NAME	GOVERNMENT-ISSUED ID	DATE OF ISSUE	PLACE OF ISSUE
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Witness my hand and notarial seal on the date and place above-written.

NOTARY PUBLIC

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 20____.

(Circular No. 905 dated 10 March 2016)

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GUIDELINES ON TECHNOLOGY RISK MANAGEMENT
(Appendix to Sec. X177)

(Deleted by Circular No. 808 dated 22 August 2013)

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: IT Audit
[Appendix to Subsecs. X177.2 and X177.7]

1. Introduction

1.1. BSIs must plan, manage and monitor rapidly changing technologies to enable them to deliver and support new products, services, and delivery channels. The rate of these changes and the increasing reliance on IT make the inclusion of IT audit coverage essential to an effective overall audit program. The audit program should address IT risk exposures throughout the organization, including the areas of IT management and strategic planning, IT operations, client/server architecture, local and wide-area networks, telecommunications, physical and information security, electronic products and services, systems development and acquisition, and business continuity planning. IT audit should also focus on how management determines the risk exposure from its operations and controls or mitigates identified risks.

1.2. A well-planned, properly structured audit program¹ is essential to evaluate risk management practices, internal control systems and compliance with policies concerning IT-related risks at BSIs of every size and complexity. Effective audit programs are risk-focused, promote sound IT controls, ensure the timely resolution of audit deficiencies and inform the Board of Directors of the effectiveness of risk management practices. An effective IT audit function may also allow regulators to place substantial reliance on and reduce the time spent reviewing areas of the BSIs during examinations. Ideally, the audit program should consist of a full-time, continuous program of internal audit which may be further supported by a well-planned external audit program.

2. ROLES AND RESPONSIBILITIES

2.1. **Board of Directors (Board) and Senior Management.** The BSI’s Board or its Audit Committee has the overall responsibility for establishing and maintaining an independent, competent and effective IT audit function commensurate with the complexity of its IT risk profile. In order to properly oversee the IT audit function, the Board or its Audit Committee should:

- a. Assign responsibility for IT audit function to an internal audit department or individual with sufficient audit expertise, knowledge base and skill level;
- b. Ensure that IT audit maintains its professional and organizational independence²; and
- c. Approve and review an audit program that would guide IT audit engagements.

Senior management is responsible for supporting IT audit by providing sufficient resources, establishing programs defining and requiring compliance with IT planning practices, operating policies and internal controls. Likewise, senior management should not, in any manner, diminish or interfere with the candor of the audit findings and recommendations.

2.2. **Audit Management and Audit Staff.** The internal audit manager is responsible for implementing the Board-approved audit directives. The manager oversees the audit function and provides leadership and direction in communicating and monitoring audit policies, practices, programs, and processes. He should establish clear lines of authority and reporting responsibility for all levels of audit personnel and activities.

¹ **Audit program** encompasses audit policies, procedures, and strategies that govern the audit function, including IT audit.

² **Independence** means self-governance, freedom from conflict of interest and undue influence. The IT auditor should be free to make his or her own decisions, not influenced by the organization being audited, or by its managers and employees.

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The internal audit manager should also ensure that members of the audit staff possess the necessary independence, experience, education, training, and skills to properly conduct assigned activities. This can be undertaken by providing auditors with an effective program of continuing education and development. As the information systems of a BSI become more sophisticated or as more complex technologies evolve, the auditor may need additional training.

The primary role of the internal IT audit staff, on the other hand, is to assess independently and objectively the controls, reliability, and integrity of the BSI’s IT environment. Internal auditors should evaluate IT plans, strategies, policies, and procedures to ensure adequate management oversight. They should assess the day-to-day IT controls to ensure that transactions are recorded and processed in compliance with acceptable accounting methods and standards and are in compliance with policies set forth by the Board and senior management. Auditors also perform operational audits, including system development audits, to ensure that internal controls are in place, policies and procedures are effective, and employees operate in compliance with approved policies. Auditors should identify weaknesses, provide meaningful recommendations and review management’s plans for addressing those weaknesses, monitor their resolution, and report to the Board material weaknesses, as necessary.

2.3. Operating Management. Operating management should formally and effectively respond to IT audit or examination findings and recommendations. The audit procedures should clearly identify the methods for following up on noted audit or

control exceptions or weaknesses. Operating management is responsible for correcting the root causes of the audit or control exceptions, not just treating the exceptions themselves. Response times for correcting noted deficiencies should be reasonable and may vary depending on the complexity of the corrective action and the risk of inaction.

3. INDEPENDENCE OF THE IT AUDIT FUNCTION

3.1. The ability of the internal audit function to achieve desired objectives depends largely on the independence of audit personnel. Hence, the placement of the internal audit function in relation to the BSI’s management structure should be carefully assessed. The degree of auditors’ independence, objectivity and impartiality entails the following key elements:

- a. Direct reporting of audit results to the Board or its Audit Committee;
- b. Full authority vested by the Board to the IT Audit Department/IT auditor to access all records and staff necessary to conduct the audit and require management to address significant findings in a timely manner. Said authority must be clearly specified in an Internal Audit Charter or Audit Program duly approved by the Board or Audit Committee;
- c. Non-involvement of IT audit personnel in management/operational activities that may compromise or appear to compromise their independence; and
- d. The Board or Audit Committee should decide on audit personnel performance evaluation and compensation matters.

4. INTERNAL IT AUDIT PROGRAM

4.1. A formal audit program or manual consisting of policies and procedures governing the IT audit function should be

- adopted commensurate with the BSI’s size, complexity, scope of activities and risk profile. The audit program should, at a minimum, encompass the following components:
- a. A mission statement or audit charter¹ outlining the purpose, objectives, organization, authorities, and responsibilities of the internal auditor, audit staff, audit management, and the audit committee;
 - b. A risk assessment process to describe and analyze the risks inherent in a given line of business and drive the scope and frequency of audits. Auditors should update the risk assessment at least annually, or more frequently if necessary, to reflect changes to internal control or work processes;
 - c. An annual audit plan detailing IT audit’s budgeting and planning processes to include audit goals, schedules, staffing needs and reporting;
 - d. An audit cycle that identifies the frequency of audits which should be based on a sound risk assessment process;
 - e. Well-planned and properly structured audit work programs² that set out the required scope and resources, including the selection of audit procedures, extent of testing and the basis for conclusions for each audit area;
 - f. Audit report preparation standards that require the use of an approved audit rating system;
 - g. Requirements for audit work paper documentation to ensure clear support for all audit findings and work performed, including work paper retention policies;
 - h. Follow-up processes that require internal auditors to determine the disposition of management actions to correct significant deficiencies;

- i. Policies on outsourcing of some or all of IT audit function, including technical/highly specialized reviews, to external third parties; and
 - j. Professional development programs for audit staff/personnel to maintain the necessary technical expertise.
- Additionally, the BSI should consider conducting its internal audit activities in accordance with professional standards, such as the *Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors (IIA), and those issued by the Standards Board of the Information Systems Audit and Control Association (ISACA), whenever possible.

5. IT AUDIT PHASES

- 5.1. **Audit Planning.** The BSI should develop an overall audit plan³ for all the audit assignments/engagements covering at least twelve (12) months to ensure adequate coverage of IT risks. The plan should be defined by combining the results of the risk assessments and the resources required to yield the timing and frequency of planned internal audits. The audit plan must be realistic and should cover a time budget for other assignments and activities such as specific examination, consulting/advisory services, training and provision for audit personnel leave of absences.
- The audit plan must be formally approved and regularly reviewed by the Board or Audit Committee. The internal auditors should report the status of the planned versus actual audits and any revisions to the annual audit plan on a periodic basis.
- For each audit assignment, an audit work program detailing the objectives, scope, nature and extent of audit procedures and

¹ **Audit charter** is a document approved by the Board of Directors that defines the IT audit function’s responsibility, authority and accountability.

² **Work program** is a series of specific, detailed steps to achieve an audit objective.

³ **Audit plan** is a description and schedule of audits to be performed in a certain period of time (ordinarily a year). It includes the areas to be audited, the type of work planned, the high-level objectives and scope of the work and includes other items such as budget, resource allocation, schedule dates, and type of report issued.

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outline of audit work should be prepared. This is to ensure that appropriate attention is devoted to important areas of the audit, potential problems are identified and resolved on a timely basis, and the audit engagement is properly organized and managed to be performed in an effective and efficient manner.

5.2. Risk Assessment. The use of an appropriate risk assessment technique or approach is critical in developing the overall IT audit plan and in planning specific audits. An effective risk assessment methodology should be defined to provide the Board or its Audit Committee with objective information in determining audit priorities for the effective allocation of IT audit resources. The risk assessment for IT audit planning should:

- a. Identify the BSI’s data, application¹ and operating systems², technology, facilities, and personnel;
- b. Identify the business activities and processes within each of those categories;
- c. Include profiles of significant business units, departments, and product lines, or systems, and their associated business risks and control features, resulting in a document describing the structure of risk and controls throughout the BSI; and
- d. Use a measurement or scoring system that ranks and evaluates business and control risks for significant business units, departments, and products.

The results of the risk assessments, in support of the audit plan, must be presented to the Board or Audit Committee for review and approval. A process must be in place to ensure regular monitoring of the results of the risk assessment and updating it at least annually for all significant business units, departments, and products or systems.

A risk scoring model or system may be

adopted to provide a sound basis for the risk assessment. Among the major risk factors that may be used in scoring systems include the following: a) Adequacy of internal controls; b) Nature of transactions and operating environment; c) Age of the system or application; d) Physical and logical security of information, equipment, and premises; e) Adequacy of operating management oversight and monitoring; f) Previous regulatory examination and audit results and management’s responsiveness in addressing issues; g) Human resources, including the experience of management and staff, turnover, technical competence, management’s succession plan, and the degree of delegation; and h) Senior management oversight.

Written guidelines on the use of risk assessment tools and risk factors should be approved and reviewed by the Board or its Audit Committee. IT auditors should use the guidelines to grade or assess major risk areas and to define the range of scores or assessments (e.g. groupings such as high, medium or low risk or numeric risk ratings). At a minimum, the written assessment guidelines should specify the following elements: a) Maximum length for audit cycles based on the risk scores; b) Timing of risk assessments for each department or activity; c) Documentation requirements to support scoring decisions; and d) Guidelines for overriding risk assessments in special cases and the circumstances under which they can be overridden.

5.3. Performance of Audit Work. Depending on the complexity of IT risk profile, IT auditors may perform all or a combination of any of the following IT audit procedures:

- a. **IT General Controls Review** - This

¹ **Application system** is an integrated set of computer programs designed to serve a well-defined function and having specific input, processing, and output activities (e.g., CASA, general ledger, loans and treasury systems).
² **Operating system** is the program that manages all the basic functions and programs in a computer.

entails the review of the adequacy of general controls¹ in place to ensure proper management and monitoring of IT risks/ environment and the effective functioning of the BSI’s IT systems and infrastructure. The following areas should be covered, among others: a) IT management and strategic planning; b) IT operations; c) Client/server architecture; d) Local and wide-area networks; e) Telecommunications; and f) Physical and information security.

IT general controls review may be carried out through the audit of each IT unit or department in the institution (e.g. IT Operations, Network and Communications, etc.).

b. Application Systems Review - The purpose of this review is to identify, document, test and evaluate the application controls² that are implemented to ensure the confidentiality, integrity and accuracy of the system processing and the related data. The application-level risks to the system and data addressed by this review are the following, among others: a) System availability risks relating to the lack of system operational capability; b) System security risks relating to unauthorized access to systems and/or data; c) System integrity risks relating to incomplete, inaccurate, untimely or unauthorized processing of data; d) System maintainability risks relating to inability to update the system when required in a manner that continues to provide for system availability, security and integrity; and e) Data risks relating to its completeness, integrity, confidentiality, privacy and accuracy.

c. Technical Reviews - BSIs with complex IT risk profile such as those providing electronic products and services and web-enabled facilities, also require IT auditors to perform highly technical/ specialized reviews such as the conduct of periodic internal vulnerability assessment and penetration testing, computer forensics and review of emerging technologies, e.g. cloud computing, virtualization, mobile computing.

IT auditors frequently use computer-assisted audit techniques (CAATs) to improve audit coverage by reducing the cost of testing and sampling procedures that otherwise would be performed manually. CAATs include many types of tools and techniques, such as generalized audit software, utility software, test data, application software tracing and mapping, and audit expert systems. These tools and techniques can also be used effectively to check data integrity by testing the logical processing of data “through” the system, rather than by relying only on validations of input and output controls.

Audit software programs should remain under the strict control of the audit department. For this reason, all documentation, test material, source listings, source and object program modules, and all changes to such programs, should be strictly controlled. Computer programs intended for audit use should be carefully documented to define their purpose and to ensure their continued usefulness and reliability.

All audit procedures forming part of the

¹ **General controls** are controls, other than application controls, that relate to the environment within which application systems are developed, maintained, and operated, and that are therefore applicable to all the applications at an institution. Like application controls, general controls may be either manual or automated. Examples of general controls include the development and implementation of an IT strategy and an IT security policy, the organization of IT staff to separate conflicting duties and planning for disaster prevention and recovery.

² **Application controls** are controls related to transactions and data within application systems. Application controls ensure the completeness and accuracy of the records and the validity of the entries made resulting from both programmed processing and manual data entry. Examples of application controls include data input validation, agreement of batch totals and encryption of data transmitted.

assignment should be documented in working papers. These must reflect the examinations that have been made and emphasize the evaluations formulated in the report. The working papers must be drawn up according to a well-determined method. Such method must provide sufficient information to verify whether the assignment was duly performed and to enable others to check the manner in which it was performed.

5.4. **Reporting.** A written audit report of each assignment is to be issued to the auditee and Audit Committee within a reasonable timeline. The audit report should state the scope, objectives, period of coverage and the nature, timing and extent of the audit work performed. It should state the findings, conclusions and recommendations and any reservations, qualifications or limitations in scope that the IT auditor has with respect to the audit. The IT audit should discuss the draft report contents with management in the subject area prior to finalization and release of the final report. This should be signed, dated and distributed according to the terms of the audit charter/audit program or engagement letter.

5.5. **Post-closing/Monitoring Activities.** Senior management should ensure that the internal audit department’s concerns are appropriately addressed. Therefore, they should approve a procedure established by the internal audit department to ensure the consideration and, if appropriate, timely implementation of audit recommendations.

The IT audit department should monitor the implementation of management’s corrective actions for proper disposition of its findings/recommendation. The status of the recommendations is communicated at least on a quarterly basis to the Board or Audit Committee.

6. OTHER IT AUDIT ACTIVITIES/
PARTICIPATION

6.1. **Development, Acquisition, Conversions and Testing.** The BSI’s Board-approved audit policy should include guidelines detailing what involvement internal audit will have in the development, acquisition, conversion, and testing of major applications. This includes describing the monitoring, reporting, and escalation processes (when internal controls are found to be insufficient or when testing is found to be inadequate). For acquisitions with significant IT impacts, participation of IT audit may be necessary early in the due diligence stage.

It is necessary that audit’s participation in the development process be independent and objective. Auditors can determine and should recommend appropriate controls to project management. However, such recommendations do not necessarily “pre-approve” the controls, but instead guide the developers in considering appropriate control standards and structures throughout their project.

6.2. **Review of Technology Service Providers (TSP).** The BSI should effectively manage its relationships with key TSPs through review and assessment of adequacy of IT controls employed by such TSPs. When circumstances warrant, the BSI’s internal audit function may be utilized to directly audit TSP’s operations and controls. In some instances, the services of external auditors may be employed. A BSI using external audit to complement its own coverage should ensure that the independent auditor is qualified to perform the review, that the scope satisfies its own audit objectives and that any significant reported deficiencies are corrected.

7. OUTSOURCING OF IT AUDIT
FUNCTIONS

7.1. The Board and senior management of a BSI that outsources its internal IT audit function should ensure that the structure, scope and management of the outsourcing

arrangement provides for an adequate evaluation of the system of internal controls. Management should ensure that there are no conflicts of interest and that the use of these services does not compromise independence.

7.2. When negotiating the outsourcing arrangement with a service provider, the BSI should carefully consider its current and anticipated business risks in setting each party’s internal audit responsibilities. To clearly define the BSI’s duties and those of the audit provider, it should have a written contract, often referred to as an engagement letter¹.

8.COMPLIANCE WITH EXISTING BANGKO SENTRAL RULES AND REGULATIONS

8.1. The provisions of the IT audit guidelines prescribe in detail the essentials and elements of an effective IT audit which complement and are consistent with Subsection X185.9 Independence of the Internal Auditor. Likewise, the IT audit-related tasks of the Audit Committee are in addition to the tasks prescribed under X141.3 Powers/responsibilities and duties of directors, Item "c (7) (d) (i)".

(Circular No. 808 dated 22 August 2013)

¹ In general, the contract between the institution and the audit provider may or may not be the same as the engagement letter.

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: Information Security
[Appendix to Subsecs. X177.2 and X177.7]

1. INTRODUCTION

1.1. Information is one of the most important assets of all BSIs. Timely and reliable information is necessary to process their transactions and support critical decisions. Protection of information assets is also necessary to establish and maintain trust between the BSIs and their customers, maintain compliance with laws and regulations and protect reputation. Likewise, effective management of information risks and exposures—as well as opportunities—can directly affect the BSIs’ profitability and overall value.

1.2. Information security (IS) has become a critical business function and an essential component of governance and management affecting all aspects of the business environment. Effective IS controls are necessary to ensure the confidentiality, integrity and availability of IT resources and their associated data. These assets should be adequately protected from unauthorized access, deliberate misuse or fraudulent modification, insertion, deletion, substitution, suppression or disclosure. To achieve these objectives, BSIs should establish an IS program to manage the risks identified through their assessment, commensurate with the sensitivity of the information and the complexity of their IT risk profile. Management may consider a variety of policies, procedures, and technical controls and adopt measures that appropriately address identified risks.

2. ROLES AND RESPONSIBILITIES

2.1. **Board of Directors (Board) and Senior Management.** The Board, or an appropriate Board committee, is responsible for overseeing the development,

implementation, and maintenance of the BSI’s IS program, and making senior management accountable for its actions. The Board should approve written IS policies and receive periodic report on the effectiveness of the IS program. The IS policy should be communicated to all employees and relevant external parties and be reviewed at planned intervals to ensure its continuing suitability, adequacy and effectiveness. The policy should include a formal disciplinary process and the corresponding actions for those who have committed security violations.

Senior management should appoint an 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 to 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 BSIs with simple IT risk profile, The ISO function may be assigned to an existing independent officer who meets the above qualifications.

3. INFORMATION SECURITY STANDARDS

3.1. **IS Risk Assessment.** The BSI should conduct periodic security risk assessment to identify and understand risks on confidentiality, integrity and availability of information and IT systems based on a current and detailed knowledge of the BSI’s

operating and business environments. The risk assessment should include an identification of information and IT resources to be protected and their potential threats and vulnerabilities. An effective risk assessment process involves three phases, namely: information gathering, analysis, and prioritizing responses. Vendor concerns add additional elements to the process.

Once the risks associated with threats and vulnerabilities have been assessed, probabilities assigned, and risks rated, the BSI should segregate the risks into those the BSI is willing to accept and those that should be mitigated. Once the BSI identifies the risks to mitigate, it can begin to develop its risk mitigation strategy which should be an integral component of the IS program.

3.2. Security Controls Implementation

3.2.1. Asset Classification and Control

The BSI should maintain an inventory of all information assets and identify the information owner who shall be responsible in ensuring confidentiality, integrity and protection of these assets. Management should implement an information classification strategy in accordance with the degree of sensitivity and criticality of information assets to the BSI. To ensure consistent protection of information and other critical data throughout the system, the BSI should develop guidelines and definitions for each classification and define an appropriate set of controls and procedures for information protection in accordance with the classification scheme.

Protection of information confidentiality should be in place regardless of the media¹ (including paper and electronic media) in which the information is maintained. The BSI should ensure that all media are adequately protected, and establish secure processes for disposal and destruction of sensitive information in both paper and electronic media.

3.2.2. Physical and Environmental Protection. Physical security measures should be in place to protect computer facilities and equipment from damage or unauthorized access. Critical information processing facilities should be housed in secure areas such as data centers and network equipment rooms with appropriate security barriers and entry controls. Access to these areas should be restricted to authorized personnel only and the access rights should be reviewed and updated regularly. Buildings should give minimum indication of their purpose, with no obvious signs identifying the presence of information processing facilities.

The BSI should fully consider the environmental threats (e.g. proximity to dangerous factories) when selecting the locations of its data centers.

Moreover, physical and environmental controls should be implemented to monitor environmental conditions which could adversely affect the operation of information processing facilities (e.g. fire, explosives, smoke, temperature, water and dust). Equipment and facilities should be protected from power failures and electrical supply interference by, for example, installing uninterruptible power supply (UPS) and a backup generator.

3.2.3. Security Administration and Monitoring. A security administration function and a set of formal procedures should be established for administering the allocation of access rights to system resources² and application systems, and monitoring the use of system resources to detect any unusual or unauthorized activities.

Proper segregation of duties within the security administration function or other compensating controls (e.g. peer reviews) should be in place to mitigate the risk of unauthorized activities being performed by the security administration function. In

¹ **Media** are physical objects that store data, such as paper, hard disk drives and compact disks.
² **System resources** are capabilities that can be accessed by a user or program either on the user’s machine or across the network. Capabilities can be services, such as file or print services, or devices, such as routers.

those cases where complete segregation of duties is impractical, management should use mitigating controls, such as ensuring a knowledgeable third-party conducts appropriate independent reviews of security administration activities. In smaller institutions, a manager or senior officer who is not involved in the security administration function may conduct this independent review.

Management should employ the “least privilege” principle throughout IT operations. The principle provides that individuals should only have privileges on systems and access to functions that are required to perform their job function and assigned tasks. Individuals with systems and security administrator roles and privileges should have minimal transactional authority. Independent employees should monitor the system and security administrator activity logs for unauthorized activity. Management at smaller institutions should establish compensating controls in these circumstances.

3.2.4. Authentication¹ and Access Control. Access rights and system privileges must be based on job responsibility and the necessity to have them to fulfill one’s duties. No person by virtue of rank or position should have any intrinsic right to access confidential data, applications, system resources or facilities. Only employees with proper authorization² should be allowed to access confidential information and use system resources solely for legitimate purposes.

The BSI should have an effective process to manage user authentication and access control. Appropriate user authentication mechanism commensurate with the classification of information to be accessed should be selected. The grant, modification and removal of user access rights should be approved by the information owner prior to implementation. A user access

re-certification process should be conducted periodically to ensure that user access rights remain appropriate and obsolete user accounts have been removed from the systems.

Users who can access internal systems should be required to sign an acceptable-use policy (AUP) before using a system. An AUP is a key control for user awareness and administrative policing of system activities which details the permitted system uses and user activities and the consequences of non-compliance.

The BSI should implement effective password rules to ensure that easy-to-guess passwords are avoided and passwords are changed on a periodic basis. Stronger authentication methods should be adopted for transactions/activities of higher risk (e.g. payment transactions, financial messages and mobile computing).

Default user accounts to new software and hardware should either be disabled, or the authentication to the account should be changed. Additionally, access to these default accounts should be monitored more closely than other accounts. In the same manner, authorization for privileged access should be tightly controlled as it gives the user the ability to override system or application controls. Extra care should be exercised when controlling the use of and access to privileged and emergency IDs. The necessary control procedures include:

- a. Granting of authorities that are strictly necessary to privileged and emergency IDs;
- b. Formal approval by appropriate personnel prior to being released for usage;
- c. Monitoring of activities performed by privileged and emergency IDs (e.g. peer reviews of activity logs);
- d. Proper safeguard of privileged and emergency IDs and passwords (e.g. kept in a sealed envelope and locked up inside the data center); and

¹ **Authentication** involves verification of identity by a system based on the presentation of unique credentials to that system

² **Authorization** is the process of giving access to parts of a system, typically based on the business needs and the role of the individual within the system

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e. Change of privileged and emergency IDs' passwords immediately upon return by the requesters.

3.2.5. **System Security.** The following control procedures and baseline security requirements should be developed to safeguard operating systems, system software and databases¹, among others:

a. Clear definition of a set of access privilege for different groups of users and access to data and programs is controlled by appropriate methods of identification and authentication of users together with proper authorization;

b. Secure configuration of operating systems, system software, databases and servers to meet the intended uses with all unnecessary services and programs disabled or removed. Use of security tools should be considered to strengthen the security of critical systems and servers;

c. Periodic checking of the integrity of static data (e.g. system parameters) to detect unauthorized changes;

d. Clear establishment of responsibilities to ensure that the necessary patches and security updates developed from time to time by relevant vendors are identified, assessed, tested and applied to the systems in a timely manner;

e. Adequate documentation of all configurations and settings of operating systems, system software, databases and servers; and

f. Adequate logging and monitoring of system and user activities to detect irregularities and logs are securely protected from manipulation.

3.2.6. **Network Security.** Networks provide system access and connectivity between business units, affiliates, service providers, business partners, customers, and the public. This increased connectivity requires additional controls to segregate and restrict access between various groups and

information users. The BSI must evaluate and implement appropriate controls relative to the complexity of its network. An effective approach to adequately secure system and data within the network involves the following, among others:

a. Grouping of network servers, applications, data, and users into security domains (e.g., untrusted external networks, external service providers, or various internal user systems);

b. Establishment of appropriate access requirements within and between each security domain;

c. Implementation of appropriate technological controls to meet access requirements consistently; and

d. Monitoring of cross-domain access for security policy violations and anomalous activity.

The BSI should consider the following factors in determining the network security controls appropriate to the institution and each of the security domain, among others:

a. Criticality of the application and the user group within the domain;

b. Access points to the domain through various communication channels;

c. Network protocols and ports used by the applications and network equipment deployed within the domain;

d. Performance requirement or benchmark;

e. Nature of domain (i.e. production or testing, internal or external);

f. Connectivity between/among various domains; and

g. Trustworthiness of the domain.

3.2.7. **Remote Access.** Controls over remote access are required to manage risk brought about by external connections to the BSI's network and computing resources. In protecting information, the BSI should establish control procedures covering:

a. Approval process on user requests;

¹ **Database** is an organized collection of information stored on one or more electronic files.

- b. Authentication controls for remote access to networks, host data and/or systems;
- c. Protection (e.g. against theft and malicious software) of equipment and devices;
- d. Logging and monitoring all remote access communications; and
- e. Provision of more stringent security controls (i.e. data encryption, two-factor authentication process).

3.2.8. **Encryption.** The BSI should adopt industry-accepted cryptographic solutions and implement sound key management practices to safeguard the associated cryptographic keys. Sound practices of key management generally include the following, among others:

- a. Provision of a secure control environment for generation, distribution, storage, entry, use and archiving of cryptographic keys to safeguard against modification and unauthorized disclosure. In particular, the use of tamper-resistant storage is recommended to prevent the disclosure of the cryptographic keys; and
- b. Adequate off-site back-up and contingency arrangements for cryptographic keys which are subject to the same security controls as the production cryptographic keys.

3.2.9. **Malicious Code¹ Prevention**
The BSI should provide protection against the risk of malicious code by implementing appropriate controls at the host and network level to prevent and detect malicious code, as well as engage in appropriate user education. Procedures and responsibilities should be established to detect, prevent, and recover from attacks. The BSI should put in place adequate controls, such as:

- a. Prohibiting the download and use of unauthorized files and software, and access to doubtful web sites;
- b. Installation and timely update of anti-virus software² provided by reputable vendors;
- c. Disallowing the download of executable files and mobile codes, especially those with known vulnerabilities (e.g. through the use of corporate firewalls³ and proper configuration of the browser software); and
- d. Prompt and regular virus scanning of all computing devices and mobile users' computers, and procedures for recovering from virus infections.

3.2.10. **Personnel Security.** The BSI should have a process to verify job application information on all new employees. Screening procedures, including verification and background checks, should be developed for recruitment of permanent and temporary IT staff, and contractors, particularly for sensitive IT-related jobs or access level.

Management should obtain signed confidentiality, non-disclosure and authorized use agreements before granting new employees and contractors access to IT systems. Such agreements put all parties on notice that the BSI owns its information, expects strict confidentiality, and prohibits information sharing outside legitimate business needs.

All employees of the organization and, where relevant, contractors and third-party users, shall receive appropriate IS awareness training and regular updates in organizational policies and procedures relevant to their job function. Security training and awareness promotes a security

¹ **Malicious code** refers to any code in any part of a software or script that is intended to cause undesired effects, security breaches or damage to a system. It describes a broad category of system security terms that includes attack scripts, viruses, worms, Trojan horses, backdoors and malicious active content.

² **Antivirus software** is a computer program that offers protection from viruses by making additional checks of the integrity of the operating system and electronic files. Also known as virus protection software.

³ **Firewall** is a hardware and/or software that prevents unauthorized data from entering or leaving a secure network. Firewalls can also be used to isolate or protect a particular segment of a network.

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conscious environment and strengthens compliance with BSI's security policies, standards, and procedures.

3.2.11. **Systems Development, Acquisition and Maintenance.** A framework should be in place describing the tasks and processes for development or acquisition of new systems, assignment and delineation of responsibilities and accountabilities for system deliverables and project milestones. User functional requirements, systems design and technical specifications and service performance expectations should be adequately documented and approved at appropriate management levels.

The BSI's development, acquisition, and audit policies should include guidelines describing the involvement of internal audit and information security personnel in the development or acquisition activities as a means of independently verifying the adequacy of the control and security requirements as they are developed and implemented.

Besides business functionalities, security requirements relating to system access control, authentication, transaction authorization, data integrity, system activity logging, audit trail, security event tracking and exception handling should be clearly specified. The information and/or process owners should conform to the security requirements for each new system or system acquisition, accept tests against the requirements, and approve implementation of systems in the production environment.

The BSI should have an effective process to introduce application and system changes into its respective environments. The process should encompass development, implementation, and testing of changes to both internally developed software and acquired software. Weak procedures can corrupt applications and introduce new security vulnerabilities.

3.2.12. **Insurance.** While insurance coverage is an effective method to transfer risks from the BSI to insurance carriers, the same is not a substitute for an effective IS program. When considering supplemental insurance coverage for security incidents, the BSI should assess the specific threats in light of the impact these incidents will have on its financial, operational, and reputation risk profiles. The BSI should carefully evaluate the extent and availability of coverage in relation to the specific risks they are seeking to mitigate. In case the BSI contracts for additional coverage, it should ensure that it is aware of and prepared to comply with any required security controls both at inception of the coverage and over the term of the policy.

3.3. Security Process Monitoring and Updating

3.3.1. **Activity Monitoring.** The BSI should gain assurance of the adequacy of its risk mitigation strategy and implementation by monitoring network and host activity to identify policy violations and anomalous behavior. The BSI's security monitoring should, commensurate with the risk, be able to identify control failures before a security incident occurs, detect an intrusion or other security incident in sufficient time to enable an effective and timely response, and support post-event forensics activities.

The analysis and response to activity and condition monitoring is performed differently at BSIs of different IT risk profile. A simple BSI may assign operational personnel to the analysis and response function while a complex BSI may maintain a security response center that receives and analyzes the data flows as activity occurs. Additionally, BSIs, regardless of IT risk profile, may outsource various aspects of the analysis and response function, such as activity monitoring. Outsourcing does not

relieve the BSI of the responsibility for ensuring that control failures are identified before a security incident occurs, an intrusion or other security incident is detected in sufficient time to enable an effective and timely response, and post event forensics activities are supported.

3.3.2. **IS Incident Management.** The BSI should establish incident response and reporting procedures to handle IS-related incidents. All employees, contractors and third party users shall be required to note and report any observed or suspected security weaknesses in systems. An effective incident response program includes the following components, among others:

- a. A mechanism to log, monitor and quantify the nature, criticality and estimated cost of IS incidents;
- b. Assessment of the nature and scope of the incident and identification of what information has been accessed or misused;
- c. Measures to contain and control the incident to prevent further unauthorized access to or misuse of information, while preserving records and other evidence;
- d. Prompt notification to Bangko Sentral of any confirmed IT-related fraud cases or major security breaches, consistent with existing regulations;
- e. Notification to appropriate law enforcement authorities in situations involving criminal violations requiring immediate attention; and
- f. Notification to customers when warranted.

Log files are critical to the successful investigation and prosecution of security incidents and can potentially contain sensitive information. Therefore, the BSI should strictly control and monitor access to log files whether on the host or in a centralized logging facility.

Where a follow-up action against a person or organization after an IS incident involves legal action, evidence shall be

collected, retained, and presented to conform to the rules for evidence laid down in the relevant jurisdiction.

3.3.3. **Ongoing risk assessment.** The BSI should continuously gather and analyze information regarding new threats and vulnerabilities, actual attacks on the institution or others, and the effectiveness of the existing security controls. It should evaluate the information gathered to determine the extent of any required adjustments to the various components of the IS program. Depending on the nature of changing environment, the BSI needs to reassess the risk and make changes to its security process (e.g. security strategy, controls implementation or security monitoring requirements).

The BSI should adjust its IS program to reflect the results of ongoing risk assessment and the key controls necessary to safeguard customer information and ensure the proper disposal of customer information. It should adjust the program to take into account changes in IT, sensitivity of its customer information, internal or external threats, and the BSI’s own changing business arrangements such as mergers, acquisitions, alliances and joint ventures, outsourcing arrangements, and changes in customer information systems.

4. ROLES OF IT AUDIT AND SECURITY SPECIALISTS

4.1. **Audit and Compliance Reviews.** IT auditors are usually charged to assess, on a regular basis, the effectiveness of a BSI’s IS security program. To fulfill this task, they must have an understanding of the protection schemes, the security framework and the related issues, including compliance with applicable laws and regulations.

The BSI should engage independent security specialists to assess the strengths

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and weaknesses of critical applications, systems and networks prior to initial implementation.

For BSIs providing electronic and similar services, annual vulnerability assessment¹ and penetration testing² should be

performed by an external party to provide early identification of threats and vulnerabilities so that appropriate security measures can immediately be implemented.

(Circular No. 808 dated 22 August 2013)

¹ **Vulnerability assessment** (also known as vulnerability analysis) is a process that defines, identifies, and classifies the security flaws (vulnerabilities) in a computer, network, or communications infrastructure. In addition, vulnerability assessment can forecast the effectiveness of proposed countermeasures and evaluate their actual effectiveness after they are put into use.

² **Penetration test** is the process of using approved, qualified personnel to conduct real-world attacks against a system so as to identify and correct security weaknesses before they are discovered and exploited by others.

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: Project Management/Development, Acquisition and Change Management
[Appendix to Subsecs. X177.2 and X177.7]

1. INTRODUCTION

1.1. Because technology is constantly evolving, Management of BSIs should periodically assess their uses of IT as part of overall business planning. Such an enterprise-wide and ongoing approach should be formalized in the IT strategic plan to help ensure that all major IT projects are consistent with its overall strategic goals.

1.2. As part of their strategic goals, BSIs may need to constantly introduce new or enhanced products and services, improve systems and processes and implement updates and innovations in IT to secure and manage voluminous information and maintain their competitive position. This necessity may oftentimes result to initiating IT projects¹; which may be in the form of internal or external development of software applications or systems, acquisition and/or implementation of new or enhanced hardware, software, infrastructure or services with or without the help of third party providers.

1.3. IT projects, when managed improperly, often result in late deliveries, cost overruns, or poor quality applications. Inferior applications can result in underused, unsecure, or unreliable systems. Retrofitting functional, security, or automated-control² features into applications is expensive, time consuming, and often results in less effective features. Therefore, BSIs should carefully manage IT-related projects to ensure they meet organizational needs on time and within budget.

2. ROLES AND RESPONSIBILITIES

2.1. The size and complexity of a project dictates the required number and

qualifications of project personnel. Duties may overlap in smaller organizations or lower-risk projects; however, all projects should include appropriate segregation of duties or compensating controls.

2.2. **Board of Directors (Board) and Senior Management.** The BSI's Board and senior management should review, approve, and monitor IT projects that may have significant impact on its operations, earnings or capital. They are responsible to ensure that IT projects support business objectives and adequate resources are available to complete these projects. Consequently, they should establish adequate policies and strategies to achieve these and ensure that risks related to IT projects are managed appropriately.

Senior management is expected to have more knowledge and involvement in the day-to-day operations of these IT projects to critically evaluate the design and oversee the related operation and activities. They should ensure that IT projects are coordinated and undertaken in adherence to appropriate policies, standards, and risk management controls. They should periodically inform the Board and/or IT Steering Committee of the IT initiatives and the related risks that these may pose to the BSI. They should also review, approve, document and report deviations from established policies and standards.

2.3. **Quality Assurance.** An independent party (e.g. the quality assurance function, the TRM function or the technology audit team), who is not involved in the project development, should conduct a quality assurance review of major IT-related

¹ An **IT project** is a task involving the acquisition, development or maintenance of a technology product.
² **Automated controls** are software routines designed into programs to ensure the validity, accuracy, completeness and availability of input, processed and stored data.

projects, with the assistance of the legal and compliance functions, if necessary. This review is to ensure compliance with the project life cycle¹ methodology, other internal policies, control requirements, regulations and applicable laws.

3. PROJECT MANAGEMENT STANDARDS AND METHODOLOGY

3.1. **Project Management.** The BSI should establish a general framework for management of major technology-related projects. This framework should, among other things, specify the project management methodology to be adopted and applied to these projects. The methodology should cover, at a minimum, allocation of responsibilities, activity breakdown, budgeting of time and resources, milestones, check points, key dependencies, quality assurance, risk assessment and approvals.

A BSI that needs to coordinate multiple IT projects should establish standards for coordinating and managing the projects from an enterprise-wide perspective. The standards should, at a minimum, include guidelines for project prioritization, resource coordination and progress reporting.

3.2. **Project Methodology.** The BSI should adopt and implement a full project life cycle methodology governing the process of developing, implementing and maintaining major computer systems. In general, this should involve phases of project initiation, feasibility study, requirement definition, system design, program development, system and acceptance testing, training, implementation, operation and maintenance.

The project life cycle methodology should define clearly the roles and responsibilities for the project team and the deliverables² from each phase. It also needs to contain a process to ensure that

appropriate security requirements are identified when formulating business requirements, built during program development, tested and implemented.

4. PROJECT PLANNING AND INITIATION

4.1. A formal project committee, to ensure the development of well-structured applications, should be established with clear details of its terms and reference. The committee should at least consist of the following representatives:

- a. Senior management, to provide strategic direction and ensure full commitment;
- b. User departments, to ensure that the application design meets their requirements;
- c. Internal audit department, to act as in independent party to ensure adequate controls are diligently applied at all times. However, internal audit participation should only be on an advisory capacity; and
- d. IT department, to provide technical knowledge and skills.

4.2. A feasibility study should be performed to identify the expected costs and benefits of developing a system, and also to decide either to utilize internal resources or to outsource to a vendor. In case of outsourcing, the responsibility of the senior management does not diminish in ensuring that a well-designed application is developed. The senior management maintains the responsibility for ensuring that minimum controls are in place and are in accordance with the BSI's standards.

4.3. When management proposes a new hardware, software or IT solution and/or changes to existing ones, it should ensure that functional, operational and regulatory requirements are accurately identified and clearly detailed in request for proposals (RFP¹) or invitations-to-tender (ITT) that it distributes to vendors or third-party service providers (TSP) in the bid solicitation

¹ **Project life cycle** refers to a logical sequence of activities to accomplish a project's goals or objectives.
² **Deliverables** are project goals and expectations. They include broadly-defined, project or phase requirements and specifically-defined tasks within project phases.

process. Moreover, relevant security requirements should be clearly specified before a new system is developed or acquired. A review should also be conducted to ensure an appropriate balance between security and other objectives (ease-of-use, operational simplicity, ability to upgrade, acceptable cost, etc.) is achieved.

4.4. During the development and acquisition of new systems or other major IT projects, project plans should address issues such as – a) business requirements for resumption and recovery alternatives; b) information on back-up and storage; c) hardware and software requirements at recovery locations; d) BCP and documentation maintenance; e) disaster recovery testing; and f) staffing and facilities. Likewise, during maintenance, where there are changes to the operating environment, business continuity considerations should be included in the change control process and implementation phase.

4.5. Proper planning should be employed to ensure IT projects meet their objectives. Project control systems should be employed to monitor specific target completion dates for each task of systems development against original targets. Periodic reports to senior management such as, project priorities and status, resource allocations, target deviations and budgets, should be in place to measure project effectiveness.

5. SYSTEMS DEVELOPMENT

5.1. Development projects involve the creation of applications, integrated application systems and other critical softwares. Software development projects are completed in-house, through outsourcing, or by a combined approach. To manage this type of projects, the BSI should establish development standards that, at a minimum, address project management, system control, and quality

assurance issues. Project management standards should address issues such as project management methodologies, risk management procedures, and project approval authorities.

System control standards should address items such as an application’s functional, security, and automated control features. Quality assurance standards should address issues such as the validation of project assumptions, adherence to project standards, and testing of a product’s performance.

5.2. Development standards should also include procedures for managing internally developed spreadsheets and database reports. BSIs often rely on the spreadsheets and reports to make important budgeting and asset/liability decisions, but fail to implement adequate testing, documentation, and change-control procedures. Management’s reliance on the spreadsheets and reports should dictate the formality of their development procedures, change controls, and backup techniques.

5.3. Programming standards should be designed to address issues such as the selection of programming languages and tools, the layout or format of scripted code, interoperability between systems, and the naming conventions of code routines and program libraries. These will enhance the BSI’s ability to decrease coding defects and increase the security, reliability, and maintainability of application programs.

6. SYSTEM ACQUISITION

6.1. Software package acquisition is an alternative to in-house systems development and should be subject to broadly similar controls as the project life cycle. A proper software selection analysis should be conducted to ensure that user and business requirements are met. In particular, the process should involve detailed evaluation of the software package and its supplier (e.g.

¹ RFP is a document that a BSI sends to a vendor inviting the vendor to submit a bid for hardware, software, services, or any combination of the three. An institution typically issues the RFP in order to assess competing bids.

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its financial condition, reputation and technical capabilities). If financial stability is in doubt, alternatives should be developed to reduce the adverse impact from loss of a vendor's service.

6.2. The contract agreement between the BSI and vendor should be legally binding. The BSI should ensure all contract agreements outline all expected service levels and are properly executed to protect its interest. It is also important to ensure that vendor technicians and third-party consultants are subjected to at least, or preferably more stringent policies and controls compared to the in-house staff. In the case where contract personnel are employed, written contracts should also be in effect.

6.3. To optimize use of acquired software and limit or minimize risks from unauthorized or obsolete software, guidelines and procedures on installation, use, maintenance and retirement should be formally defined. Installation should be controlled to minimize risks from unauthorized software (such as loss of data, reduced productivity and unnecessary consumption of network bandwidth). Licenses should also be adequately reviewed, safe kept and monitored to ensure proper usage and adherence to terms and conditions. As changes in the industry and updates to the computing environment occur, software retirement should also be defined in the guidelines to provide when and how acquired software will be removed from or upgraded in the BSI's existing portfolio.

(Circular No. 833 dated 28 May 2014)

7. CHANGE MANAGEMENT

7.1. Change management is the process of planning, scheduling, applying, distributing and tracking changes to application systems, system software (e.g. operating systems and utilities), hardware, network systems, and other IT facilities and

equipment. The change management procedures should be formalized, enforced and adequately documented. Authorization and approval are required for all changes and the personnel responsible for program migration should be identified. For the purpose of accountability, proper sign-off should be adequately implemented where formal acknowledgement is obtained from all related parties.

7.2. An effective change management process helps to ensure the integrity and reliability of the production environment. To ensure IT-related modifications are appropriately authorized, tested, documented, implemented and disseminated, the change manage process should include the following:

- a. Classification and prioritization of changes and determination of the impact of changes;
- b. Roles and responsibilities of each relevant party, including IT functions and end-user departments, with adequate segregation of duties. This is to ensure that no single person can effect changes to the production environment without the review and approval of other authorized personnel;
- c. Program version controls and audit trails;
- d. Scheduling, tracking, monitoring and implementation of changes to minimize business disruption;
- e. Process for rolling-back changes to re-instate the original programs, system configuration or data in the event of production release problems; and
- f. Post implementation verification of the changes made (e.g. by checking the versions of major amendments).

7.3. Requested changes should be screened before acceptance to determine alternate methods of making the changes, the cost of changes and time requirements for programming activity. System analysts should assess the impact and validity of the proposed changes and all critical change requests should be set as priority.

7.4. The actual cause that led to the request for change should be identified and adequately documented. Formal reports on analysis for problems raised and status of change requests (including closed and outstanding) should be reported to senior management on a periodic basis.

7.5. Audit trail of all change requests should be maintained. Programmers' activities should be controlled and monitored, and all jobs assigned should also be closely monitored against target completion dates.

7.6. To enable unforeseen problems to be addressed in a timely and controlled manner, the BSI should establish formal procedures to manage emergency changes. Emergency changes should be approved by the information owner (for application system or production data-related changes) and other relevant parties at the time of change. If the change needs to be introduced as a matter of urgency and it is impracticable to seek the approval of the information owner, endorsement should be sought from the information owner after the implementation as soon as practicable (e.g. on the following business day).

7.7. Emergency changes should be logged and backed up (including the previous and changed program versions and data) so that recovery of previous program versions and data files is possible, if necessary. Emergency changes need to be reviewed by independent personnel to ensure that the changes are proper and do not have an undesirable impact on the production environment. They should be subsequently replaced by proper fixes through the normal acceptance testing and change management procedures.

7.8. Management should ensure that vendors permitted remote access to network resources are properly authorized. System logs showing activity on the system should be reviewed to ensure that unauthorized remote access has not taken

place. Management may institute time of day restrictions for remote access, to limit the duration of time a user can access the network remotely (e.g. only during business hours). Vendors utilizing dial in access should be verified through call back procedures and/or through the use of a modem that can be turned on when authorization has been granted by the system administrator.

7.9. Data patching could severely compromise the integrity of the database in production systems and should strictly be avoided. The BSI should adequately ensure the accuracy and reliability of its database and the integrity of its data. Good project management discipline requires validation of data input, data integrity testing, user sign-off, impact analysis and escalation of decision to senior management should be adopted to ensure accuracy and validity of data before live implementation.

8. SYSTEMS TESTING

8.1. A formal acceptance process should be established to ensure that only properly tested and approved systems are promoted to the production environment. System and user acceptance testing should be carried out in an environment separate from the production environment. Production data should not be used in development or acceptance testing unless the data has been desensitized (i.e. not disclosing personal or sensitive information) and prior approval from the information owner has been obtained. Performance testing should also be performed before newly developed systems are migrated to the production environment.

8.2. Sufficient testing is important to ensure that design and overall reliability of the application systems are in accordance with original specifications. Tests should be conducted using documented test plans that should encompass all predetermined data or

processing problems and business scenarios.

8.3. User acceptance testing should be performed in a separate environment. All related users are responsible to ensure that adequate test scenarios are formulated and sufficiently tested. Successful test activities should be formally confirmed and accepted by users, before the modified programs can be transferred to the production environment.

9. SYSTEMS MIGRATION

9.1 A secured library for program pending migration to the production environment should be established. The secured library or quarantine area for all amended programs should only be accessible by the personnel who performed the migration process and restricted from the application programmers. This is to mitigate the risk of programmers changing the modified programs after user acceptance testing, but prior to the program migration.

9.2. Source compare procedure should be in place to verify changes and to ensure no unauthorized changes have been made. Modified programs should be compared to the authorized change documents to determine that only approved specification changes were implemented.

9.3. Updates or a version control for all applications should be maintained. Old versions of source codes¹ should be archived as contingency measure, with a clear indication of the precise date, time and all necessary information while the latest version of the source codes and databases should be strictly protected. Version controls may also be implemented to ensure only authorized programs are migrated to quarantine and production environments.

10. SOURCE CODE CONVERSION AND MAINTENANCE

10.1. Conversion of source codes into object codes² should be adequately controlled in order to mitigate the risks of unauthorized changes and to ensure accurate and complete results. The conversion process should only be performed by designated personnel. In the case where the compiler programs or other systems development tools are used, it should be placed under restricted control and the access and execution rights are strictly monitored.

In cases where core applications are developed by vendors but the source codes were not released to the BSI, the institution’s interest should be protected in the form of a written agreement. The agreement, generally known as escrow agreement, should allow the BSI to access the source programs under conditions, such as, but not limited to, discontinued product support or financial insolvency by the vendor. A third-party entity should be appointed to retain these programs and documents in escrow. However, it is important for the BSI to periodically determine that the source code maintained in escrow is up-to-date. If the BSI decides not to go into a source code escrow agreement, appropriate controls or contingency plans should be established as necessary, to continue adequate operation of the business or process the acquired program is supporting in case it becomes problematic, obsolete, or ceases to function.

11. SYSTEMS DOCUMENTATION

11.1 All standards and procedures on systems development and documentation on user manuals should be formally

¹ **Source codes** are software program instructions written in format (language) readable by humans.
² **Object codes** are software program instructions compiled (translated) from source code into machine-readable formats.

established and properly maintained to ensure consistency of approach. Accessibility to these documents should be strictly confined only to those who are authorized to receive such information in order for them to effectively discharge their duties.

11.2 Management should identify the type and level of documentation personnel must produce during each project phase. Project documentation of major IT projects, especially development and acquisition, should include project requests, feasibility studies, project plans, testing plans, etc. System documentation, which focuses on system analysis and design, should include system concept narratives, data flow charts, and database specifications. Application documentation should include application descriptions, programming flowcharts, and operations and user instructions. The documentation should be revised as needed throughout the project life cycle.

11.3 Documentation standards should identify primary documentation custodians and detail document authoring, approving, and formatting requirements. Personnel should document all changes to system, application, and configuration documentation according to prescribed standards. Additionally, management should control access to documentation libraries with appropriate library and version controls.

11.4 All standards and documentation should be kept secured to prevent unauthorized access. The BSI should maintain a central storage (of either hardcopy or softcopy) of all standards and documentation onsite as well as in an offsite premise for contingency purposes. In the case where the application is developed by a vendor, management should ensure that adequate training and manuals are provided as part of the package, stated in writing

and clearly understood by all parties. The BSI should also ensure complete and updated system documentation is provided.

12. POST-IMPLEMENTATION REVIEW

12.1. A post implementation review should be conducted at the end of a project to validate the application’s operational performance, after it has begun to operate. The relative success of the project should be gauged by comparing planned and actual cost, benefits and completion time. If the planned objectives do not materialize, reasons should be reviewed and documented in a post implementation evaluation report that should be presented to senior management highlighting any operational or project management deficiencies noted.

12.2. The responsibilities for conducting post-implementation review can be assigned to the BSI’s IT audit function. In larger IT organizations, formal quality assurance or change management groups may have primary responsibility for post-implementation reviews. In such cases, the IT auditor may choose not to perform a separate review but instead to participate in establishing the test criteria and evaluating results of any other independent reviews.

13. DISPOSAL

13.1. The BSI may sometimes need to remove surplus or obsolete hardware, software, or data. Primary tasks include the transfer, archiving, or destruction of data records. Management should transfer data from production systems in a planned and controlled manner that includes appropriate backup and testing procedures. The BSI should maintain archived repository of data in accordance with applicable record retention requirements and system documentation to facilitate reinstallation of

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a system into production, when necessary. Management should destroy data by overwriting old information or degaussing (demagnetizing) disks and tapes.

14. ROLE OF AUDIT, INFORMATION SECURITY AND QUALITY ASSURANCE OFFICERS

14.1 Audit. The BSI’s auditors assist user departments, project managers, and system designers in identifying system control requirements and testing the controls during development and after implementation. Please refer to Item 6.1 of *Appendix 75a* for the detailed guidelines on audit’s participation in the development, acquisition, and maintenance of major systems.

14.2 Information Security. The BSI should ensure that systems are developed, acquired and maintained with appropriate security controls. To do this, management should ensure that – a) systems are

developed and implemented with necessary security features enabled and based on established security control requirements; b) software is trustworthy by implementing appropriate controls in the different project phases; and c) appropriate configuration management and change control processes exist, including an effective patch management process. Management should establish security control requirements based on their risk assessment process evaluating the value of the information at risk and the potential impact of unauthorized access, damage or other threats.

14.3 Quality Assurance. Independent quality assurance function is a critical part of well-managed IT projects. Comprehensive quality assurance, risk management, and testing standards provide the best means to manage project risks and ensure IT projects, especially software, include expected functionality, security, and operability, as applicable.

(Circular No. 808 dated 22 August 2013, as amended by Circular No. 833 dated 28 May 2014)

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: IT Operations
[Appendix to Subsecs. X177.2 and X177.7]

1. INTRODUCTION

1.1. The evolving role IT plays in supporting the business function has become increasingly complex. IT operations – traditionally housed in a computer data center with user connections through terminals – have become more dynamic and include distributed environments, integrated applications, telecommunication options, internet connectivity, and an array of IT operating platforms¹. With the advent of technology, even small BSIs have now become increasingly reliant on IT to achieve operational efficiency and deliver innovative products and services. Although some of these BSIs have developed their products and services in-house, many have relied on vendors and service providers to develop and operate these products and services.

1.2. The increasing dependency to IT of BSIs has consequently resulted to heightened risk exposures arising from their reliance on a variety of IT solutions and services and third-party relationships as well. It is also emphasized that risks involve more than IT and that controls include sound processes and well-trained people. To many BSIs, effective support and delivery from IT operations has become vital to the performance of most of their critical business lines. This necessitates the adoption of risk management processes that promote sound and controlled operation of IT environments to ensure that IT operations process and store information in a timely, reliable, secure, and resilient manner.

2. ROLES AND RESPONSIBILITIES

2.1. **Board of Directors (Board) and Senior Management.** The BSI’s Board and senior management are responsible for overseeing a safe, sound, controlled and efficient IT operating environment that supports the institution’s goals and objective. Although they can delegate implementation and oversight of daily operations to IT management, final responsibility for these activities remains with the Board and senior management. Consequently, the Board and senior management are responsible for understanding the risks associated with existing and planned IT operations, determining the risk tolerance of the BSI, and establishing and monitoring policies for risk management.

On the other hand, IT operations management is primarily responsible in ensuring the BSI’s current and planned infrastructure is sufficient to accomplish the strategic plans of senior management and the Board. To accomplish this objective, operations management should ensure the BSI has sufficient personnel (in knowledge, experience, and number), system capacity and availability, and storage capacity to achieve strategic objectives. Operations management should select or recommend IT solutions that can meet strategic requirements with reduced resources to control capital expenditures and operating costs.

¹ **IT operating platform** includes the underlying computer system on which application programs run. A platform consists of an operating system, the computer system’s coordinating program, which in turn is built on the instruction set for a processor or microprocessor, and the hardware that performs logic operations and manages data movement in the computer.

3. IT OPERATIONS STANDARDS

3.1. **Technology Inventory.** To effectively identify, assess, monitor, and manage the risks associated with IT operations, management should have a comprehensive understanding of the BSI's operations universe. Regardless of size, BSI management should perform and maintain an inventory of all its IT resources, recognize interdependencies of these systems and understand how these systems support the associated business lines. Management should ensure the inventory is updated on an on-going basis to reflect the BSI's IT environment at any point in time.

Appropriate documentation of infrastructure and data flow should be in place to facilitate risk identification, application of controls, and ongoing maintenance of information systems. At a minimum, said documentation should include among others, the following components:

a. Hardware - Inventory should be comprehensive to include BSI's owned assets and equipment owned by other parties but located within the environment. To the extent possible, hardware items should be marked with a unique identifier, such as a bar code, tamper-proof tag, or other label.

b. Software - There are at least three major categories of software the BSI should include in the software inventory: operating systems, application software, and back-office and environmental applications.

c. Network Components and Topology¹ - Network management should develop and maintain high-level topologies that depict

local area networks (LANs²), metropolitan area networks (MANs³) and wide area networks (WANs⁴). The topologies should have sufficient detail to facilitate network maintenance and troubleshooting, facilitate recovery in the event of a disruption and plan for expansion, reconfiguration, or addition of new technology.

d. Data Flow Diagram - Management should also develop data flow diagrams to supplement its understanding of information flow within and between network segments as well as across the BSI's perimeter to external parties. Data flow diagrams are also useful for identifying the volume and type of data stored on various media. In addition, the diagrams should identify and differentiate between data in electronic format, and in other media, such as hard copy or optical images.

e. Media - Descriptive information should identify the type, capacity, and location of the media. It should also identify the location, type, and classification (public, private, confidential, or other) of data stored on the media. Additionally, management should document source systems, data ownership, back up frequency and methodology (tape, remote disk, compact disc (CD), or other), and the location of back-up media if other than at the primary off-site storage facility.

3.2. **Risk Assessment.** Once inventory is complete, management should employ a variety of risk assessment techniques to identify threats and vulnerabilities to its IT operations, covering among others, the following:

¹ A **network** is a group of two or more computers that are linked together. For example, networks allow users at different branches or different workstations to access the Internet, send and receive email, and share printers, applications, and data. A **network topology** pictorially describes the arrangement or architecture of a network, including its workstations and connecting communication lines.

² A **LAN** is a network that connects workstations in a relatively small geographic area, such as a building. Computers connected in a LAN are usually connected by cables, but they can also be connected wirelessly.

³ A **MAN** is a network that usually spans a city or a large campus. A MAN usually interconnects a number of LANs using a high-capacity backbone technology, such as fiber-optical links, and provides up-link services to WAN and the internet.

⁴ A **WAN** is a network that connects other networks together. WANs are typically complicated networks covering broad areas (i.e., any network that links across metropolitan, regional, or national boundaries) and allowing many computers and other devices to communicate and share data.

- a. Internal and external risks;
- b. Risks associated with individual platforms, systems, or processes as well as those of a systemic nature; and
- c. The quality and quantity of controls.

The risk assessment process should be appropriate to the BSI’s IT risk profile. To the extent possible, the assessment process should quantify the probability of a threat or vulnerability and the financial consequences of such an event.

After the BSI identifies and analyzes the universe of risks, management should prioritize risk mitigation actions based on the probability of occurrence and the financial, reputational or legal impact to the institution. Management should prioritize the risk assessment results based on the business importance of the associated systems. The probability of occurrence and magnitude of impact provide the foundation for establishing or expanding controls for safe, sound, and efficient operations appropriate to the risk tolerance of the BSI.

3.3. Risk Mitigation & Control Implementation

3.3.1. Policies, Standards and Procedures. Board and management should enact policies, standards and procedures sufficient to address and mitigate the risk exposure of the BSI. The BSI should adopt minimum IT standards to establish measurable controls and requirements to achieve policy objectives. Procedures describe the processes used to meet the requirements of the BSI’s IT policies and standards. Management should develop written procedures for critical operations, which procedures should be updated and reviewed regularly. The scope of required procedures depends on the size, complexity and the variety of functions performed by the BSI’s IT operations.

3.3.2. Controls Implementation

3.3.2.1. Environmental Controls. IT equipment should have a continuous uninterruptible power supply (UPS¹). Management should configure the UPS to provide sufficient electricity within milliseconds to power equipment until there is an orderly shutdown or transition to the back-up generator. The back-up generator should generate sufficient power to meet the requirements of mission critical IT and environmental support systems. Similarly, IT operations centers should have independent telecommunication feeds from different vendors. Wiring configurations should support rapid switching from one provider to another without burdensome rerouting or rewiring.

Even small IT operations centers with modest IT equipment can contain a significant amount of computer cabling. Management should physically secure these cables to avoid accidental or malicious disconnection or severing. In addition, management should document wiring strategies and organize cables with labels or color codes to facilitate easy troubleshooting, repair, and upgrade.

Every operations center should have adequate heating, ventilation, and air conditioning (HVAC) systems in order for personnel and equipment to function properly. Organizations should plan their HVAC systems with the requirements of their IT systems in mind. Also, operations personnel should be familiar with written emergency procedures in the event of HVAC system disruption.

Water leaks can cause serious damage to computer equipment and cabling under raised floors. For this reason, operations centers should be equipped with water detectors under raised flooring to alert management of leaks that may not be readily

¹ UPS is a device that allows computer to keep running for at least a short time when the primary power source is lost. A UPS may also provide protection from power surges. A UPS contains a battery that “kicks in” when the device senses a loss of power from the primary source allowing the user time to save any data they are working on and to exit before the secondary power source (the battery) runs out. When power surges occur, a UPS intercepts the surge so that it doesn’t damage the computer.

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visible. Management should also consider installing floor drains to prevent water from collecting beneath raised floors or under valuable computer equipment.

A variety of strategies are available for fire suppression. Ideally, the fire suppression system should allow operators time to shut down computer equipment and cover it with waterproof covers before releasing the suppressant.

Lastly, Management should consider using video surveillance and recording equipment in all or parts of the facility to monitor activity and deter theft. Management should also use inventory labels, bar codes, and logging procedures to control the inventory of critical and valuable equipment.

3.3.2.2. **Preventive Maintenance.** All maintenance activities should follow a predetermined schedule. A record of all maintenance activities should be maintained to aid management in reviewing and monitoring employee and vendor performance. Management should schedule time and resources for preventive maintenance and coordinate such schedule with production. During scheduled maintenance, the computer operators should dismount all program and data files and work packs, leaving only the minimum software required for the specific maintenance task on the system. If this is impractical, management should review system activity logs to monitor access to programs or data during maintenance. Also, at least one computer operator should be present at all times when the service representative is in the computer room.

In case a vendor performs computer maintenance online, operators should be aware of the online maintenance schedule

so that it does not interfere with normal operations and processing. Operators and information security personnel should adhere to established security procedures to ensure they grant remote access only to authorized maintenance personnel at predetermined times to perform specific tasks.

Operators should maintain a written log of all hardware problems and downtime encountered between maintenance sessions. A periodic report on the nature and frequency of those problems is a necessary management tool, and can be valuable for vendor selection, equipment benchmarking, replacement decisions, or planning increased equipment capacity.

3.3.2.3. **Change Management¹ & Control.** Complex BSIs should have a change management policy that defines what constitutes a “change” and establishes minimum standards governing the change process. Simple BSIs may successfully operate with less formality, but should still have written change management policies and procedures.

All changes should flow through the oversight function, which may include appropriate representation from business lines, support areas, IT management, information security, and internal audit. In establishing a framework for managing change, a policy should be present describing minimum standards and including such factors as notification, oversight, and control. Control standards should address risk, testing, authorization and approval, timing of implementation, post installation validation, and back-out or recovery.

3.3.2.4. **Patch Management²**
Management should establish procedures

¹ **Change management** refers to the broad processes for managing organizational change. Change management encompasses planning, oversight or governance, project management, testing and implementation.

² A **patch** is a piece of software designed to fix problems with, or update a computer program or its supporting data. This includes fixing security vulnerabilities and other bugs, and improving the usability or performance. Though meant to fix problems, poorly designed patches can sometimes introduce new problems. In some special cases, updates may knowingly break the functionality, for instance, by removing components for that the update provider is no longer licensed. **Patch Management** is the process of using a strategy and plan of what patches should be applied to which systems at a specified time.

to stay abreast of patches, to test them in a segregated environment, and to install them when appropriate. Change management procedures should require documentation of any patch installations. Management should develop a process for managing version control of operating and application software to ensure implementation of the latest releases. Management should also maintain a record of the versions in place and should regularly monitor the Internet and other resources for bulletins about product enhancements, security issues, patches or upgrades, or other problems with the current versions of the software.

3.3.2.5. **Conversions.** Conversions involve major changes to existing systems or applications, or the introduction of systems or data sets which may span multiple platforms. Consequently, they have a higher level of risk requiring additional, specialized controls. Conversions, if improperly handled, may result to corrupt data; hence, strong conversion policies, procedures, and controls are critical. Likewise, since the ramifications of conversion span IT operations, it is important for management to periodically re-evaluate all operations processes and consider the appropriateness of process re-engineering.

3.3.2.6. **Network Management Controls.** Network standards, design, diagrams and operating procedures should be formally documented, kept updated, communicated to all relevant network staff and reviewed periodically. Communications facilities that are critical to continuity of network services should be identified. Single points of failure should be minimized by automatic re-routing of communications through alternate routes should critical nodes or links fail.

The network should be monitored on a continuous basis to reduce the likelihood of network traffic overload and detect

network intrusions. Powerful network analysis and monitoring tools, such as protocol analyzers, network scanning and sniffer tools, are normally used for monitoring network performance and detecting potential or actual intrusions. These powerful network tools should be protected from unauthorized usage (e.g. viewing of unencrypted sensitive information). The use of network tools should also be tightly restricted to authorized staff only and be subject to stringent approval and review procedures.

3.3.2.7. **Disposal of Media.** Management should have procedures for the destruction and disposal of media containing sensitive information. These procedures should be risk-based relative to the sensitivity of the information and the type of media used to store the information. Furthermore, disposal procedures should recognize that records stored on electronic media, including tapes, and disk drives present unique disposal problems in that residual data can remain on the media after erasure. Since data can be recovered, additional disposal techniques should be applied to remove sensitive information.

3.3.2.8. **Imaging.** Management should ensure there are adequate controls to protect imaging processes, as many of the traditional audit and controls for paper-based systems may be reduced. Management should also consider issues such as converting existing paper storage files, integration of the imaging system into the organization workflow, and business continuity planning needs to achieve and maintain business objectives.

3.3.2.9. **Event/Problem Management** Management should ensure appropriate controls are in place to identify, log, track, analyze, and resolve problems that occur during day-to-day IT operations. The event/problem management process should be communicated and readily available to all IT operations personnel. Management

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should ensure it trains all operations personnel to act appropriately during significant events. Employees should also receive training to understand event response escalation procedures.

Operations personnel should be properly trained to recognize events that could trigger implementation of the business continuity plan. Although an event may not initially invoke the plan, it may become necessary as conditions and circumstances change. Management should train and test BSI personnel to implement and perform appropriate business continuity procedures within the timeframes of the BCP. Operations personnel should properly log and record any events that trigger BCP response and document their ultimate resolutions.

3.3.2.10. User Support/Help Desk
User support processes and activities should ensure end users continuously have the resources and services needed to perform their job functions in an efficient and effective manner. In complex BSIs, the help desk function provides user support, which typically consists of dedicated staff trained in problem resolution, equipped with issue tracking software, and supported with knowledge-based systems that serve as a reference resource to common problems. In simple BSIs, user support may consist of a single person, a very small group, or a contract with a support vendor.

The help desk should record and track incoming problem reports, whether handled by live operators or automated systems.

Documentation in the tracking system should include such data as user, problem description, affected system (platform, application, or other), prioritization code, current status toward resolution, party responsible for resolution, root cause (when identified), target resolution time, and a comment field for recording user contacts and other pertinent information. The help desk should evaluate and prioritize issues

to ensure the most critical problems receive prompt attention.

Help desk functions may also be supported by knowledge based-systems that provide support staff with action responses to common problems. Strong support functions continually update the knowledge based-systems with information obtained from vendors and from the experiences of help desk staff. Because attrition rates in the help desk function can be high, a knowledge based-system can ensure the BSI retains knowledge and facilitates the training and development of new employees.

Proper authentication of users is critical to risk management within the user support function. If the help desk uses a single authentication standard for all requests, it should be sufficiently rigorous to cover the highest risk scenarios. However, the BSI may choose to use different levels of authentication depending upon the problem reported, the type of action requested, or the platform, system, or data involved. If the help desk function is outsourced, management should determine the service provider’s information access level, assign the functions it will perform, and ensure that security and confidentiality remain in place.

3.3.2.11. Scheduling. The BSI should implement policies and procedures for creating and changing job schedules and should supplement them with automated tools when cost effective. Sound scheduling practices and controls prevent degraded processing performance that can affect response time, cause delays in completing tasks, and skew capacity planning. Automated scheduling tools are necessary for large, complex systems to support effective job processing. Smaller and less complex IT systems generally have a standard job stream with little need for change.

3.3.2.12. Systems and Data Back-up
The BSI should ensure that sufficient number of backup copies of essential

business information, software and related hardcopy documentations are available for restoration or critical operations. A copy of these information, documentation and software should also be stored in an off-site premise or backup site and any changes should be done periodically and reflected in all copies.

The BSI should back-up and store its data and program files in a secure off-site location to allow restoration of systems, applications, and associated data in the event normal processing is disrupted by a disaster or other significant event. A full system backup should be periodically conducted and should at least consist of the updated version of the operating software, production programs, system utilities and all master and transaction files. The frequency of backup should depend on its criticality, but should be performed after critical modification or updates. Management should implement a storage solution that is manageable from an administrative perspective and usable and accessible from the customer and end-user perspectives to enable them to receive current, complete and accurate data. Storage solutions should be appropriately scalable to allow for future growth.

Written standards should document back-up methodologies, delineate responsibilities of appropriate personnel, and ensure uniform performance throughout the institution. Management should maintain inventories of back-up media stored off-site and periodically perform physical inventories to ensure all required back-up materials are available. Procedures should include verifying adherence to the back-up schedule and reviewing actual back-up copies for readability. Similarly, management should periodically test back-up copies by actually using them to restore programs and data.

All backup media should be properly labeled using standard naming conventions.

Management should develop a rotation scheme that addresses varying storage durations as well as transportation and storage of multiple formats of media at the off-site storage location. Transportation to the backup site should be done in controlled and secured manner with proper authorization and record. Procedures for disposal of backup media should also be in place.

3.3.2.13. **Systems Reliability, Availability and Recoverability.**

a. **System Availability.** BSIs should achieve high systems availability (or near zero system downtime) for critical systems which is associated with maintaining adequate capacity, reliable performance, fast response time, scalability and swift recovery capability. Built-in redundancies for single points of failure should be developed and contingency plans should be tested so that business and operating disruptions can be minimized.

b. **Technology Recovery Plan.** Business resumption very often relies on the recovery of IT resources that include applications, hardware equipment and network infrastructure as well as electronic records. The technology requirements that are needed during recovery for individual business and support functions should be specified when the recovery strategies for the functions are determined.

Appropriate personnel should be assigned with the responsibility for technology recovery. Alternate personnel needs to be identified for key technology recovery personnel in case of their unavailability to perform the recovery process.

As unavailability of systems may result to disruptive impact on its operations, the BSI should develop an IT disaster recovery plan to ensure that critical application systems and technology services can be resumed in accordance with the business recovery requirements. In formulating an

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effective recovery plan, scenario analysis should be included to identify and address various types of contingency scenarios. Scenarios such as major system outages which may be caused by system faults, hardware malfunction, operating errors or security incidents as well as a total inaccessibility of the primary data centre should be considered. To strengthen recovery measures relating to large scale disruptions and to achieve risk diversification, rapid operational and backup capabilities at the individual system or application cluster level should be implemented. Recovery and business resumption priorities must be defined accordingly. Specific recovery objectives including recovery time objective¹ (RTO) and recovery point objective² (RPO) should be established for systems and applications.

c. **Alternate sites for technology recovery.** The BSI should make arrangements for alternate and recovery sites³ for their business functions and technology in the event the business premises, key infrastructure and systems supporting critical business functions become unavailable. A recovery site geographically separate from the primary site must be established to enable the restoration of critical systems and resumption of business operations should a disruption occur at the primary site. The required speed of recovery will depend on the criticality of resuming business operations, the type of services and whether there are alternative ways and processing means to maintain adequate continuing service levels to satisfy customers. Recovery strategies and technologies such as on-site redundancy and real-time data replication could be explored to enhance the BSI’s recovery capability.

The recovery site could either be an in-house backup premise that has a redundant hardware system located away from the computer center, or a third-party recovery facility provider that requires formal subscription to its service, or a combination of both solutions. The recovery facility should be at a distance that would protect it from damage from any incident occurring at the primary site. Ideally, it should be on different electrical power and telecommunication switches, and free from the same disaster. The BSI should ensure that the IT systems at the recovery sites are:

a. Compatible with the BSI’s primary systems (in terms of capacity and capability) to adequately support the critical business functions; and

b. Continuously updated with current version of systems and application software to reflect any changes to the BSI’s system configurations (e.g. hardware or software upgrades or modifications).

In case where a third-party recovery facility is used, there should be a written contract agreement that is legally binding. The agreement should specifically identify the conditions under which the recovery facility may be used and specify how customers would be accommodated if simultaneous disaster conditions occur to several customers of the recovery facility provider. The recovery facility should allow the BSI to use its services until it achieves a full recovery from the disaster and resumption of activity at the BSI’s own facility.

The BSI which outsources critical systems to offshore service providers is heavily dependent on the stability and availability of cross-border network links. To minimize impact to business operations in the event of a disruption (e.g. due to earthquake), cross-border network

¹ **RTO** refers to the required time taken to recover an IT system from the point of disruption.
² **RPO** refers to the acceptable amount of data loss for an IT system should a disaster occur.
³ **Recovery site** is an alternate location for processing information (and possibly conducting business) in an emergency.

redundancy with strategies such as engagement of different network service providers and alternate network paths may be instituted.

d. **Disaster Recovery Testing.** The BSI should always adopt pre-determined recovery actions that have been tested and endorsed by management. The effectiveness of recovery requirements and the ability of BSI’s personnel in executing or following the necessary emergency and recovery procedures should be tested and validated at least annually.

Various scenarios which include total shutdown or inaccessibility of the primary data center, as well as component failure at the individual system or application cluster level should be included in disaster recovery tests. Inter-dependencies between and among critical systems should be included in the tests. BSIs whose networks and systems are linked to specific service providers and vendors, should consider conducting bilateral or multilateral recovery testing.

Business users should be involved in the design and execution of comprehensive test cases so as to obtain assurance that recovered systems function accordingly. The BSI should also participate in disaster recovery tests of systems hosted overseas. Periodic testing and validation of the recovery capability of backup media should be carried out and assessed for adequacy and effectiveness. Backup tapes and disks containing sensitive data should be encrypted before they are transported offsite for storage.

3.4. Risk Monitoring

3.4.1. Service Level Agreement (SLA)

BSI Management of IT functions should formulate an SLA with business units which will measure the effectiveness and efficiency of delivering IT services. Measurable performance factors include system availability and performance requirements,

capacity for growth, and the level of support provided to users, resource usage, operations problems, capacity, response time, personnel activity, as well as business unit and external customer satisfaction. Adequate procedures should be in place to manage and monitor delivery of committed services.

3.4.2. **Control Self-Assessments¹ (CSAs).** The BSI may consider the conduct of periodic CSAs to validate the adequacy and effectiveness of the IT control environment. They also facilitate early identification to allow management to gauge performance, as well as the criticality of systems and emerging risks. Depending on the complexity of the BSI’s IT risk profile, the content and format of the CSAs may be standardized and comprehensive or highly customized, focusing on a specific process, system, or functional area. IT operations management may collaborate with the internal audit function in creating the templates used. Typically, the CSA form combines narrative responses with a checklist. The self-assessment form should identify the system, process, or functional area reviewed, and the person(s) completing and reviewing the form. CSA’s however, are not a substitute for a sound internal audit program. Management should base the frequency of CSA the risk assessment process and coordinate the same with the internal audit plan.

3.4.3. **Performance Monitoring.** The BSI should implement a process to ensure that the performance of IT systems is continuously monitored and exceptions are reported in a timely and comprehensive manner. The performance monitoring process should include forecasting capability to enable problems to be identified and corrected before they affect system performance. Monitoring and reporting also support proactive systems management that can help the BSI position

¹ CSA is a technique used to assess risk and control strength and weaknesses against a control framework.

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itself to meet its current needs and plan for periods of growth, mergers, or expansion of products and services.

BSI Management should also conduct performance monitoring for outsourced IT solutions as part of a comprehensive vendor management program. Reports from service providers should include performance metrics, and identify the root causes of problems. Where service providers are subject to SLAs, management should ensure the provider complies with identified action plans, remuneration, or performance penalties.

3.4.4. **Capacity Planning.** Management should monitor IT resources for capacity planning including platform processing speed, core storage for each platform’s central processing unit, data storage, and voice and data communication bandwidth¹. Capacity planning should be closely integrated with the budgeting and strategic

planning processes. It also should address personnel issues including staff size, appropriate training, and staff succession plans. This process should help the preparation of workload forecasts to identify trends and to provide information needed for the capacity plan, taking into account planned business initiatives. Capacity planning should be extended to cover back-up systems and related facilities in addition to the production environment.

4. ROLE OF IT AUDIT

4.1. The BSI’s IT audit function should regularly assess the effectiveness of established controls within the IT operations environment through audits or other independent verification. Audits provide independent assessments rendered by qualified individuals regarding the effective functioning of operational controls.

(Circular No. 808 dated 22 August 2013)

¹ **Bandwidth** is a terminology used to indicate the transmission or processing capacity of a system or of a specific location in a system (usually a network system) for information (text, images, video, sound). It is usually defined in bits per second (bps)

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: IT Outsourcing / Vendor Management
[Appendix to Subsecs. X177.2 and X177.7]

1. INTRODUCTION

1.1. With globalization and advancement in IT, BSIs increasingly rely on services provided by other entities to support an array of IT-related functions. The ability to outsource IT systems and process enables a BSI to manage costs, obtain necessary expertise, expand customer product offerings, and improve services. While outsourcing offers a cost-effective alternative to in-house capabilities, it does not reduce the fundamental risks associated with IT or the business lines that use it. Risks such as loss of funds, loss of competitive advantage, damaged reputation, improper disclosure of information and regulatory action remain. Because the functions are performed by an organization outside the BSI, the risks may be realized in a different manner than if the functions were inside resulting in the need for well-structured process to properly manage risks and ensure that the interest of customers will not be compromised.

2. ROLES AND RESPONSIBILITIES

2.1. **Board of Directors (Board) and Senior Management.** The responsibility for the oversight and management of outsourcing activities and accountability for all outsourcing decisions continue to rest with the BSI’s Board and senior management. They should establish and approve enterprise-wide policies, appropriate to the IT risk profile of the institution. This framework should govern the end-to-end perspective of outsourcing process and shall provide the basis for

management to identify, measure, monitor, and control the risks associated with IT-related outsourcing arrangements.

3. IT OUTSOURCING / VENDOR RISK MANAGEMENT PROGRAM

3.1 **Risk Assessment.** Prior to entering into an outsourcing plan, the BSI should clearly define the business requirements for the functions or activities to be outsourced, assess the risk of outsourcing those functions or activities and establish appropriate measures to manage and control the identified risks. Risk assessment should take into consideration the criticality of the services to be outsourced, the capability of the technology service provider (TSP)¹ and the technology it will use in delivering the outsourced service. Such assessment should be made periodically on existing arrangements as part of the outsourcing program and review process of the BSI.

3.2 **Service Provider Selection.** Before selecting a service provider, the BSI should perform appropriate due diligence of the provider’s financial soundness, reputation, managerial skills, technical capabilities, operational capability and capacity in relation to the services to be outsourced. The depth and formality of the due diligence performed may vary depending on the nature of the outsourcing arrangement and the BSI’s familiarity with the prospective service providers. Contract negotiation should be initiated with the service provider determined to best meet the business requirements of the BSI.

¹ **TSPs** include a wide range of entities including but not limited to affiliated entities, non-affiliated entities, and alliances of companies providing technology products and services. These services may include but not limited to the following: a) information and transaction processing and settlement activities that support banking functions; b) electronic banking-related services; c) Internet-related services; d) security monitoring; e) systems development and maintenance; f) aggregation services; and g) digital certification services. Other terms used to describe TSPs include vendors and external/outsourced service providers.

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Due diligence undertaken during the selection process should be documented and reviewed periodically, using the most recent information, as part of the monitoring and control processes of outsourcing.

3.3 Outsourcing Contracts. The contract is the legally binding document that defines all aspects of the servicing relationship and one of the most important controls in outsourcing process. It should be clearly written and sufficiently detailed to provide assurances for performance, reliability, security, confidentiality and reporting. Before signing a contract, management should:

a. Ensure the contract clearly defines the rights and responsibilities of both parties and contains or supported by adequate and measurable service level agreements;

b. Ensure contracts with related entities clearly reflect an arms-length relationship and costs and services are on terms that are substantially the same, or at least as favorable to the BSI, as those prevailing at the time for comparable transactions with non-related third parties;

c. Choose the most appropriate pricing method for the BSI's needs;

d. Ensure service provider's physical and data security standards meet or exceed the BSI's standards. Any breach in security should be reported by the service provider to the BSI;

e. Engage legal counsel to review the contract; and

f. Ensure the contract contains the minimum provisions required under existing Bangko Sentral rules and regulations, like access by Bangko Sentral to systems and databases outsourced, and the same does not include any provisions or inducements that may adversely affect the BSI (i.e. extended terms, significant increases after the first few years, substantial cancellation penalties)

Each agreement should allow for renegotiation and renewal to enable the BSI

to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet its legal and regulatory obligations. The agreement should also acknowledge Bangko Sentral's supervisory authority over the BSI and the right of access to information on the BSI and the service provider.

Some service providers may contract with third-parties in providing IT services to the BSI. The extent to which subcontractors perform additional services should be limited to peripheral or support functions while the core services should rest with the main service provider. The BSI should retain the ability to maintain similar control over its outsourcing risks when a service provider uses subcontractors in the course of rendering the IT-related services. Agreements should have clauses setting out the rules and limitations on subcontracting. To provide accountability, it may be beneficial for the BSI to include a provision specifying that the contracting service provider shall remain fully responsible with respect to parts of the services which were further outsourced to subcontractors. It should also consider including notification and approval requirements regarding changes to the service provider's significant subcontractors.

An annual review of the outsourcing agreements should be performed to assess whether the agreements should be renegotiated and renewed to bring them in line with current market standards and to cope with changes in their business strategies. When renegotiating contracts, the BSI should ensure that the provider delivers a level of service that meets the needs of the institution over the life of the contract.

3.4 Service Level Agreement (SLA)
SLAs formalize the performance standards against which the quantity and quality of service should be measured. Management should include SLAs in its outsourcing

contracts to specify and clarify performance expectations, as well as establish accountability for the outsourced activity. The BSI should link SLA to the provisions in the contract regarding incentives, penalties and contract cancellation in order to protect themselves in the event the service provider failed to meet the required level of performance.

Management should closely monitor the service provider’s compliance with key SLA provision on the following aspects, among others:

- a. Availability and timeliness of services;
- b. Confidentiality and integrity of data;
- c. Change control;
- d. Security standards compliance, including vulnerability and penetration management;
- e. Business continuity compliance; and
- f. Help desk support.

SLAs addressing business continuity should measure the service provider’s contractual responsibility for backup, record retention, data protection, and maintenance and testing of disaster recovery and contingency plans. Neither contracts nor SLAs should contain any extraordinary provisions that would exempt the service provider from implementing its contingency plans (outsourcing contracts should include clauses that discuss unforeseen events for which the BSI would not be able to adequately prepare).

3.5 Ongoing Monitoring

3.5.1. Monitoring Program. As outsourcing relationships and interdependencies increase in materiality and complexity, the BSI needs to be more proactive in managing its outsourcing relationships. It should establish a monitoring program to ensure service providers deliver the quantity and quality of services required by the contract. The resources to support this program will vary

depending on the criticality and complexity of the system, process, or service being outsourced.

The program should employ effective mechanisms to monitor key aspects of the outsourcing relationship and the risk associated with the outsourced activity, particularly the following:

- a. contract/SLA performance;
- b. material problems encountered by the service provider which may impact the BSI;
- c. financial condition and risk profile; and
- d. business continuity plan, the results of testing thereof and the scope for improving it.

To increase the effectiveness of monitoring mechanisms, management should periodically classify service provider relationships to determine which service providers require closer monitoring. Relationships with higher risk classification should receive more frequent and stringent monitoring for due diligence, performance (financial and/or operational), and independent control validation reviews.

Personnel responsible for monitoring activities should have the necessary expertise to assess the risks and should maintain adequate documentation of the process and results thereof. Management should use such documentation when renegotiating contracts as well as developing business continuity planning requirements.

Reports on the monitoring and control activities of the BSI should be prepared or reviewed by its senior management and provided to its Board. The BSI should also ensure that any adverse development arising from any outsourced activity is brought to the attention of the senior management, or the Board, when warranted, on a timely basis. Actions should be taken to review the outsourcing relationship for modification or termination of the agreement.

3.5.2. **Financial Condition of Service Providers.** The BSI should have an on-going monitoring of the financial condition of its service providers as financial problems may jeopardize the quality of its service and possibly the integrity of the data in its possession. In the event management recognizes that the financial condition of the provider is declining or unstable, more frequent financial reviews of said provider are warranted.

3.5.3. **General Control Environment of the Service Provider.** The BSI should also implement adequate measures to ensure service providers are only given access to the information and systems that they need in order to perform their function. Management should restrict their access to BSI’s systems, and appropriate access controls and monitoring should be in place between the service provider’s systems and the BSI.

3.6. **Business Continuity Planning Consideration.** The BSI should integrate the provider’s BCP into its own plan, communicate functions to the appropriate personnel, and maintain and periodically review the combined plan. It should ensure that service provider tests its plan annually and notify the institution of any resulting modifications.

3.7. **Compliance with Bangko Sentral Regulations.** The BSI should ensure that appropriate up-to-date records relevant to its outsourcing arrangements are maintained in its premises and kept available for inspection by the Bangko Sentral Examiners. The outsourcing agreement should explicitly provide a clause allowing Bangko Sentral and BSIs’ internal and external auditors to review the operations and controls of the service provider as they relate to the outsourced activity.

In addition to the general guidelines on outsourcing contracts stated in Item No. 3.3 of this Appendix, the BSIs intending to

outsource must comply with existing Bangko Sentral rules and regulations on outsourcing.

4. EMERGING OUTSOURCING MODELS

4.1. With continued and fast growth of technology, outsourcing of IT-related systems and processes has been a constant theme among BSIs. While outsourcing strategy allows BSIs to achieve growth targets, operational efficiency and cost savings, this also exposes them to various levels and kinds of risks. Potential risk exposures and other significant supervisory concerns are further heightened by the emergence of flexible and innovative outsourcing models (i.e. shared-services, offshoring and cloud computing).

4.2. Due mainly to the perceived implications for greater flexibility and availability at lower cost, cloud computing is a subject that has been receiving a good deal of attention. Currently, the most widely accepted definition of cloud computing is as follows –

*A model for enabling ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources that can be rapidly provisioned and released with minimal management effort or service provider interaction.*¹

4.3. In general, cloud computing is a migration from owned resources to shared resources in which client users receive IT services, on demand, from third-party service providers a.k.a. Cloud Service Providers (CSP) via the Internet “cloud.” This emerging model allows BSIs the option to move from a capital-intensive approach to a more flexible business model that lowers operational costs. Cloud computing technologies can be implemented in a wide variety of architectures, under different service and deployment models, and can coexist with other technologies and software design approaches. The four (4)

¹ National Institute of Standards Technology, *The NIST Definition of Cloud Computing: Special Publication 800-145, 2011, www.nist.gov/itl/cloud/*

cloud deployment models include the following:

a. **Private Cloud** – A private cloud is operated solely for an institution and is closely related to the existing IT outsourcing models in the marketplace, but can be an institution’s internal delivery model as well.

b. **Public Cloud** – A public cloud is owned and operated by a CSP that delivers services to the general public or a large industry group via the internet or other computer network using a multi-tenant platform.

c. **Community Cloud** – It is a private-public cloud with users having a common connection or affiliation, such as a trade association, the same industry or a common locality. It allows a CSP to provide cloud tools and applications specific to the needs of the community.

d. **Hybrid Cloud** – This model composes two or more clouds (private, community or public). A hybrid cloud leverages on the advantage of the other cloud models, thus, providing a more optimal user experience.

4.4. Cloud computing is perceived to play an increasingly important role in a wide range of development initiatives, including among others, offering small to medium-sized BSIs critical access to infrastructure and computational resources that would otherwise be out of their financial reach or are too complex to manage. While the advantages of adopting an outsourced cloud-based component are undeniable, the fact remains that cloud computing also creates disruptive possibilities and potential risks. Many of the threats identified are not necessarily unique to the cloud environment. In fact, risks such as potential data loss, poor management by a service provider, service interruption and unauthorized access to sensitive data are also applicable to traditional forms of outsourcing. Cloud computing, however, adds new dimensions to the traditional

outsourcing risks, thus, the vulnerabilities and the probability of the risk event occurring is amplified. BSIs should be fully aware of the unique attributes and risks associated with cloud computing, particularly in the following areas: (Details are shown in the attached *Annex “A”*)

- o Legal and Regulatory Compliance;
- o Governance and Risk Management;
- o Due Diligence;
- o Vendor Management/Performance and Conformance;
- o Security and Privacy;
- o Data Ownership and Data Location and Retrieval;
- o Business Continuity Planning.

4.5. Among the four (4) cloud models, the private cloud deployment is most similar to traditional outsourcing model, thus, offers the least amount of new risks and security challenges. Implementation of this model is allowed subject to compliance with existing Bangko Sentral rules and regulations on outsourcing. Adoption of community and hybrid cloud deployment models may also be allowed with prior Bangko Sentral approval, subject to the following:

- a. Compliance with existing Bangko Sentral rules and regulations on outsourcing;
- b. Implementation of more robust risk management systems and controls required for these types of arrangements;
- c. Issues set out in the attached *Annex “A”* are properly addressed prior to executing the plans; and
- d. Bangko Sentral may be allowed to perform onsite validation prior to implementing the cloud computing arrangement/s.

4.6. However, given the increased probability of risk & exposure to potential issues related to business operations, confidentiality and compliance which are critical in the financial service industry, the Bangko Sentral, at present, would only allow the use of public cloud computing model

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for non-core operations and business processes (e.g. email, office productivity, collaboration tools, claims and legal management, etc.) which do not directly involve sensitive BSI and customer data. Bangko Sentral approval of public cloud deployment model for non-core operations shall be subject to the same conditions in item 4.5 above. Core operations and business processes whose importance is fundamental in ensuring continuous and undisturbed operation of IT systems used to directly perform banking and financial services (e.g. CA/SA, Loans, Trust and Treasury systems, ATM switch operations, electronic delivery systems and systems used to record banking operations) are not allowed to use public cloud computing service. Distinguishing whether a particular actual operation or business is “core” or “non-core” and classifying the data (e.g. confidential, critical, sensitive, public) associated with the system or application

are, therefore, significant considerations in determining permissibility of public cloud model for this type of operation or process.

4.7. BSIs should consult Bangko Sentral before making any significant commitment on cloud computing.

5. ROLE OF IT AUDIT

5.1. The BSI should conduct a regular, comprehensive audit of its service provider relationships. The audit scope should include a review of controls and operating procedures that help protect the BSI from losses due to irregularities and willful manipulations. Such responsibility can be assigned to the BSI’s IT audit function. In case the BSI has no technical audit expertise, the non-technical audit methods can provide minimum coverage and should be supplemented with comprehensive external IT audits.

(Circular No. 808 dated 22 August 2013)

Annex “A”

Despite its many potential benefits, cloud computing also brings with it potential areas of concern, when compared with computing environments found in traditional data centers. Some of the more fundamental concerns include the following:

1. Legal and Regulatory Compliance

Important considerations for any BSI before deploying a cloud computing model include clearly understanding the various types of laws and regulations that potentially impact cloud computing initiatives, particularly those involving confidentiality, visibility, data location, privacy and security controls and records management. The nature of cloud computing may increase the complexity of compliance with applicable laws and regulations because customer data may be stored or processed offshore. The BSI’s ability to assess compliance may be more complex and difficult in an environment where the Cloud Service Provider (CSP) processes and stores data overseas or commingles the BSI’s data with data from other customers that operate under diverse legal and regulatory jurisdictions. The BSI should understand the applicability of local laws and regulations and ensure its contract with a CSP specify its obligations with respect to the BSIs’ responsibilities for compliance with relevant laws and regulations. CSP’s processes should not compromise compliance with the following, among others:

- a. Law on Secrecy of Deposits (R.A. No. 1405);
- b. Foreign Currency Deposit System (R.A. 6426)
- c. Anti-Money Laundering Act, particularly on data/file retention;
- d. Electronic Commerce Act (R.A. 8792);
- e. Data Privacy Law;

- f. Cybercrime Prevention Act;
- g. General Banking Laws (R.A. No. 8791); and
- h. Regulations concerning IT risk management, electronic banking, consumer protection, reporting of security incidents and other applicable Bangko Sentral issuances, rules and regulations.

Lastly, the CSP should grant Bangko Sentral access to its cloud infrastructure to determine compliance with applicable laws and regulations and assess soundness of risk management processes and controls in place.

2. Governance and Risk Management

The use of outsourced cloud services to achieve the BSI’s strategic plan does not diminish the responsibility of the Board of Directors and management to ensure that the outsourced activity is conducted in a safe and sound manner and in compliance with applicable laws and regulations. The BSI Management should consider overall business and strategic objectives prior to outsourcing the specific IT operations to the cloud computing platform. A Board-approved outsourcing policy and rationale for outsourcing to the cloud environment should be in place to ensure that the Board is fully apprised of all the risks identified.

Outsourcing to a CSP can be advantageous to a BSI because of potential benefits such as cost reduction, flexibility, scalability, improved load balancing, and speed. However, assessing and managing risk in systems that use cloud services can be a formidable challenge due mainly to the unique attributes and risks associated with a cloud environment especially in areas of data integrity, sovereignty, commingling, platform multi-tenancy, recoverability and confidentiality as well as legal issues such as regulatory compliance, auditing and data offshoring. Cloud computing may require

more robust controls due to the nature of the service. When evaluating the feasibility of outsourcing to a CSP, it is important to look beyond potential benefits and to perform a thorough due diligence and risk assessment of elements specific to the service. Vendor management, information security, audits, legal and regulatory compliance, and business continuity planning are key elements of sound risk management and risk mitigation controls for cloud computing. As with other service provider offerings, cloud computing may not be appropriate for all BSIs.

3. Due Diligence

The due diligence in selecting a qualified CSP is of paramount importance to ensure that it is capable of meeting the BSI's requirements in terms of cost, quality of service, compliance with regulatory requirements and risk management. Competence, infrastructure, experience, track record, financial strength should all be factors to consider. When contemplating transferring critical organizational data to the cloud computing platform, it is critical to understand who and where all of the companies and individuals that may touch the BSI's data. This includes not only the CSP, but all vendors or partners that are in the critical path of the CSP. Background checks on these companies are important to ensure that data are not being hosted by an organization that does not uphold confidentiality of information or that is engaging in malicious or fraudulent activity. Business resiliency and capability to address the BSI's requirements for security and internal controls, audit, reporting and monitoring should also be carefully considered.

4. Vendor Management/Performance and Conformance

It is always important to thoroughly review the potential CSP's contract terms, conditions and Service Level Agreement (SLA). This is to ensure that the CSP can

legally offer what it has verbally committed to and that the cloud risk from the CSP's service offerings is within the determined level of acceptable risk of the BSI. The SLA should ensure adequate protection of information and have details on joint control frameworks. It should also define expectations regarding handling, usage, storage and availability of information, and specify each party's requirements for business continuity and disaster recovery. At a minimum, the SLA should cover the provisions required under existing rules and regulations on outsourcing.

A vendor management process should be in place that proactively monitors the performance of the CSP on an ongoing basis. This is also to guarantee availability and reliability of the services provided and ability to provide consistent quality of service to support normal and peak business requirements. If a BSI is using its own data centre, it can mitigate and prepare for outages. However, if it is using a cloud computing service, it has to put all its trust in the cloud service provider delivering on its SLA. This requires that SLA has sufficient means to allow transparency into the way a CSP operates, including the provisioning of composite services which is a vital ingredient for effective oversight of system security and privacy by the BSI.

Continuous monitoring of information security requires maintaining ongoing awareness of security controls, vulnerabilities, and threats to support risk management decisions. Collection and analysis of available data about the state of the system should be done regularly and as often as needed by the BSI to manage security and privacy risks, as appropriate for each level of the organization involved in decision making. Transition to public cloud services entails a transfer of responsibility to the CSP for securing portions of the system on which the BSI's data and applications operate. To fulfill the

obligations of continuous monitoring, the organization is dependent on the CSP, whose cooperation is essential, since critical aspects of the computing environment are under its complete control.

Cloud services that allow CSP to further outsource or subcontract some of its services may also heighten concerns, including the scope of control over the subcontractor, the responsibilities involved (e.g., policy and licensing arrangements), and the remedies and recourse available should problems occur. A CSP that hosts applications or services of other parties may involve other domains of control, but through transparent authentication mechanisms, appear to the BSI to be that of the CSP. Requiring advanced disclosure of subcontracting arrangements, and maintaining the terms of these arrangements throughout the agreement or until sufficient notification can be given of any anticipated changes, should be properly enforced.

Additionally, the complexity of a cloud service can obscure recognition and analysis of incidents. The CSP's role is vital in performing incident response activities, including incident verification, attack analysis, containment, data collection and preservation, problem remediation, and service restoration. Each layer in a cloud application stack, including the application, operating system, network, and database, generates event logs, as do other cloud components, such as load balancers and intrusion detection systems; many such event sources and the means of accessing them are under the control of the cloud provider. It is important that the CSP has a transparent response process and mechanisms to share information with the BSI during and after the incident. Understanding and negotiating the provisions and procedures for incident response should be done before entering into a service contract, rather than as an

afterthought. The geographic location of data is a related issue that can impede an investigation, and is a relevant subject for contract discussions. Revising the BSI's incident response plan to address differences between the organizational computing environment and the cloud computing environment is also a prerequisite to transitioning applications and data to the cloud.

Lastly, to effectively monitor services including risk and risk mitigation associated with the use of a CSP, the BSI and the CSP should agree in advance that former shall have accessibility to the CSP to audit and verify the existence and effectiveness of internal and security controls specified in the SLA. The BSI's audit policies and practices may require adjustments to provide acceptable IT audit coverage of outsourced cloud computing. It may also be necessary to augment the internal audit staff with additional training and personnel with sufficient expertise in evaluating shared environments and virtualized technologies. In addition, the parties may also agree on the right to audit clause via external party as a way to validate other control aspects that are not otherwise accessible or assessable by the BSI's own audit staff. Ideally, the BSI should have control over aspects of the means of visibility to accommodate its needs, such as the threshold for alerts and notifications, and the level of detail and schedule of reports.

5. Security and Privacy

Security and privacy concerns continue to be a major issue within a cloud computing model. Given the obvious sensitivity of data and the regulated environment within which they operate, BSIs utilizing cloud systems, need to have an assurance that any data exposed on the cloud is well protected. They may need to revise their information security policies, standards, and practices to incorporate the

activities related to a CSP. They should also have an understanding of and detailed contracts with SLAs that provide the desired level of security to ensure that the CSP is applying appropriate controls. In certain situations, continuous monitoring of security infrastructure may be necessary for BSIs to have a sufficient level of assurance that the CSP is maintaining effective controls.

It is important that BSIs maintain a comprehensive data inventory and a suitable data classification process, and that access to customer data is restricted appropriately through effective identity and access management. A multi-tenant cloud deployment, in which multiple clients share network resources, increases the need for data protection through encryption and additional controls such as virtualization mechanisms to address the risk of collating organizational data with that of other organizations and compromising confidential information through third-party access to sensitive information. Verifying the data handling procedures, adequacy and availability of backup data, and whether multiple service providers are sharing facilities are important considerations. If the BSI is not sure that its data are satisfactorily protected and access to them is appropriately controlled, entering into a cloud service arrangement may not be suitable.

Storage of data in the cloud could increase the frequency and complexity of security incidents. Therefore, management processes of the BSI should include appropriate notification procedures; effective monitoring of security-related threats, incidents and events on both BSI's and CSP's networks; comprehensive incident response methodologies; and maintenance of appropriate forensic strategies for investigation and evidence collection.

6. Data Ownership and Data Location and Retrieval

The BSI's ownership rights over the data must be firmly established in the contract to enable a basis for trust and privacy of data. Ideally, the contract should state clearly that the organization retains exclusive ownership over all its data; that the CSP acquires no rights or licenses through the agreement, to use the BSI's data for its own purposes; and that the CSP does not acquire and may not claim any interest in the data due to security. For these provisions to work as intended, the terms of data ownership must not be subject to unilateral amendment by the CSP.

One of the most common challenges in a cloud computing environment is data location. Use of an in-house computing center allows the BSI to structure its computing environment and to know in detail where data is stored and what safeguards are used to protect the data. In contrast, the dynamic nature of cloud computing may result in confusion as to where information actually resides (or is transitioning through) at a given point in time, since multiple physical locations may be involved in the process. This situation makes it difficult to ascertain whether sufficient safeguards are in place and whether legal and regulatory compliance requirements are being met. One of the main compliance concerns is the possible transborder flows of data which may impinge upon varying laws and regulations of different jurisdictions.

To address the above constraints, the BSI should pay attention to the CSP's ability to isolate and clearly identify its customer data and other information system assets for protection. Technical, physical and administrative safeguards, such as access controls, often apply. Likewise, such

concerns can be alleviated if the CSP has some reliable means to ensure that an organization’s data is stored and processed only within specific jurisdictions. Lastly, external audits and security certificates can mitigate the issues to some extent.

7. Business Continuity Planning

The BCP in a BSI involves the recovery, resumption, and maintenance of the critical business functions, including outsourced activities. Due to the dynamic nature of the cloud environment, information may not immediately be located in the event of a disaster. Hence, it is critical to ensure the viability of the CSP’s business continuity and disaster recovery plans to address broad-based disruptions to its capabilities and infrastructure. The plans must be well documented and tested. Specific responsibilities and procedures for availability, data backup, incident response and recovery should be clearly understood and stipulated. Recovery Time Objectives

should also be clearly stated in the contract. It is critical for the BSI to understand the existence and comprehensiveness of the CSP’s capabilities as well as its level of maturity to ensure that during an intermediate or prolonged disruption or a serious disaster, critical operations can be immediately resumed, and that all operations can be eventually reinstated in a timely and organized manner. Other BCP-related concerns which must be addressed by the BSI and CSP include the following:

- a. Prioritization arrangements in case of multiple/simultaneous disasters;
- b. Retention of onsite and offsite back-up (Whether to maintain an up-to-date backup copy of data at the BSI’s premises or stored with a second vendor that has no common points of failure with the CSP); and
- c. Ability to synchronize documents and process data while the client-BSI is offline.

(Circular No. 808 dated 22 August 2013)

IT RISK MANAGEMENT STANDARDS AND GUIDELINES
Area: Electronic Banking, Electronic Payment, Electronic Money and Other
Electronic Products and Services
[Appendix to Subsecs. X177.2 and X177.7]

1. INTRODUCTION

1.1. Continuing technological innovation and competition among existing FIs and new entrants have contributed to a wide array of electronic products and services (e-services) available to customers. These products and services have been widely adopted by BSIs in recent years and are now a component of most institutions' business strategy. Electronic delivery of services can have many benefits for BSIs and their customers and can also have implications on financial condition, risk profile, and operating performance. The emergence of e-services may contribute to improving the efficiency of the banking and payment system, reducing the cost of retail transactions nationally and internationally and expanding the target customers beyond those in traditional markets. Consequently, BSIs are therefore becoming more aggressive in adopting electronic capabilities that include sophisticated marketing systems, remote-banking capabilities, and stored value programs.

1.2. Notwithstanding the significant benefits of technological innovation, the rapid development of electronic capabilities carries risks as well as benefits and it is important that these risks are recognized and managed by BSIs in a prudent manner to promote safe and secure e-services and operations. The basic types of risks generated by e-services are not new, the specific ways in which some of the risks arise, as well as the magnitude of their impact may be new for BSIs and supervisors. While existing risk management guidelines remain applicable to e-services, such guidelines must be tailored, adapted and,

in some cases, expanded to address the specific risk management challenges created by the characteristics of such activities. As the industry continues to address technical issues associated with e-services, including security challenges, a variety of innovative and cost efficient risk management solutions are likely to emerge. These solutions are also likely to address issues related to the fact that BSIs differ in size, complexity and risk management culture and that jurisdictions differ in their legal and regulatory frameworks.

2. ROLES AND RESPONSIBILITIES

2.1. **Board of Directors (Board) and Senior Management.** The Board is expected to take an explicit, informed and documented strategic decision as to whether and how the BSI is to provide e-services to their customers. The Board and senior management should establish effective management oversight of the risks associated with these activities, including the establishment of specific accountability, policies and controls to manage these risks. Senior management oversight processes should operate on a dynamic basis in order to effectively intervene and correct any material systems problems or security breaches that may occur.

The Board should ensure that plans to offer e-services are consistent and clearly integrated within corporate strategic goals. The BSI should also ensure that it does not offer new e-services or adopt new technologies unless it has the necessary expertise to provide competent risk management oversight. Management and staff expertise should be commensurate with

the technical nature and complexity of the BSI’s applications and underlying technologies.

The Board and senior management should ensure that the operational and security risk dimensions of the BSI’s business strategies on e-services are appropriately considered and addressed. The provision of e-services may significantly modify and/or even increase traditional business risks. As such management should take appropriate actions to ensure that the BSI’s existing risk management, security control, due diligence and oversight processes for outsourcing relationships are appropriately evaluated and modified to accommodate e-services.

BSI management should assess the impact of the implementation and ongoing maintenance of e-services. These areas should be monitored and analyzed on an ongoing basis to ensure that any impact on the BSI’s financial condition and risk profile resulting from e-services is appropriately managed and controlled. Management should evaluate e-services acceptance vis-à-vis the performance to the its goals and expectations through periodic review of reports tracking customer usage, problems such as complaints and downtime, unreconciled accounts or transactions initiated through the system, and system usage relative to capacity. Insurance policies may also need to be updated or expanded to cover losses due to system security breaches, system downtime, or other risks from e-services.

2.2. **Compliance Officer.** The compliance officer or its equivalent should be aware and informed of all relevant laws and regulatory requirements relative to the offering of e-services, including those of other countries where they also intend to deliver cross-border e-services. BSI management should ensure that these

requirements are complied with to minimize legal and compliance risks and other negative implications.

3. RISK MANAGEMENT SYSTEM

3.1. The BSI should carefully evaluate the offering of a new e-service to customers to ensure that Management fully understands the risk characteristics and that there are adequate staffing, expertise, technology and financial resources to launch and maintain the service. A formal business strategy for introducing new service should be in place and form part of the BSI’s overall strategy. The BSI should also perform regular assessments to ensure that its controls for managing identified risks remain proper and adequate.

3.2. The underlying risk management processes for e-services should be integrated into the BSI’s overall risk management framework and the existing risk management policies and processes should be evaluated to ensure that they are robust enough to cover the new risks posed by current or planned activities. Relevant internal controls and audit as required in BSI’s risk management system should also be enforced and carried out as appropriate for its e-services. Regular review of the relevant policies and controls should be performed to ascertain that these remain appropriate to the risks associated with such activities.

3.3. The BSI should adjust or update, as appropriate, its information security program in the light of any relevant changes in technology, the sensitivity of its customer information and internal or external threats to information. The BSI should ensure that the related information security measures and internal control are installed, regularly updated, monitored and are appropriate with the risks associated with their products and services.

4. RISK MANAGEMENT CONTROLS

4.1. **Security Controls.** The BSI should recognize that e-services should be secured to achieve a high level of confidence with both customers and business. It is the responsibility of BSI management to provide adequate assurances that transactions performed and information flowed through the electronic delivery channels are properly protected. For this reason, the BSI should maintain a strong and comprehensive security control system. As such, in addition to the information security standards in *Appendix 75b*, the BSI should also provide the following controls specific for e-services:

4.1.1. **Account Origination and Customer Verification.** The BSI should use reliable methods for originating new customer accounts. Potentially significant risks may arise when it accepts new customers through the internet or other electronic channels. Thus, the BSI should ensure that in originating new accounts using electronic channels, the KYC requirement which involves a face-to-face process is strictly adhered to.

4.1.2. **Authentication.** The BSI should use reliable and appropriate authentication methods to validate and verify the identity and authorization of customers. The determination of the appropriate and reasonable authentication methods to be used in specific e-services application should be based on management’s assessment of the risk posed by the electronic delivery channels adopted, types and amounts of transactions allowed, the sensitivity and value of customer information and transaction and the ease of using the authentication method.

The use of single factor authentication alone is generally considered not adequate for sensitive communications, high value transactions, third party transfers or privileged user access (i.e., network administrators¹). Multi-factor techniques are necessary in those cases unless there are adequate security measures, risk mitigating controls (e.g. in some authorized institutions, third-party transfers are restricted to accounts that have been pre-registered) and effective monitoring mechanism to detect suspicious transactions and unusual activities. As authentication methods continue to evolve, the BSI should monitor, evaluate and adopt industry sound practice in this area to ensure appropriate changes are implemented for each transaction type and level of access based on the current and changing risk factors.

The authentication process should be consistent with and support the BSI’s overall security and risk management programs. An effective authentication process should have customer acceptance, reliable performance, scalability to accommodate growth and interoperability with existing systems and future plans as well as appropriate policies, procedures and control.

4.1.3. **Non-Repudiation**². As customers and merchants originate an increasing number of transactions, authentication and encryption become increasingly important to ensure non-repudiation of transactions. In such cases, the BSI should consider implementing non-repudiation controls in the form of digital signatures, collision-free hash value of the entire transaction or unique authorization code that will provide conclusive proof of participation of both the

¹ **Network administrator** is the individual responsible for the installation, management and control of a network.
² **Non-repudiation** is a means of ensuring that a transferred message has been sent and received by the parties claiming to have sent and received the message. Non-repudiation is a way to guarantee that the sender of a message cannot later deny having sent the message and that the recipient cannot deny having received the message.

sender and receiver in an online transaction environment. Public key infrastructure¹, digital signature², digital certificate³ and certification authority⁴ arrangements can be used to impart an enhanced level of security, authentication and authorization which can uniquely identify the person initiating transaction, detect unauthorized modifications and prevent subsequent disavowal.

4.1.4. **Authorization Controls and Access Privileges.** Specific authorization and access privileges should be assigned to all individuals, agents or systems, which conduct activities on e-services. No individual agent or system should have the authority to change his or her own authority or access privileges in the e-services authorization database. Any addition of an individual, agent or system or changes to access privileges should be duly authorized by an authenticated source empowered with adequate authority and subject to suitable and timely oversight and audit trails.

All systems that support e-services should be designed to ensure that they interact with a valid authorization database. Appropriate measures should be in place in order to make authorization databases reasonably resistant to tampering. Authenticated e-services sessions should remain secure throughout the full duration of the session. In the event of a security lapse, the session should require re-authentication. Controls should also be in place to prevent changes to authorization levels during e-services sessions and any

attempts to alter authorization should be logged and brought to the attention of management.

No person by virtue of rank or position should have any intrinsic right to access confidential data, applications, system resources or facilities. Only employees with proper authorization and whose official duties necessitate access to such data, applications, system resources or facilities should be allowed to access confidential information and use system resources solely for legitimate purposes.

4.1.5. **Confidentiality and Integrity of Information, Transactions and Records.** The BSI should ensure that appropriate measures are in place to ascertain the accuracy, completeness and reliability of e-services transactions, records and information that are either transmitted over the internal and external networks or stored in BSI's internal systems. Common practices used to maintain data integrity include the following:

- a. E-services transactions should be conducted in a manner that make them highly resistant to tampering throughout the entire process;
- b. E-services records should be stored, accessed and modified in a manner that make them highly resistant to tampering;
- c. E-services transaction and record-keeping processes should be designed in a manner as to make it virtually impossible to circumvent detection of unauthorized changes.

¹ **Public Key Infrastructure (PKI)** refers to the use of public key cryptography in which each customer has a key pair (i.e. unique electronic value called a public key and a mathematically-related private key). The private key is used to encrypt (sign) a message that can only be decrypted by the corresponding public key or to decrypt message previously encrypted with the public key. The public key is used to decrypt message previously encrypted (signed) using an individual's private key or to encrypt a message so that it can only be decrypted (read) using the intended recipient's private key.

² **Digital certificate** is a digital code that can be attached to an electronically transmitted message that uniquely identifies the sender. Like a written signature, the purpose of a digital signature is to guarantee that the individual sending the message really is who he or she claims to be.

³ **Digital Certificate** is the electronic equivalent of an ID card that authenticates the originator of digital signature.

⁴ **Certification Authority (CA)** is the organization that attests using a digital certificate that a particular electronic message comes from a specific individual or system.

d. Adequate change control policies, including monitoring and testing procedures, should be in place to protect against any system changes that may erroneously or unintentionally compromise controls or data reliability; and

e. Any tampering with e-services transactions or records should be detected by transaction processing, monitoring and record keeping functions.

The BSI should take appropriate measures to preserve the confidentiality of key e-services information commensurate with the sensitivity of the information being transmitted and/or stored in databases. It should ensure that all intelligent electronic devices that capture information do not expose/store information such as the PIN number or other information classified as confidential and must also ensure that a customer's PIN number cannot be printed for any reason whatsoever. In addition, the BSI must provide safe-to-use intelligent electronic devices and ensure that customers are able to make safe use of these devices at all times.

The BSI should implement appropriate technologies to maintain confidentiality and integrity of sensitive information, in particular customer information. Cryptographic technologies can be used to protect the confidentiality and integrity of sensitive information. The BSI should choose cryptographic technologies that are appropriate to the sensitivity and importance of information and the extent of protection needed and, only those that are making use of internationally recognized cryptographic algorithms where the strengths of the algorithms have been subjected to extensive tests. In cases when the information is transmitted over public network, the BSI should consider the need to apply strong end-to-end encryption to the transmission of sensitive information.

To ensure adequate protection and secrecy of cryptographic keys whether they

are master keys, key encrypting keys or data encrypting keys, no single individual should know entirely what the keys are or have access to all the constituents making up these keys. All keys should be created, stored, distributed or changed under the most stringent conditions. Likewise, use of these keys should be logged and provided with timely oversight.

4.1.6. Application Security. The BSI should ensure an appropriate level of application security in its electronic delivery systems. In selecting system development tools or programming languages for developing e-services application systems, it should evaluate the security features that can be provided by different tools or languages to ensure that effective application security can be implemented. In selecting an e-services system developed by a third party, the BSI should take into account the appropriateness of the application security of the system. It should test new or enhanced applications thoroughly using a general accepted test methodology in a test environment prior to implementation.

The BSI should consider the need to have customers confirm sensitive transactions like enrolment in a new on-line service, large funds transfers, account maintenance changes, or suspicious account activity. Positive confirmations for sensitive on-line transactions provide the customer with the opportunity to help catch fraudulent activity. The BSI can encourage customer participation in fraud detection and increase customer confidence by sending confirmations of certain high-risk activities through additional communication channels such as the telephone, e-mail, or traditional mail.

Comprehensive and effective validation of input parameters (including user-supplied data and database queries that may be submitted by the users' computers) should be performed on server side. This prevents

intentional invalid input parameters from being processed by the e-services system that may result in unauthorized access to data, execution of commands embedded in the parameters or a buffer overflow attack¹. Moreover, e-services systems should operate with the least possible system privileges.

Error messages generated by the application system for e-services customers should not reveal details of the system which are sensitive. Errors should be appropriately logged. Similarly, the HTML² source code on the production web server should not contain sensitive information such as any references or comments that relate to the design features of the web application code.

The mechanism for managing an active e-services session should be secure. Web pages containing sensitive information should not be cached in the temporary files of browsers. The application should ideally prohibit the customers’ browsers from memorizing or displaying the user IDs and passwords previously entered by customers and the web pages previously accessed by customers.

When a known vulnerability related to the e-services application system is identified or reported, a review of the relevant program source code should be conducted as appropriate to ensure that the vulnerability is appropriately addressed. A security standard may be defined for the purpose of system development and code review. For third-party developed systems, the patches provided by vendors from time to time should be appropriately applied to these systems.

Hidden directories that contain administrative pages or sensitive information of the web site should either be removed from the production web server or protected by effective authentication and access control mechanisms. Back-up files and

common files should be removed from the production servers or the structure of file directories to prevent access by unauthorized users. A periodic security review of the structure of file directories and access controls of the files is necessary to ensure that all sensitive files are appropriately protected and not exposed through the web applications.

4.1.7. **Infrastructure and Security Monitoring.** The BSI should establish an appropriate operating environment that supports and protects systems on e-services. It should proactively monitor systems and infrastructure on an ongoing basis to detect and record any security breaches, suspected intrusions, or weaknesses. The BSI should ensure that adequate controls are in place to detect and protect against unauthorized access to all critical e-services systems, servers, databases, and applications. The attached *Annex “A”* provides for the minimum security measures for e-services facilities.

The BSI should put in place effective monitoring mechanisms to detect in a timely manner suspicious online transactions and unusual activities. A sound monitoring system should include audit features that can assist in the detection of fraud, money laundering, compromised passwords or other unauthorized activities. In particular, the monitoring mechanism for personal e-services should be able to detect cases similar to the following:

- a. False or erroneous application information, large check deposits on new e-services accounts, unusual volume or size of funds transfers, multiple new accounts with similar account information or originating from the same internet address, and unusual account activity initiated from a foreign internet address;
- b. Multiple online transfers are made to the same unregistered third-party account

¹ **Buffer overflow attack** is a method of overloading a predefined amount of space in a buffer, which can potentially overwrite and corrupt memory in data.

² **Hypertext Markup Language (HTML)** is a set of codes that can be inserted into text files to indicate special interfaces, inserted images, and links to the hypertext documents.

within a short period of time especially if the amount transferred is close to the maximum amount allowed or the value exceeds a certain amount; and

c. Change of a customer's correspondence address shortly followed by transactions which may indicate potential fraudulent activities such as opening of an e-service account online, a request for important documents (e.g. cheque book, new e-banking password, credit card/ATM PIN) to be mailed to that address, increase of fund transfer limits, or a sudden increase of fund transfers made to unregistered third parties.

The BSI's monitoring staff should be promptly alerted by its monitoring mechanism if suspicious online transfers and unusual activities are initiated. In these cases, the BSI should, as soon as practicable, check with the account holders of these transactions or activities. Consideration should also be given to notifying personal customers immediately through an alternative automated channel (such as messages sent to mobile phones or e-mail accounts of customers) of online transfers made to unregistered third parties, online transfers exceeding certain amount limits, or detected unusual activities related to their accounts.

4.1.8. Controls Over Fund Transfers. The BSI that relies solely on single factor authentication for e-services should consider restricting third-party transfer only to accounts that have been pre-registered by the customer. As an alternative, customers may be allowed to register third-party accounts online but the registration should be effected only after a period when a written confirmation is expected to have reached the customer.

To mitigate fraud risk, the BSI may establish amount limits on transactions initiated through the e-services application, or may monitor transactions above specified limits, depending on the type of account

(e.g., consumer vs. corporate). Such limits or similar monitoring systems may help detect unusual account activity that may indicate fraudulent transactions or other suspicious activity. Other safeguards to manage the risk of unauthorized third-party transfers include the following, among others:

a. Maximum daily or transaction limits should be imposed on online transfers to unregistered third-parties;

b. A second factor authentication should be employed before a customer can effect online transfers to unregistered third-parties; and

c. Two-factor authentication should be implemented for corporate or institutional e-services that allow transfers to unregistered third-party accounts.

4.1.9. Audit Trail. The BSI should ensure that comprehensive logs are maintained to record all critical e-services transactions to help establish a clear audit trail and promote employee and user accountability. Audit logs should be protected against unauthorized manipulation and retained for a reasonable period (e.g. three months) to facilitate any fraud investigation and any dispute resolution if necessary. In instances where processing systems and related audit trails are the responsibility of a third-party service provider, the BSI should ensure that it has access to relevant audit trails maintained by the service provider in accordance with existing standards. In particular, clear audit trails should exist under the following types of e-services transactions:

a. the opening, modification or closing of a customer's account;

b. any transaction with financial consequences;

c. any authorization granted to a customer to exceed a limit; and

d. any granting, modification or revocation of systems access right or privileges.

4.1.10. **Segregation of Duties.** As in any traditional process, segregation of duties is a basic internal control measure designed to reduce the risk of fraud in operational processes and systems. The BSI management should ensure that duties are adequately separated and transaction processes are designed in a manner that no single person could initiate, approve, execute and enter transactions into a system that would enable fraudulent actions to be perpetrated and concealed. Segregation should also be maintained between (a) those developing and those administering the systems; and (b) those initiating static data (including web page content) and those responsible for verifying its integrity. E-services systems should be tested to ensure that segregation of duties cannot be bypassed.

4.1.11. **Website Information and Maintenance.** Because the BSI’s website is available on an ongoing basis to the general public, appropriate procedures should be established to ensure accuracy and appropriateness of its information. Key information changes and updates (such as deposit, loan and foreign exchange rates), are normally subject to documented authorization and dual verification. Procedures and controls to monitor and verify website information frequently may help prevent any inadvertent or unauthorized modifications or content that could lead to reputational damage or violations of advertising, disclosure, or other compliance requirements.

In addition, some BSIs provide various tools and other interactive programs to enable customers to submit online application or provide resources for them to research available options associated with BSI’s products and services on-line. To protect the BSI from potential liability or

reputational harm, it should test or otherwise verify the accuracy and appropriateness of these tools and programs.

The BSI should carefully consider how links to third-party Internet Web sites are presented. “Hyperlinks¹” may imply an endorsement of third-party products, services, or information that could lead to implicit liability for the BSI. The BSI should provide disclaimers when such links take the customer to a third-party web site to ensure that they clearly understand any potential liabilities arising out of any such cross-marketing arrangements or other agreements with third parties. Any links to sites offering non-deposit, investment or insurance products must comply with existing regulations. Links to other sites should be verified regularly for accuracy, functionality, and appropriateness.

The BSI should manage the risk associated with fraudulent emails or websites which are designed to trick its customers into revealing private details such as account numbers or e-services passwords. To this end, the BSI should consider educating customers the ways to ensure that they are communicating with the official website and that they will not be required to access the BSI’s transactional e-services portal through hyperlinks embedded in e-mails unless the website is validated by legitimate digital certificate.

Additionally, the BSI should exercise care in selecting its website name(s) in order to reduce possible confusion with those of other Internet sites. It should periodically scan the Internet to identify sites with similar names and investigate any that appear to be posing as the institution. Suspicious sites should be reported to appropriate law enforcement agencies and regulatory authorities.

¹ **Hyperlink** is an item on a webpage, that, when selected, transfers the user directly to another location in a hypertext document or to another webpage, perhaps on a different machine.

4.2. Administrative and Management Controls

4.2.1. Administration of E-Services Accounts. The BSI should ensure that adequate controls are in place to minimize the risks of e-services accounts being opened by fraudsters without the knowledge of the real customers. It is recommended that the BSI issues a written confirmation to the customer concerned and prohibit the online transfers to unregistered third parties until the institution is satisfied that the customer has received the confirmation. It should also perform adequate identity checks when customer requests a change in his account information or other contact details.

4.2.2. Service Availability and Business Continuity. The BSI should have the ability to deliver e-services to all end-users and be able to maintain such availability in all circumstances within a reasonable system response time in accordance with its terms and conditions and anticipated customer expectations. Performance criteria for each critical e-service should be established and service levels should be monitored against these criteria. Appropriate measures should be taken to ensure that e-services systems and the interfaces with the internal systems can handle the projected transaction volume and future growth in transactions.

Appropriate business continuity and contingency plans for critical e-services processing and delivery systems should be in place and regularly tested. Contingency plans should set out a process for restoring or replacing e-services processing capabilities, reconstructing supporting transaction information, and include measures to be taken to resume availability of critical e-services systems and applications in the event of a business disruption.

4.2.3. Incident Response and Management. The BSI should put in place formal incident response and management

procedures for timely reporting and handling of suspected or actual security breaches, fraud, or service interruptions of their e-services during or outside office hours. A communication strategy should be developed to adequately address the reported concerns and an incident response team should be established to manage and respond to the incident in accordance with existing standards enumerated in *Appendix 75b*.

4.2.4. Outsourcing Management Increased reliance upon partners and third party service providers to perform critical e-services functions lessens BSI management's direct control. Accordingly, a comprehensive process for managing the risks associated with outsourcing and other third-party dependencies is necessary to ensure that:

- a. The BSI fully understands the risks associated with entering into an outsourcing or partnership arrangement for its e-services systems or applications;
- b. An appropriate due diligence review of the competency and financial viability of any third-party service provider or partner is conducted prior to entering into any contract for e-services;
- c. The contractual accountability of all parties to the outsourcing or partnership relationship is clearly defined. For instance, responsibilities for providing information to and receiving information from the service provider should be clearly defined;
- d. All outsourced e-services systems and operations are subject to risk management, security and privacy policies that meet the BSI's own standards;
- e. Periodic independent internal and/or external audits are conducted of outsourced operations to at least the same scope required if such operations were conducted in-house; and
- f. Appropriate contingency plans for outsourced e-services activities exist.

Complete guidelines for managing outsourcing relationships and third party dependencies are enumerated in *Appendix 75e*.

4.3. Consumer Protection

4.3.1. **Customer Privacy and Confidentiality.** The BSI should take appropriate measures to ensure adherence to customer privacy requirements applicable to the jurisdictions to which the institution is providing electronic products and services. Misuse or unauthorized disclosure of confidential customer data exposes the entity to both legal and reputation risk. To meet these challenges concerning the preservation of privacy of customer information, the BSI should make reasonable endeavours to ensure that:

- a. The BSI’s customer privacy policies and standards take account of and comply with all privacy regulations and laws applicable to the jurisdictions to which it is providing e-services;
- b. Customers are made aware of the BSI’s privacy policies and relevant privacy issues concerning use of e-services;
- c. Customers may decline (“opt out”) from permitting the BSI to share with a third party for cross-marketing purposes any information about the customer’s personal needs, interests, financial position or banking activity; and
- d. Customer data are not used for purposes beyond which they are specifically allowed or for purposes beyond which customers have authorized. The BSI’s standards for customer data use must be met when third parties have access to customer data through outsourcing relationships.

4.3.2. **Information Disclosure for E-Services.** The BSI should comply with all legal requirements relating to e-services, including the responsibility to provide its customers with appropriate disclosures and to protect customer data. Failure to comply with these responsibilities could result in

significant compliance, legal, or reputation risk for the BSI.

The BSI should set out clearly in its terms and conditions the respective rights and obligations between the BSI and its customers. These terms and conditions should be fair and balanced to both parties. In addition, it is required to provide its customers with a level of comfort regarding information disclosures or transparencies, protection of customer data and business availability that they can expect when using traditional banking services. To minimize operational, legal and reputational risks associated with e-services activities, the BSI should make adequate disclosures of information and take appropriate measures to ensure adherence to customer privacy and protection requirements. *Annex “B”* provides for the minimum disclosure requirements of BSIs.

4.3.3. **Consumer Awareness** Customer education is a key defense against fraud, identity theft and security breach. Therefore, the BSI should pay special attention to the provision of easy to understand and prominent advice to its customers on security precautions for e-services. To be effective, the BSI should maintain and continuously evaluate its consumer awareness program. Methods to evaluate a program’s effectiveness include tracking the number of customers who report fraudulent attempts to obtain their authentication credentials, the number of clicks on information security links on websites, the number of inquiries, etc. *Annex “C”* provides for the minimum Consumer Awareness Program that the BSI should convey to its customers.

4.3.4. **Complaints Resolution.** The BSI may receive customer complaint either through an electronic medium or otherwise, concerning an unauthorized transactions, loss or theft in the e-services account. Therefore, it should ensure that controls are

in place to review these notifications and that an investigation is initiated as required. The BSI should also establish procedures to resolve disputes arising from the use of the e-services.

4.4. Cross-Border E-Banking Activities

4.4.1. Before a BSI initiates cross-border e-services, its management should conduct appropriate risk assessment and due diligence to ensure that it can adequately manage the attendant risks. It must also comply with any applicable laws and regulations, both the home country as well as those of any foreign country that may assert jurisdiction over e-services that are directed at its residents. Further, the BSI should ensure that it has an effective and ongoing risk management program for its cross-border e-services activities;

4.4.2. Before engaging in transactions involving cross-border e-services with foreign customers, the BSI should ensure that adequate information is disclosed on its Web site to allow potential customers to make a determination of the BSI's identity, home country, and whether it has the relevant regulatory license(s) before it establishes the relationship. This information will help improve transparency and minimize legal and reputational risk associated with the offering of cross border e-services.

5. INDEPENDENT ASSESSMENT

5.1. An appropriate independent audit function is also an important component of a BSI's monitoring mechanisms. The audit coverage should be expanded commensurate with the increased complexity and risks inherent in e-services and should include the entire process as applicable (i.e. network configuration and security, interfaces to legacy systems, regulatory compliance, internal controls, support activities performed by third-party providers etc.).

5.2. The BSI should also make arrangements for independent assessments

to be conducted on its systems before the launch of the relevant services or major enhancements to existing services. The person(s) (i.e. the assessor) contracted by the BSI to perform independent assessment should have, and be able to demonstrate, the necessary expertise in the relevant fields. He/she should be independent from the parties that develop or administer the system and should not be involved in the operations to be reviewed or in selecting or implementing the relevant control measures to be reviewed. He/she should be able to report findings freely and directly to the authorized BSI senior management.

5.3. Subsequent to an initial independent assessment, the BSI should conduct risk assessment at least every two years or when there are substantial changes to determine if further independent assessment should be required and the frequency and scope of such independent assessment. Any substantial changes to the risk profile of the services being provided, significant modifications of the network infrastructure and applications, material system vulnerabilities or major security breaches are to be taken into consideration in the risk assessment.

6. APPLICABILITY

6.1. These guidelines are intended for all electronic products and services offered by BSIs to their customers. These are focused on the risks and risk management techniques associated with electronic delivery channels to protect customers and general public. It should be understood, however, that not all the customer protection issues that have arisen in connection with new technologies are specifically addressed in subject guidelines. Additional issuances may be issued in the future to address other aspects of consumer protection as the financial service environment through e-services evolves.

SECURITY CONTROLS ON SPECIFIC ELECTRONIC SERVICES AND CHANNELS

In providing banking/financial services via electronic channels, such as ATM, internet and mobile devices, the BSI must consider customer’s convenience in using the facilities, including the effectiveness of the display on electronic menu, particularly on customer’s instructions selection menu in order to avoid any error and loss in transactions. In electronic services which involve physical equipment like ATMs, the BSI must implement physical security control on equipments and rooms from the danger of theft, sabotage and other criminal actions by unauthorized parties. It must perform routine monitoring to ensure security and comfort of customers using electronic service.

Automated Teller Machine (ATM)

- 1. To minimize/prevent ATM frauds and crimes, the BSI, at a minimum, implement the following security measures with respect to its ATM facilities:
 - a. Locate ATM’s in highly visible areas;
 - b. Provide sufficient lighting at and around the ATMs;
 - c. Where ATM crimes (e.g., robbery, vandalism, skimming) are high in a specific area or location, the BSI should install surveillance camera or cameras which shall view and record all persons entering the facility. Such recordings shall be preserved by the BSI for at least thirty (30) days;
 - d. Implement ATM programming enhancements like masking/non-printing of card numbers;
 - e. Educate customers by advising them regularly of risks associated with using the ATM and how to avoid these risks;
 - f. Conduct and document periodic security inspection at the ATM location;

- g. Educate BSI personnel to be responsive and sensitive to customer concerns; and
 - h. Post a clearly visible sign near the ATM facility which, at a minimum, provides the telephone numbers of the BSI as well as other BSIs’ hotline numbers for other cardholders who are allowed to transact business in the ATM, and police hotlines for emergency cases.
- 2. The BSI must study and assess ATM crimes to determine the primary problem areas. Procedures for reporting ATM crimes should also be established. Knowing what crimes have occurred will aid the BSI in recognizing the particular problem and to what degree it exists so that it can implement the necessary preventive measures. In this connection, all BSIs are encouraged to share information involving ATM fraud cases to deter and prevent proliferation of the crime.

Online Internet Financial Services

- 1. Assurance should be provided that online login access and transactions performed over the internet are adequately protected and authenticated. In addition, customers should be adequately educated on security measures that must be put in place to uphold their interests in the online environment.
- 2. With internet connection to internal networks, financial systems and devices may now be potentially accessed by anyone from anywhere at any time. The BSI should implement physical and logical access security to allow only authorized personnel to access its systems. Appropriate processing and transmission controls should also be implemented to protect the integrity of systems and data.

3. There should be a mechanism to authenticate official website to protect customers from spoofed or faked websites. The BSI should determine what authentication technique to adopt to provide protection against these attacks. For wireless applications, it should adopt authentication protocols that are separate and distinct from those provided by the wireless network operator.

4. Monitoring or surveillance systems should be implemented to alert BSI of any erratic system activities, transmission errors or unusual online transactions. A follow-up process should be established to verify that these issues or errors are adequately addressed subsequently. High resiliency and availability of online systems and supporting systems (such as interface systems, backend host systems and network equipment) should be maintained to meet customers' expectations. Measures to plan and track capacity utilization as well as guard against online attacks should be established.

5. As more customers log into BSI's website to access their accounts and conduct a wide range of financial transactions for personal and business purposes, a suite of measures must be established to protect customers' interests in using online systems. Furthermore, customers should be educated on the risks of using online financial services before they subscribe to such services. Ongoing education must be available to raise the security awareness of customers to protect their systems and online transactions.

Mobile and Phone Financial Services

1. For electronic services using mobile phone, the BSIs must ensure the security of transactions by implementing the following, among others:

a. Employment of a SIM Toolkit with end-to-end encryption feature from hand

phones to m-banking servers, to protect data transmission in m-banking; and

b. Adoption of dual authentication process (i.e. MPIN) to ensure that the party initiating the transaction is the owner of the device and is authorized to perform such transaction.

2. For phone banking and other financial services, the BSI must ensure the security of transactions, by implementing the following, among others:

a. The service shall not be used for transactions with high value or risk;

b. All IVR conversations shall be recorded, including customer's phone number, transaction detail, etc;

c. The service shall use reliable and secure authentication methods; and

d. The use of customer authentication method such as PIN and password for financial transactions.

Other Mobile Online and Payment Services

1. Mobile online and payment services are extensions of the online financial services which are offered by the BSI and accessible from the internet via computers, laptops and similar devices. Security measures which are similar to those of online financial and payment systems should also be implemented on the mobile online services and payment systems. A risk assessment should be conducted to identify possible fraud scenarios and appropriate measures should be established to counteract payment card fraud via mobile devices.

2. The BSI may require customers to download its mobile online services and payment applications directly from third party repositories (e.g. Apple store, Google Play and Windows Market Place) on to mobile devices. Customers must be able to verify the integrity and authenticity of the application prior to its download. The BSI should also be able to check the authenticity

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and integrity of the software being used by the customers.

3. As mobile devices are susceptible to theft and loss, there must be adequate protection of sensitive data used for mobile online services and payments. Sensitive data should be encrypted to ensure the confidentiality and integrity of these data in storage, transmission and during processing.

4. Customers should be educated on security measures to protect their own mobile devices from theft and loss as well as viruses and other errant software which cause malicious damage and harmful consequences.

Point of Sale Devices

1. Point of Sale (POS)/Electronic Data Capture (EDC) enable electronic fund transfer from customer’s account to acquirer’s or merchant’s account for payment of a transaction. The party providing POS terminal must always increase the physical security around the vicinity of such POS terminal and on the POS terminal itself, among others, by using POS terminal that minimizes the possibility of interception on such terminal or in its communication network.

2. The BSI deploying POS devices at merchant locations must familiarize the merchant with the safe operation of the device. The acquiring institution must ensure that the POS devices as well as other devices that capture information do not expose/store information such as the PIN number or other information classified as confidential. It must also ensure that a customer’s PIN number cannot be printed at the point of sale for any reason whatsoever.

3. Operators of point of sale devices are encouraged to work towards interoperability of cards from other schemes.

Electronic Payment Cards (ATM, Credit and Debit Cards)

1. Payment cards allow cardholders the flexibility to make purchases wherever they are. Payment cards exist in many forms; with magnetic stripe cards posing the highest security risks. Sensitive payment card data stored on magnetic stripe cards is vulnerable to card skimming attacks. Card skimming attacks can happen at various points of the payment card processing, including payment kiosks and POS terminals. In addition to counterfeit/skimmed cards, fraudulent activities associated with payment cards include lost/stolen cards, card-not-received and card-not-present transactions.

2. The BSI providing payment card services should implement adequate safeguards to protect sensitive payment card data. Sensitive payment card data should be encrypted to ensure the confidentiality and integrity of these data in storage, transmission and during processing. Pending the required adoption of EMV chip-cards by 01 January 2017, all BSIs engaged in the payment card business should consider implementing the following measures to mitigate exposure from skimming attacks:

a. Installation of anti-skimming solutions on ATM and POS machines to detect the presence of foreign devices placed over or near a card entry slot;

b. Establishment of detection and alert mechanisms to appropriate personnel for follow-up response and action;

c. Implementation of tamper-resistant keypads to ensure that no one can identify which buttons are being pressed by customers;

d. Implementation of appropriate measures to prevent shoulder surfing of customers’ PINs; and

e. Conduct video surveillance of activities at these machines and maintain the quality of CCTV footage.

3. New payment cards sent to customers via courier should only be activated upon obtaining the customer's instruction. Online transactions should only be allowed if authorized by the customers. Authentication of customers' sensitive static information, such as personal identification number (PIN) or passwords, should be performed by the card issuer and not by third party payment processing service providers. Appropriate security mechanisms should also be implemented for card-not-present transactions via internet to reduce fraud risk associated with this type of transaction.

4. To enhance payment card security, cardholders should be notified promptly via transaction alerts on withdrawals/charges exceeding customer-defined

thresholds made on their payment cards. The transaction alert should include information such as source and amount of the transaction to assist customers in identifying a genuine transaction.

5. Fraud detection systems with behavioral scoring and correlation capabilities should be implemented to identify and curb fraudulent activities. Risk management parameters should be calibrated according to risks posed by cardholders, nature of transactions or other risk factors to enhance fraud detection capabilities. Follow-up actions for transactions exhibiting behavior which deviates significantly from a cardholder's usual card usage patterns should be instituted. These transactions should be investigated into and the cardholder's authorization obtained prior to completing the transaction.

DISCLOSURE REQUIREMENTS

- 1. General Requirement
BSIs offering electronic products and services (e-services) should adopt responsible privacy policies and information practices. They should provide disclosures that are clear and readily understandable, in writing, or in a form the consumers may print and keep.
BSIs should also ensure that consumers who sign-up for a new e-service are provided with disclosures (e.g. pamphlet) informing him of his rights as a consumer.
At a minimum, the following disclosures should be provided to protect consumers and inform them of their rights and responsibilities:
 - a. Information on the duties of the BSI and customers;
 - b. Information on who will be liable for unauthorized or fraudulent transactions;
 - c. Mode by which customers will be notified of changes in terms and conditions;
 - d. Information relating to how customers can lodge a complaint, and how a complaint may be investigated and resolved;
 - e. Disclosures that will help consumers in their decision-making (e.g., PDIC insured, etc.);
 - f. For internet environment, information that prompt in the BSI’s website to notify customers that they are leaving the BSI’s website and hence they are not protected by the privacy policies and security measures of the BSI when they hyperlink to third party’s website.
- 2. Disclosure Responsibility
 - a. Compliance officers should review BSI’s disclosure statements to determine

- whether they have been designed to meet the general and specific requirements set in the regulation;
- b. For BSIs that advertise deposit products and services on-line, they must verify that proper advertising disclosures are made (e.g. whether the product is insured or not by the PDIC; fees and charges associated with the product or services, etc.). Advertisements should be monitored to determine whether they are current, accurate, and compliant;
- c. For BSIs that issue various products like stored value cards, e-wallets, debit cards and credit cards, they must provide information to consumers regarding the features of each of these products to enable consumers to meaningfully distinguish them. Additionally, consumers would find it beneficial to receive information about the terms and conditions associated with their usage. Example of these disclosures include:
 - PDIC insured or non-insured status of the product;
 - Fees and charges associated with the purchase, use or redemption of the product;
 - Liability for loss;
 - Expiration dates, or limits on redemption; and
 - Toll-free telephone number for customer service, malfunction and error resolution.
- d. Whenever e-services are outsourced to third parties or service providers, the BSI should ensure that the vendors comply with the disclosure requirements of the Bangko Sentral.

ELECTRONIC SERVICES CONSUMER AWARENESS PROGRAM

To ensure security of transactions and personal information in electronic delivery channels, consumers should be oriented of their roles and responsibilities which, at a minimum, include the following:

1. Internet Products and Services
 - a) Secure Login ID and Password or PIN.
 - i. Do not disclose Login ID and Password or PIN.
 - ii. Do not store Login ID and Password or PIN on the computer.
 - iii. Regularly change password or PIN and avoid using easy-to-guess passwords such as names or birthdays. Password should be a combination of characters (uppercase and lowercase) and numbers and should be at least 6 digits in length.
 - b) Keep personal information private.
 - i. Do not disclose personal information such as address, mother’s maiden name, telephone number, social security number, bank account number or e-mail address — unless the one collecting the information is reliable and trustworthy.
 - c) Keep records of online transactions.
 - i. Regularly check transaction history details and statements to make sure that there are no unauthorized transactions.
 - ii. Review and reconcile monthly credit card and bank statements for any errors or unauthorized transactions promptly and thoroughly.
 - iii. Check e-mail for contacts by merchants with whom one is doing business. Merchants may send important information about transaction histories.
 - iv. Immediately notify the BSI if there are unauthorized entries or transactions in the account.
 - d) Check for the right and secure website.

- i. Before doing any online transactions or sending personal information, make sure that correct website has been accessed. Beware of bogus or “look alike” websites which are designed to deceive consumers.
 - ii. Check if the website is “secure” by checking the Universal Resource Locators (URLs) which should begin with “https” and a closed padlock icon on the status bar in the browser is displayed. To confirm authenticity of the site, double-click on the lock icon to display a security certificate information of the site.
 - iii. Always enter the URL of the website directly into the web browser. Avoid being re-directed to the website, or hyperlink to it from a website that may not be as secure.
 - iv. If possible, use software that encrypts or scrambles the information when sending sensitive information or performing e-banking transactions online.
 - e) Protect personal computer from hackers, viruses and malicious programs.
 - i. Install a personal firewall and a reputable anti-virus program to protect personal computer from virus attacks or malicious programs.
 - ii. Ensure that the anti-virus program is updated and runs at all times.
 - iii. Always keep the operating system and the web browser updated with the latest security patches, in order to protect against weaknesses or vulnerabilities.
 - iv. Always check with an updated anti-virus program when downloading a program or opening an attachment to ensure that it does not contain any virus.
 - v. Install updated scanner softwares to detect and eliminate malicious programs capable of capturing personal or financial information online.

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vi. Never download any file or software from sites or sources, which are not familiar or hyperlinks sent by strangers. Opening such files could expose the system to a computer virus that could hijack personal information, including password or PIN.

f) Do not leave computer unattended when logged-in.

i. Log-off from the internet banking site when computer is unattended, even if it is for a short while.

ii. Always remember to log-off when e-banking transactions have been completed.

iii. Clear the memory cache and transaction history after logging out from the website to remove account information. This would avoid incidents of the stored information being retrieved by unwanted parties.

g) Check the site's privacy policy and disclosures.

i. Read and understand website disclosures specifically on refund, shipping, account debit/credit policies and other terms and conditions.

ii. Before providing any personal financial information to a website, determine how the information will be used or shared with others.

iii. Check the site's statements about the security provided for the information divulged.

iv. Some websites' disclosures are easier to find than others — look at the bottom of the home page, on order forms or in the "About" or "FAQs" section of a site. If the customer is not comfortable with the policy, consider doing business elsewhere.

h) Other internet security measures:

i. Do not send any personal information particularly password or PIN via ordinary e-mail.

ii. Do not open other browser windows while doing online transactions.

iii. Avoid using shared or public personal computers in conducting financial transactions.

iv. Disable the "file and printer sharing" feature on the operating system if conducting financial transactions online.

v. Contact the concerned BSI to discuss security concerns and remedies to any online e-services account issues.

2. Other Electronic Products/Channels

a) Automated Teller Machine (ATM) and debit cards

i. Use ATMs that are familiar or that are in well-lit locations where one feels comfortable. If the machine is poorly lit or is in a hidden area, use another ATM.

ii. Have card ready before approaching the ATM. Avoid having to go through the wallet or purse to find the card.

iii. Do not use ATMs that appear to have been tampered with or otherwise altered. Report such condition to the BSI.

iv. Memorize ATM PIN and never disclose it with anyone. Do not keep those numbers or passwords in the wallet or purse. Never write them on the cards themselves. And avoid using easily available personal information like a birthday, nickname, mother's maiden name or consecutive numbers.

v. Be mindful of "shoulder surfers" when using ATMs. Stand close to the ATM and shield the keypad with hand when keying in the PIN and transaction amount.

vi. If the ATM is not working correctly, cancel the transaction and use a different ATM. If possible, report the problem to the BSI.

vii. Carefully secure card and cash in the wallet, handbag, or pocket before leaving the ATM.

viii. Do not leave the receipt behind. Compare ATM receipts to monthly statement. It is the best way to guard against fraud and it makes record-keeping easier.

ix. Do not let other people use your card. If card is lost or stolen, report the incident immediately to the BSI.

b) Credit cards

i. Never disclose credit card information to anyone. The fraudulent use of credit cards is not limited to the loss or theft of actual credit cards. A capable criminal only needs to know the credit card number to fraudulently make numerous charges against the account.

ii. Endorse or sign all credit cards as soon as they are received from the BSI.

iii. Like ATM card PINs, secure credit card PINs. Do not keep those numbers or passwords in the wallet or purse and never write them on the cards themselves.

iv. Photocopy both the front and back of all credit cards and keep the copies in a safe and secure location. This will facilitate in the immediate cancellation of the card if lost or stolen.

v. Carry only the minimum number of credit cards actually needed and never leave them unattended.

vi. Never allow credit card to use as reference (credit card number) or as an identification card.

vii. Never give your credit card account number over the telephone unless dealing with a reputable company or institution.

viii. When using credit cards, keep a constant eye on the card and the one handling it. Be aware of the “swipe and theft” scam using card skimmers. A skimmer is a machine that records the information from the magnetic stripe on a credit card to be downloaded onto a personal computer later. The card can be swiped on a skimmer by a dishonest person and that data can then be used to make duplicate copies of the credit card.

ix. Do not leave documents like bills, bank and credit card statements in an

unsecure place since these documents have direct access to credit card and/or deposit account information. Consider shredding sensitive documents rather than simply throwing them away. (Some people will go through the garbage to find this information).

x. Notify the BSI in advance of a change in address.

xi. Open billing statements promptly and reconcile card amounts each month.

xii. Do not let other people use your card. If card is lost or stolen, report the incident immediately to the BSI.

b) Mobile Phones/Devices

i. Do not disclose your Mobile Banking Pin (MPIN) to anyone.

ii. Regularly change the MPIN.

iii. Do not let other people use your mobile phone enrolled in a mobile banking service. If the phone is lost or stolen, report the incident immediately to the BSI.

iv. Be vigilant. Refrain from doing mobile banking transactions in a place where you observe the presence of “shoulder surfers”.

v. Keep a copy of the transaction reference number provided by the Bank whenever you perform a mobile banking transaction as an evidence that the specific transaction was actually executed.

Since customers may find it difficult to take in lengthy and complex advice, BSIs should devise effective methods and channels for communicating with them on security precautions. They may make use of multiple channels (e.g. BSI websites, alert messages on customers mobile phone, messages printed on customer statements, promotional leaflets, circumstances when BSI’s frontline staff communicate with their customers) to enforce these precautionary measures.

(Circular No. 808 dated 22 August 2013)

AUTHORIZATION FORM FOR QUERYING THE BANGKO SENTRAL
WATCHLIST FILES FOR SCREENING APPLICANTS AND CONFIRMING
APPOINTMENTS OF DIRECTORS AND OFFICIALS
(Appendix to Subsec. X143.5)

A U T H O R I Z A T I O N

I, _____, after being sworn in accordance with law, do hereby authorize the following, pursuant to the provisions of Subsec. X143.5(c), of the MORB:

- a) _____ (Name of Bank) _____, to conduct a background investigation on myself relative to my application for or appointment to the position of (position) in _____ (Name of Bank) _____ which include, among others, inquiring from the Watchlist Files of the BSP; and
- b) The BSP to disclose its findings pertinent to the aforementioned inquiry on the said watchlist files to _____ (Name of Bank) _____.

With the above authorization, I hereby waive my right to the confidentiality of the information that will be obtained as a result of the said inquiry, provided that disclosure of said information will be limited for the purpose of ascertaining my qualification or non-qualification for the said position.

IN WITNESS WHEREOF, I have hereunto set my hand this _____.

(Signature Over Printed Name)

SIGNED IN THE PRESENCE OF:

(Witness)

(Witness)

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ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES } S.S.
_____CITY }

BEFORE ME, this ____ day of _____ 200 ____ in _____
personally appeared the following person:

Name	Community Tax Certificate	Place	Date
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known to me to be the same person who executed the foregoing instrument and he
acknowledged to me to be the same person who executed the foregoing instrument and
he acknowledged to me that the same is his free act and deed.

This instrument, consisting of two (2) pages, including the page on which this
acknowledgment is written, has been signed on the left margin of each and every page
thereof by _____, and his witnesses, and sealed with my notarial seal.

IN WITNESS WHEREOF, I have hereunto set my hand, the day, year and place
above written.

Notary Public

Doc. No.: _____
Page No.: _____
Book No.: _____
Series of 200 _____

(CL-2006-046 dated 21 December 2006, as amended by CL-2007-001 dated 04 January 2007)

FINANCIAL REPORTING PACKAGE
[Appendix to Subsection X191.2 (2008 - X162.16)]

The *Financial Reporting Package (FRP)* is a set of financial statements for prudential reporting purposes composed of the Balance Sheet, Income Statement and Supporting Schedules. The FRP is primarily designed to align the Bangko Sentral reportorial requirements with the (1) provisions of the Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS) and (2) Basel 2 Capital Adequacy Framework. It is also designed to meet Bangko Sentral statistical requirements.

Organization of the Instructions of the FRP

This instruction is divided into the following sections:

- (1) The General Instructions, which describe the overall reporting requirements;
- (2) Structure of the FRP;
- (3) Manual of Accounts, which provides in the order presented in the Balance Sheet and the Income Statement the definitions of the accounts in the FRP;
- (4) Line Item Instructions for the Balance Sheet; Income Statements and Supporting Schedules; and
- (5) Report Formats, for solo and consolidated reports

In determining the required treatment of particular transactions or in determining the definitions of the various items, the General Instructions, the Structure of the FRP, Manual of Accounts and Line Item Instructions must be used jointly. A single section does not necessarily give the complete instructions for accomplishing the main report and schedules.

GENERAL INSTRUCTIONS

Who must Report on What Forms/ Schedules

All banks are required to prepare the FRP. The FRP shall be prepared on a solo and consolidated basis. Solo basis shall refer to the combined financial statements of the head office and branches/other offices. Consolidated basis shall refer to the combined financial statements of parent bank and subsidiaries consolidated on a line by line basis. Only banks with financial allied subsidiaries, excluding insurance subsidiaries, shall submit the report on consolidated basis.

The solo and consolidated FRP shall be prepared on a quarterly basis, except for the solo balance sheet and the following selected schedules which shall be prepared on a monthly basis.

- (1) Schedule 1 : Checks and Other Cash Items
- (2) Schedule 2 : Due from Other Banks
- (3) Schedule 3 : Financial Assets Held for Trading
- (4) Schedule 4a : Derivatives Held for Trading, Matrix of Counterparty and Type of Derivative Contracts
- (5) Schedule 5 : Financial Assets Designated at Fair Value Through Profit or Loss
- (6) Schedule 6 : Available for Sale Financial Assets
- (7) Schedule 7 : Held to Maturity Financial Assets
- (8) Schedule 8 : Unquoted Debt Securities Classified as Loans
- (9) Schedule 9 : Investment in Non Marketable Equity Securities

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- (10) Schedule 10 : Interbank Loans Receivables
- (11) Schedule 11 : Loans and Receivables – Others
- (12) Schedule 11a : Loans and Receivables – Others, Classified as to Status to 11a4
- (13) Schedule 11b : Restructured Loans and Receivables, Classified as to Status to 11b4
- (14) Schedule 11d : Loans and Receivables – Others, at Amortized Cost, Classified as to Type of Business/ Industry to 11d4
- (15) Schedule 11f : Schedule of Agri/Agra, Microfinance and SME Loans Receivables, Classified as to Counterparty
- (15) Schedule 12 : Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse and Securities Lending and Borrowing Transactions, By Counterpart
- (16) Schedule 15 :Equity Investment in Subsidiaries, Associates and Joint Ventures
- (17) Schedule 19 :Other Assets
- (19) Schedule 20 :Breakdown of Due from/to HO/Branches/ Agencies Abroad – Philippine Branch of a Foreign Bank
- (20) Schedule 22 :Deposit Liabilities Classified as to Type of Deposit
- (21) Schedule 23 :Due to Other Banks
- (18) Schedule 24 :Bills Payable
- (19) Schedule 28 : Other Liabilities

The solo and consolidated FRP shall be prepared on a quarterly basis, except for the solo balance sheet and the following selected schedules which shall be prepared

on a monthly basis.

All schedules shall be available to any type of reporting bank. Hence, schedules that do not apply to a particular bank should only be left blank when submitted.

Frequency of Reporting

The solo FRP, shall be submitted quarterly within fifteen (15) banking days after the end of the reference quarter. The solo balance sheet and the selected schedules listed above shall be submitted monthly within fifteen (15) banking days after the end of the reference month. The consolidated FRP, on the other hand, shall be submitted quarterly within thirty (30) banking days after end of reference quarter.

The following schedules or columns of particular schedules of the solo and/or consolidated FRP, however, are required to be submitted and/or accomplished only annually (i.e. end December of each year):

- (1) Schedule 6b : Available for Sale to 6b(3) Financial Assets ("Collateral and Other Credit Enhancements Received as Security for the Related Impaired and Past Due Assets" column)
- (2) Schedule 6c : Available for Sale to 6c(3) Financial Assets Movements in Allowances for Credit Losses
- (3) Schedule 7b : Fair Value of Held to Maturity Financial Assets
- (4) Schedule 7c : Held to Maturity to 7c(3) Financial Assets ("Collateral and Other Credit Enhancements Received as Security for the Related Impaired and Past Due Assets" column)

- (5) Schedule 7d : Held to Maturity
to 7d(3) Financial Assets
Movements in
Allowances for Credit
Losses
- (6) Schedule 8a : Fair Value of Unquoted
Debt Securities
Classified as Loans
- (7) Schedule 8b : Unquoted Debt
to 8b(3) Securities Classified as
Loans (“Collateral and
Other Credit
Enhancements
Received as Security
for the Relate
Impaired and Past Due
Assets” column)
- (8) Schedule 8c : Unquoted Debt
to 8c(3) Securities Classified as
Loans Movements in
Allowances for Credit
Losses
- (9) Schedule 11e : Loans and
to 11e(3) Receivables-Others
Classified as to Status
Per PAS 39
- (10) Schedule 15a : Investment in
Subsidiaries,
Associates and Joint
Ventures
(Fair Value Column)
- (11) Schedule 18 : Tax Assets and
Liabilities
- (12) Schedule 26 : Fair Value of Financial
Liabilities

Rules of Consolidation

In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated on a line-by-line basis in accordance with PAS 27 "Consolidated and Separate Financial Statements", while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Financial/non-financial allied/non-allied associates shall be accounted for using the

equity method in accordance with the provisions of PAS 28 "Investments in Associates".

For purposes of preparing solo financial statements, financial/non-financial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall also be accounted for using the equity method.

For purposes of preparing consolidated reports, the "Peso accounts", "Foreign accounts", "FCDU/EFCDU" and "Foreign Offices", and their supporting schedules shall not be filled-up/accomplished.

Amounts Reported

All amounts reported in the FRP must be in absolute figures including two (2) decimal places, except for "Losses" columns/rows which shall be reported in negative figures, i.e., enclosed in parentheses.

STRUCTURE OF THE FRP

(1) The FRP is designed to reflect the two (2) types of books as follows¹: (1) regular banking book, which shall be comprised of (a) peso accounts; and (b) foreign accounts and (2) FCDU/EFCDU as allowed under Circular No. 1389 dated 13 April 1993, as amended. Transactions in the foreign regular and FCDU/EFCDU books shall be recorded at their foreign currency amounts and their local currency equivalent using the Philippine Dealing System (PDS) Peso/US Dollar closing rate and the New York US Dollar/Third Currencies closing rate.

(2) The FRP generally groups transactions into the different counterparties of the reporting bank. Foreign offices and branches of local banks abroad shall classify their counterparties from the perspective of the Head Office. Counterparties are broadly classified as to residents and non-residents

¹ Provide Columns (in US\$ and Peso Equivalent) for foreign accounts, where applicable.

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and further sub-classified into the different sectors and institutional units defined as follows:

(a) *Residents* – This refers to individuals or institutional units that have a center of economic interest in the economic territory of the Philippines.

(a.1) Government

(i) *National Government* – This refers to the Philippine National Government and its agencies such as departments, bureaus, offices, and instrumentalities, but excluding local government units and government-owned and controlled corporations.

(ii) *Local Government Units (LGUs)* – This refers to the Philippine government units below the level of national government, such as city, provincial and municipal governments.

(iii) *Government-Owned and Controlled Corporations (GOCCs)* – This refers to any agency organized as a stock or non-stock corporation vested with functions relating to public needs whether governmental or proprietary in nature, and owned by the government directly or indirectly or through its instrumentalities either wholly, or where applicable as in the case of stock corporations to the extent of at least fifty-one percent (51%) of its capital stock: *Provided, That* GOCCs may be further categorized by the DBM, the Civil Service Commission and the COA for the purpose of the exercise and discharge of their respective powers, functions and responsibilities with respect to such corporations.

- *Social Security Institutions (SSIs)* – This refers to the social security agencies such as the Employees Compensation Commission (ECC), Government Service Insurance System (GSIS), Philippine Health Insurance Corporation (PhilHealth) and Social Security System (SSS).

- *Other FIs* – This refers to GOCCs that are primarily engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation but are not classified as banks such as the Home Guaranty Corporation (HGC), Trade and Investment Development Corporation (TIDCORP) and Small Business Corporation (SBC)

- *Non-FIs* – This refers to GOCCs that may not be classified as a social security institution nor other FIs.

(a.2) BSP

(a.3) Banks

- *UBs/KBs* – This refers to UBs and KBs as defined under existing laws and regulations.

- *Government Banks* – This refers to UBs/KBs owned or controlled by the national government such as the DBP, the LBP and the Al-Amanah Islamic Investment Bank of the Philippines.

- *Non-Government Banks* – This refers to private UBs/KBs, which are neither owned nor controlled by the national government, including branches of foreign banks licensed as UBs/KBs operating in the Philippines.

(ii) *Other Banks* – This refers to banks other than UBs/KBs i.e., TBs, RBs and Coop. Banks.

(a.4) Private Corporations

(i) *Financial* - This refers to private corporations that are primarily engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation but are not classified as banks. This shall include among others, insurance corporations, pension funds that are constituted as separate from the units that have created them, NSSLAs and QBs. Except in the case of “Loans and Receivables – Interbank Loans and Receivables” where QBs shall be a separate line item.

(ii) *Non-Financial* – This refers to private corporations whose principal activity is the production of goods or non-financial services for sale.

(b) *Non-Residents* – This refers to individuals or institutional units that have a center of economic interest outside the economic territory of the Philippines.

(b.1) Central Government/Central Bank – *Central Government* refers to the central government of a foreign country which is regarded as such by a recognized banking supervisory authority in that country. *Central Bank* refers to the national FI (or institutions) that exercises control over key aspects of the financial system and carries out such activities as issuing currency, managing international reserves, and providing credit to other depository corporations.

(b.2) *Public Sector Entities* – This refers to entities which are regarded as such by a recognized banking supervisory authority in the country in which they are incorporated.

(b.3) Banks

(i) *Off-Shore Banking Units (OBUs)* – This refers to a branch, subsidiary or affiliate of a foreign banking corporation which is duly authorized by the Bangko Sentral to transact offshore banking business in the Philippines.

(ii) *Other Banks* – This refers to the non-resident banks other than OBUs.

(b.4) Corporations – This refers to non-resident corporations.

(c) *Multilateral Agencies* – This refers to the World Bank Group comprised of the IBRD and the IFC, ADB, AfDB, the EBRD, the IADB, the EIB, the NIB; the CDB, the CEDB and such others as may be recognized by the Bangko Sentral.

(3) The supporting schedules in the FRP contain an Additional Information section which requires disclosure of information necessary for validating compliance with

other Bangko Sentral requirements and for statistical purposes. Among the information required to be disclosed are the following:

(a) Classification as to Original Term, which shall be reported only for solo reports

(a.1) Short Term (1 year or less)

(a.2) Medium Term (> 1 year to 5 years)

(a.3) Long Term (> 5 years)

(b) Geographic Regions of Non-Resident Counterparties

(b.1) Advanced Economies – Australia; Austria; Belgium; Canada; Cyprus; Denmark; Finland; France; Germany; Greece; Hong Kong SAR; Iceland; Ireland; Israel; Italy; Japan; Korea; Luxembourg; Netherlands; New Zealand; Norway; Portugal; Singapore; Slovenia; Spain; Sweden; Switzerland; Taiwan Province of China; United Kingdom and United States

(b.2) Regions Excluding Advanced Economies

(i) Africa – Algeria; Morocco; Tunisia and Sub-Sahara

Of which; Sub-Sahara – South Africa; Djibouti; Ethiopia; Sudan; Burundi; Congo, Democratic Republic of; Kenya; Rwanda; Tanzania; Uganda; Angola; Botswana; Comoros; Lesotho; Madagascar; Malawi; Mauritius; Mozambique, Republic of; Namibia; Seychelles; Swaziland; Zambia; Zimbabwe; Cape Verde; Gambia, The; Ghana; Guinea; Mauritania; Nigeria; Sao Tome and Principe; Sierra Leone; Benin; Burkina Faso; Cameroon; Central African Republic; Chad; Congo, Republic of; Cote d'Ivoire; Equatorial Guinea, Gabon; Guinea – Bissau; Mali; Niger; Senegal; and Togo.

(ii) Central and Eastern Europe - Albania; Bulgaria; Croatia; Czech Republic; Estonia; Hungary; Latvia; Lithuania; Macedonia, FYR; Malta; Poland; Romania; Slovak Republic and Turkey.

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- (iii) Commonwealth of Independent States – Armenia; Azerbaijan; Belarus; Georgia; Kazakhstan; Kyrgyz Republic; Moldova; Mongolia; Russia; Tajikistan; Turkmenistan; Ukraine and Uzbekistan.
- (iv) Developing Asia – Bangladesh; Bhutan; Cambodia; China; Fiji; India; Indonesia; Kiribati; Lao PDR; Malaysia; Maldives; Myanmar; Nepal; Pakistan; Papua New Guinea; Samoa; Solomon Islands; Sri Lanka; Thailand; Tonga; Vanuatu and Vietnam.
- (v) Middle East – Bahrain; Iran I.R.; Kuwait; Libya; Oman; Qatar; Saudi Arabia; United Arab Emirates; Yemen, Republic of; Egypt; Jordan; Lebanon and Syrian Arab Republic.
- (vi) Western Hemisphere – Mexico; Argentina; Brazil; Bolivia; Chile; Colombia; Ecuador; Paraguay; Peru; Uruguay; Venezuela; Costa Rica; El Salvador;

Guatemala; Honduras; Nicaragua; Panama; Antigua and Barbuda; Bahamas, The; Barbados; Belize; Dominica; Dominican Republic; Grenada; Guyana; Haiti; Jamaica; St. Kitts and Nevis; St. Lucia; St. Vincent and the Grenadines; Suriname and Trinidad and Tobago.

Definition of the other items and instructions for filling-out the Additional Information section of each supporting schedule are presented in the Line Item Instructions.

(Circular No. 512 dated 03 February 2006, as amended by Circular Nos. 890 dated 02 November 2015, 837 dated 18 June 2014, M-2014-009 dated 17 March 2014, M-2011-052 dated 16 September 2011, M-2010-045 dated 14 December 2010, Circular Nos. 701 dated 13 December 2010, 691 dated 23 June 2010, M-2010-032 dated 27 September 2010, M-2010-021 dated 20 July 2010, M-2010-016 dated 16 June 2010, M-2009-035 dated 28 September 2009, Circular No. 658 dated 23 June 2009, M-2008-036 dated 28 November 2008, M-2008-012 dated 14 March 2008, M-2008-011 dated 07 March 2008, Circular No. 601 dated 13 February 2008, M-2007-044 dated 27 December 2007 and Circular No. 568 dated 08 May 2007)

**GUIDELINES ON THE PROHIBITION AGAINST THE USE OF FUNDS
FROM NON-RESIDENT SOURCES FOR PLACEMENTS IN THE
BANGKO SENTRAL'S TERM DEPOSIT FACILITY (TDF) AND THE
OVERNIGHT DEPOSIT FACILITY (ODF)¹
(Appendix to Subsection X601.8)**

The TDF and ODF are monetary policy instruments deployed by the Bangko Sentral for the purpose of managing domestic liquidity in the financial system. These should not be made available for opportunistic investment activities funded from non-resident sources. Furthermore, placements in the TDF and the ODF are contractual in nature and thus, shall be governed by the intent of the contracting parties. In keeping with the nature of this facility, all counterparties of the Bangko Sentral are required to comply with the following conditions:

- 1. Eligible banks shall not place in the TDF and in the ODF funds obtained, directly or indirectly, from non-residents.
- 2. Investments of trust departments/entities in the TDF and the ODF shall not be sourced directly or indirectly, from funds of non-residents.

An eligible bank or trust department/entity is required to submit to the Bangko Sentral's Treasury Department a notarized Letter of Undertaking (LOU) (Annex "A" for banks and Annex "B" for trust departments/

entities) committing to the above conditions to be qualified as a counterparty of the Bangko Sentral TDF and the ODF.

It is the responsibility of an eligible bank or trust department/entity to have in place the appropriate internal policies and monitoring and assurance mechanisms consistent with its LOU.

The Bangko Sentral reserves the right to verify compliance with the above conditions. Whenever the Bangko Sentral has reason to believe that an eligible bank or trust department/entity is unable or unwilling to comply with the terms and conditions for the access to the TDF or the ODF, the Bangko Sentral may limit, suspend, or deny access by the subject bank, its trust department or a trust entity to the TDF and/or the ODF.

The eligible bank or trust department/entity shall report to the appropriate department of the SES all existing TDF and ODF placements not consistent with these guidelines. Such placements shall not be renewed and shall be terminated upon maturity.

(As amended by M-2016-016 dated 18 November 2016 and Circular No. 913 dated 02 June 2016)

¹ The Monetary Board, in its Resolution No. 1945 dated 27 October 2016 approved the discontinuance of access of trust entities to the Bangko Sentral deposit facilities. Trust entities shall no longer have outstanding placement in the ODF and TDF by 30 June 2017.

(Institution's Letterhead)

Date: _____

The Treasury Department
Bangko Sentral ng Pilipinas
A. Mabini St., Malate, Manila

Letter of Undertaking

Pursuant to Subsec. X601.8, which prohibits the use of funds sourced from non-residents from being placed in the Term Deposit Facility (TDF) and in the Overnight Deposit Facility (ODF) of the Bangko Sentral, the (Name of Institution) hereby undertakes not to place in the TDF and in the ODF, as applicable, funds obtained from non-residents.

The (Name of Institution) shall put in place appropriate internal policies and monitoring and assurance mechanisms consistent with the above conditions. Furthermore, it shall make available pertinent information and documents requested by the Bangko Sentral to verify compliance with the terms and conditions on its access to the Bangko Sentral's TDF and ODF.

(Treasurer)
Signature Over Printed Name

(President or Equivalent Position)
Signature Over Printed Name

SUBSCRIBED AND SWORN to before me this _____ day of 20____ at _____,
affiants exhibiting their _____, to wit:

Notary Public

Doc No. _____;
Page No. _____;
Book No. _____;
Series of 20 _____;

(Institution's Letterhead)

Date: _____

The Treasury Department
Bangko Sentral ng Pilipinas
A. Mabini St., Malate, Manila

Letter of Undertaking

Pursuant to Subsec. X601.8, which prohibits the use of funds sourced from non-residents from being placed in the Term Deposit Facility (TDF) and in the Overnight Deposit Facility (ODF) of the Bangko Sentral, the _____ (Name of Trust Department/Trust Entity) hereby undertakes not to place in the TDF and in the ODF, as applicable, funds obtained from non-residents.

The _____ (Name of Trust Department/Trust Entity) shall put in place appropriate internal policies and monitoring and assurance mechanisms consistent with the above conditions. Furthermore, it shall make available pertinent information and documents requested by the Bangko Sentral to verify compliance with the terms and conditions on its access to the Bangko Sentral's TDF and ODF.

(Treasurer)
Signature Over Printed Name

(President or Equivalent Position)
Signature Over Printed Name

SUBSCRIBED AND SWORN to before me this _____ day of 20____ at _____, affiants exhibiting their _____, to wit:

Notary Public

Doc No. _____;
Page No. _____;
Book No. _____;
Series of 20_____;

**ACCESS OF TRUST DEPARTMENTS/ENTITIES WHICH ARE
COUNTERPARTIES IN THE TERM DEPOSIT FACILITY (TDF)
AND THE OVERNIGHT DEPOSIT FACILITY (ODF) OF THE
BANGKO SENTRAL¹
(Appendix to Subsection X409.2)**

The Monetary Board affirmed that the TDF and the ODF are monetary policy instruments made available to banks for the primary purpose of managing domestic liquidity in the financial system. Trust departments of banks acting as trustees and trust entities are also given access to the facility. Consistent with the contractual nature of TDF and ODF placements, the Bangko Sentral reiterates its intent to limit access to the TDF and the ODF to eligible banks and their trust departments, and trust entities, for their own account or acting as trustees pursuant to the following revised guidelines:

1. Access by trust departments/entities to the TDF and the ODF shall be limited to the fund management activities of trust accounts allowed under existing regulations. With respect to pooled funds, only Unit Investment Trust Funds shall be allowed access to the TDF and the ODF. Other fiduciary business including agency accounts and investment management activities shall not have access to the said facilities. Furthermore, trust departments/entities shall not allow the creation/utilization of any other trust accounts whose purpose is to merely access the TDF and the ODF.

2. Trust departments/entities are required to submit to the Bangko Sentral's Treasury Department a notarized Letter of Undertaking (LOU) (Annex "A") committing to the terms of this Appendix to be qualified as counterparty of the Bangko Sentral TDF and ODF.

3. It is the responsibility of the trust departments/entities to have in place appropriate internal policies and monitoring mechanisms to ensure compliance with this Appendix and commitments under the LOU.

4. The Bangko Sentral reserves the right to verify compliance with the terms of this Appendix. Whenever the Bangko Sentral has reason to believe that a bank, its trust department or any trust entity is unwilling or unable to comply with this Appendix, the Bangko Sentral may limit, suspend, or deny access by the bank and/or trust department or any trust entity to the TDF and the ODF. The Bangko Sentral also has the right to seek reimbursement of or to forfeit interest earnings on TDF and ODF placements made in contravention of the terms of this Appendix. The resort to the foregoing remedies is without prejudice to the imposition by Bangko Sentral of administrative sanctions and its filing of criminal charges.
(As amended by M-2016-016 dated 18 November 2016 and Circular No. 913 dated 02 June 2016)

¹ The Monetary Board, in its Resolution No. 1945 dated 27 October 2016 approved the discontinuance of access of trust entities to the Bangko Sentral deposit facilities. Trust entities shall no longer have outstanding placement in the ODF and TDF by 30 June 2017.

(Institution's Letterhead)

Date: _____

The Treasury Department
Bangko Sentral ng Pilipinas
A. Mabini St., Malate, Manila

Letter of Undertaking

Pursuant to *Appendix 78a*, which sets out the guidelines for the access of trust departments of banks and trust entities to the Bangko Sentral ng Pilipinas (BSP) Term Deposit Facility (TDF) and the Overnight Deposit Facility (ODF), (name of trust department/trust entity) hereby undertake that its placements in the BSP-TDF and ODF shall be limited to the fund management activities of trust accounts covered by existing regulations. With respect to pooled funds, only Unit Investment Trust Funds shall access the TDF and the ODF. Likewise, it shall not allow the creation/utilization of any other trust accounts whose purpose is to merely access the TDF and the ODF.

The (name of trust department/trust entity) shall put in place appropriate internal policies and monitoring mechanisms to ensure compliance with *Appendix 78a* and this LOU. Furthermore, it shall provide and make available pertinent information and documents requested by the Bangko Sentral to verify compliance with the terms and conditions on its access to the BSP-TDF and ODF. It also undertakes to authorize the Bangko Sentral to be reimbursed and/or to forfeit interest earnings on TDF and ODF placements determined to have been made in contravention of *Appendix 78a*.

(Trust Officer)
Signature Over Printed Name

(President or Equivalent Position)
Signature Over Printed Name

SUBSCRIBED AND SWORN to before me this _____ day of 20____ at _____,
affiants exhibiting their _____, to wit:

Notary Public

Doc No. _____;
Page No. _____;
Book No. _____;
Series of 20 _____;

**GUIDELINES ON THE PROHIBITION AGAINST
NON-RESIDENTS FROM INVESTING IN THE SDA FACILITY**
(Appendix to Sections 1390, 2390 and Subsection X409.2)

(Deleted by Circular No. 913 dated 02 June 2016)

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**ACCESS OF TRUST DEPARTMENTS/ENTITIES WHICH ARE COUNTERPARTIES
IN THE SPECIAL DEPOSIT ACCOUNT (SDA) FACILITY
OF THE BANGKO SENTRAL
(Appendix to Subsection X409.2)**

(Deleted by Circular No. 913 dated 02 June 2016)

**GUIDELINES IN DETERMINING COMPLIANCE WITH CEILINGS
ON EQUITY INVESTMENTS**
(Appendix to Secs. X378, X380, 1381, and X383, Subsecs. X379.1, 1381.1, and 1381.2)

The following are the guidelines in determining compliance with ceilings on equity investments prescribed under Sections/Subsections X378¹, X379.1, X380, 1381, 1381.1, 1381.2 and X383, in view of the adoption of the PFRS/PAS:

a. Components of equity investment. Equity securities booked under the Designated at Fair Value Through Profit or Loss (DFVPL), Available-For-Sale, Investment in Non-Marketable Equity Securities (INMES) and Equity Investments in Subsidiaries/Associates/Joint Ventures categories shall all be considered in computing for compliance with the ceilings on equity investments prescribed under Sec. X383 and Subsec. X379.1: *Provided*, That Underwritten equity securities booked under the Available-For-Sale category shall be excluded from total equity investments for a period of ninety (90) calendar days from the date of issuance thereof: *Provided, further*, That upon prescription of the 90-calendar day period, such equity securities shall be booked according to intention and shall then be included in the computation of compliance with the prescribed ceilings.

For this purpose, the following financial instruments shall likewise be included in the computation of compliance with the prescribed ceilings:

(1) Equity securities including those accounted for as debt instruments booked under the Held for Trading (HFT) category, which remain unsold for more than one (1) year.

(2) Mandatorily redeemable preferred shares and preferred shares of similar nature that are accounted for as debt instruments, which may also be booked under the HTM or Unquoted Debt Securities Classified as Loans (UDSCL) categories.

(3) Investments in Hybrid Tier 1 securities that are issued in the form of perpetual preferred shares.

b. Shares of stock acquired in settlement of loans. Shares of stock of another corporation acquired in settlement of loans shall be excluded from total equity investments for purposes of determining compliance with the prescribed ceilings on equity investments under Secs. X378, X380, 1381 and X383 and Subsecs. X379.1, 1381.1 and 1381.2: *Provided*, That confirmation of the Monetary Board shall be required in the following cases within thirty (30) days from the date of acquisition thereof:

(1) Acquisition of shares of stock of non-allied enterprises by banks without universal banking authority, otherwise prohibited in Sec. 1381;

(2) Acquisition of shares of stock of non-allied enterprises other than those specified under Subsec. 1381.1 by banks with universal banking authority, otherwise requiring prior Monetary Board approval;

(3) Acquisition of shares of stock of non-allied enterprises by UBs in excess of limits provided in Subsec. 1381.2;

(4) Acquisition of shares of stock of venture capital corporation in excess of limits provided in Subsec. X379.1;

(5) Acquisition of shares of stock of financial allied enterprises by banks, in excess of limits provided in Sec. X378;

(6) Acquisition of shares of stock of non-financial allied enterprises by TBs and RBs in excess of limit provided in Sec. X380; and

(7) Acquisition of shares of stock in excess of limits provided in Sec. X383;

Provided, further, That said confirmation shall be subject, among others, to the

¹ amended by Circular No. 530 dated 19 May 2006

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condition that such shares of stock shall be disposed of within a reasonable period not to exceed five (5) years from the date of acquisition thereof.

c. Basis of computation. Compliance with the prescribed ceilings on equity investments shall be determined at each time additional equity securities are acquired or shall be considered in the computation as in the case of prescription of the two (2) year period for underwritten equity securities or in the case of equity securities booked under the HFT category, which remain unsold for more than one (1) year. Further, this shall be computed using the carrying amount of the equity securities, which shall be the fair value (marked-to-market amount) for those investments booked under HFT, DFVPL and Available- For-Sale, amortized cost for those investments booked under HTM and UDSCl or the cost and adjusted cost for those booked under INMES and Equity Investment in Subsidiaries/Associates/Joint Ventures, respectively, net of Allowance for Credit Losses where applicable.

For this purpose, adjusted cost shall refer to the acquisition cost of Investments in Subsidiaries/Associates/Joint Ventures adjusted for the investor's share of the profit or loss of investee after the date of acquisition and other adjustments to the carrying amount of the investment.

d. Transitory Provisions. Banks with acquired shares of stock in settlement of loans that fall under any of the following cases, which have not been previously

confirmed by the Monetary Board, shall seek confirmation by the Monetary Board of such acquisition not later than ninety (90) banking days from 05 October 2007.

(1) Those without universal banking authority with acquired shares of stocks of non-allied enterprises in settlement of loans prohibited in Sec. 1381;

(2) Those with universal banking authority with acquired shares of stock non-allied enterprises in settlement of loans other than those specified under Subsec. 1381.1;

(3) Those with universal banking authority with acquired shares of stock of non-allied enterprises in settlement of loans that are in excess of limits prescribed in Subsec. 1381.2;

(4) Those with acquired shares of stock of financial allied enterprises in settlement of loans that are in excess of limits provided in Sec. X378; and

(5) TBs and RBs with acquired shares of stock of non-financial allied enterprises in settlement of loans that are in excess of limit provided in Sec. X380.

Provided, That said confirmation shall be subject, among others, to the condition that such shares of stock shall be disposed of within a reasonable period not to exceed five (5) years from 05 October 2007.

e. Sanctions. Any violation of the provisions of this Appendix shall subject the bank and the director/s and/or officer/s concerned to the sanctions provided under Section 37 of R.A. No. 7653.

(Circular No. 581 dated 14 September 2007, as amended by Circular No. 671 dated 27 November 2009)

GUIDELINES AND PROCEDURES GOVERNING CURRENCY DEPOSITS AND
WITHDRAWALS OF BANKS FOR CREDIT TO AND DEBIT FROM THEIR
DEMAND DEPOSIT ACCOUNTS WITH THE BANGKO SENTRAL
(Appendix to Section X950)

The Bangko Sentral Cash Department (CD) and Regional Offices/Branches shall accept all types of currency notes (i.e., fit, unfit, mixed)/coins (i.e., fit, unfit) for deposit except mutilated currency notes/coins, which must be presented for determination of redemption/exchange value by the Currency Issue and Integrity Office (CIIO).

Banks are encouraged to arrange direct exchange of their accumulated excess new/fit currency notes/coins with other banks to optimize circulation of said notes/coins and to deposit only unfit currency to their DDAs with the Bangko Sentral.

To facilitate the expeditious receipt of banks’ cash deposits and servicing of their cash withdrawals by the Bangko Sentral, all banks, including their provincial branches shall observe the following guidelines and procedures when making cash deposits and/or withdrawals with the Bangko Sentral CD or any of the Bangko Sentral Regional Offices/Branches:

a. The operating hours for currency transactions are as follows:

Transactions	CD	Bangko Sentral Regional Offices and Branches
Deposit	8:00 AM-3:00 PM	9:00 AM-2:00 PM
Withdrawal	9:00 AM-4:00 PM	9:00 AM-12:00 PM

b. The Bangko Sentral shall accept new/fit, unfit and mixed banknote deposits (for CD only) only after conducting bundle and wrapper count. New/fit notes need not be verified piece-by-piece by the Bangko Sentral before the same shall be re-issued to service cash withdrawals of banks.

c. Bank deposits of new/fit currency notes referred to in Item "b" above not

withdrawn by the banks shall be scheduled for piece-by-piece verification by the Bangko Sentral.

d. The Bangko Sentral may accept coin deposits in standard quantity per denomination in containers prescribed by the Bangko Sentral.

CURRENCY DEPOSITS

e. Head Offices/Cash Centers of banks in Metro Manila or their designated cash centers/main branch in the provinces shall make direct deposits (on a cash basis) of currency notes and coins with the Bangko Sentral CD or the nearest Bangko Sentral Regional Office/Branch, respectively. The currency notes shall be duly classified as new/fit, unfit, or mixed in accordance with the “Currency Guide for Bank Tellers, Money Counters and Cash Custodian” prepared by the Bangko Sentral CD, and by denomination.

f. In areas with no immediate access to the Bangko Sentral Regional Offices/Branches, provincial branches of banks shall arrange with their respective Head Offices the shipment of their unfit notes/coins for deposit with the Bangko Sentral CD. Cost of shipment and other related expenses to be incurred shall solely be for the account of the bank concerned.

g. Banks shall provide securely sealed transparent plastic bags prescribed by the Bangko Sentral for their deposits at the Bangko Sentral CD; separately for the new, fit, unfit and mixed notes. Each plastic bag shall have uniform quantity of twenty (20) bundles¹ of same series, denomination and classification with the following dimensions: Length - 45.67"; Width - 12.99"; and Height - 5.12". The deposit slip for each

¹ Each bundle of banknotes consists of 1,000 pieces, or ten (10) wrappers of 100 pieces of banknotes of same denomination per wrapper.

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type/category of currency notes shall be clearly labeled as "NEW", "FIT", "UNFIT" or "MIXED" as the case maybe.

At the Bangko Sentral Regional Offices/Branches, banks shall deposit notes using securely sealed transparent plastic bags containing twenty (20) bundles¹ of one (1) or various denominations, stacked vertically.² Each plastic bag shall exclusively contain either fit or unfit notes, and shall have dimensions as follows: Length - 47"; Width - 12.50"; and Height - 5.25," or as may be specified by RMASS. Each plastic bag shall also have a deposit slip indicating the type/category of notes contained (i.e., "FIT" or "UNFIT").

A deposit slip for each type/category shall be prepared in advance (properly and accurately) by the bank representative to facilitate smooth flow of transactions and avoid errors in accomplishing the forms. Amount in words and in figures should be consistent and all details should be provided.

h. To facilitate handling of cash deposits, notes and coins shall be deposited in the following manner:

- (1) Banknotes
 - (a) *Type of banknote deposits*- Banks can deposit banknotes to the Bangko Sentral, either through:
 - (i) *Regular Deposits*- refer to deposits which do not bear any restriction as to volume and amount. These banknote deposits should be placed in the prescribed clear plastic bags, with each containing exactly twenty (20) bundles of banknotes; and
 - (ii) *Over-the-Counter Deposits (for CD only)*- refer to deposits which range from a minimum of one (1) wrapper to a maximum of four (4) bundles.
 - (b) *Classifications of Banknote Deposits*- Deposits must be sorted by series and denomination, as follows:
 - (i) *New/Fit Banknote Deposits* refer to:
 - (aa) Clean notes such that the prints are

- clear and the genuineness is obvious;
- (ab) Notes without writing and/or heavy creases; and
- (ac) Notes that can maintain their upright position when held at the mid-portion of one of the shorter borders.
- (ii) *Unfit Banknote Deposits* refer to banknotes that do not qualify as fit banknotes.
- (iii) *Mixed Banknote Deposits* (for CD only) refer to deposits which consist of combination of fit and unfit banknotes in a bundle or wrapper.
- (c) For deposits at the Bangko Sentral CD, each standard currency bag shall contain currency notes amounting to:

Denomination	Value per Prescribed Bag
1000-Piso	P 20,000,000.00
500-Piso	10,000,000.00
200-Piso	4,000,000.00
100-Piso	2,000,000.00
50-Piso	1,000,000.00
20-Piso	400,000.00

- However, the Bangko Sentral Regional Offices/Branches shall accept deposits in uniform quantity of twenty (20) bundles of one (1) or various denominations per plastic bag.
- (d) *Wrapper strap*- The wrapper strap binding the 100 pieces of notes should be white in color and plainly marked with:
 - (i) the denomination and amount of currency;
 - (ii) the date of bank's verification;
 - (iii) the printed name(s) and signature(s) of depositing bank's verifier; and
 - (iv) the name of the depositing bank.
- (e) Tags in each plastic bag, indicating the date of deposit, name of bank, classification, tag number, denomination, quantity, amount, name and signature of depositor/bank representative, and, name

¹ Each bundle of banknotes consists of 1,000 pieces, or ten (10) wrappers of 100 pieces of banknotes of same denomination per wrapper.
² The measure prescribing the use of transparent plastic bags for banknote deposits relative to the Bangko Sentral Regional Offices/Branches shall be effective the first banking day of January 2017.

and signature of the Bangko Sentral accountable officer (for CD)/Teller (RMAS), shall be placed inside and attached outside the plastic bag, using the following color coding:

- (i) *New/Fit Notes*- brown tag for CD; and white tag for Regional Offices/Branches.
- (ii) *Unfit Notes*- pink tag for CD; and blue tag for Regional Offices/Branches.
- (iii) *Mixed Notes*- green tag for CD.
- (f) Pins, clips, staple wires, and stickers/adhesive residue, if any, must be removed prior to deposit.

(2) Coins

- (a) *Type of coin deposits*- Banks may deposit coins to the Bangko Sentral through:
 - (i) *Regular Deposits*- refer to coin deposits that are in multiples of fifty (50) bags¹ per denomination for CD, while for RMAS, twenty (20) bags of one (1) or various denominations and by classification (fit or unfit) and placed in the prescribed bag².
 - (ii) *Over-the-counter Deposits (CD only)*- refers to deposits which range from a minimum of one (1) bag to a maximum of four (4) bags.
 - (b) Coin deposits shall be sorted into fit and unfit with the latter defined in Subsec. X950.6c. Coin deposits shall be free from adhesive tapes, and shall not be inserted with foreign coins, token coins or other objects.
 - (c) Individual bags shall contain standard number of pieces and amount per denomination as follows:

Denomination	Color of Tags (Cash Department)	Color of Tags (Bangko Sentral Regional Offices and Branches)	Quantity (pieces)	Value	Approximate Weight per bag (in Kgs)
10-Piso	green	green	1,200	P12,000.00	10.44
5-Piso	pink	green	1,500	7,500.00	11.55
1-Piso	brown	green	2,000	2,000.00	12.20
25-Sentimo	brown	green	3,000	750.00	11.40
10-Sentimo	brown	green	4,500	450.00	11.25
5-Sentimo	brown	green	5,000	250.00	9.50
1-Sentimo	brown	green	5,000	50.00	10.00

(d) For CD, the tag in each coin bag, indicating the date of deposit, name of bank, classification, tag number, denomination, quantity, amount, name and signature of depositor/bank representative, and name and signature of the Bangko Sentral accountable officer, shall be placed inside and another tag attached outside the coin bag.

For the Bangko Sentral Regional Offices and Branches, a tag shall be placed inside, and another tag attached outside each bag. The tags shall contain the date of deposit, name of the bank, classification denomination, quantity, and amount/value of notes deposited. A separate deposit tag (format prescribed by the Bangko Sentral) shall be prepared for every deposit of twenty (20) coin bags of one (1) or various denominations. The deposit tag shall contain the name of the bank, date of deposit, tag number, denomination, quantity, amount of coins deposited, name and signature of bank representative.

- i. Upon delivery of the currency notes/ coins to the Bangko Sentral CD/Regional Office/Branch, the representative of the depositing bank shall witness the bundle and wrapper count for notes and bag count for coins made by the Bangko Sentral CD

¹ Each bag shall contain coins of the same denomination.

² The measure prescribing the twenty (20) bag-limit per tag number for coin deposits relative to the Bangko Sentral Regional Offices/Branches shall be effective the first banking day of January 2017.

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accountable officer and the Bangko Sentral Regional Office/Branch teller. If found in order, the said Bangko Sentral officer/teller shall acknowledge receipt of the currency note/coin deposits.

j. Deposits of currency notes at the Bangko Sentral CD and/or Regional Offices/Branches need not be taken out of the container since contents are seen and can be counted through the transparent plastic bag.

k. The CD/Regional Offices/Branches of the Bangko Sentral may refuse acceptance of deposits that do not conform to the foregoing guidelines and procedures, such as, but not limited to, the following:

- (1) Banknotes:
 - (a) Shortage or overage in bundle and/or wrapper count;
 - (b) Misclassification and insertion of other denomination/s and series;
 - (c) Discrepancies in denomination and/or amount against the Deposit Tags and/or Cash Deposit Slip;
 - (d) Worn-out, damaged, tampered and/or unsealed transparent plastic bag; and
 - (e) Arrival of bank representatives and armored vehicles beyond the designated time.
- (2) Coins:
 - (a) Coin bags for deposit contain dust/flour/residue;
 - (b) Discrepancy in the number of bags against the deposit tag and/or cash deposit slip; and
 - (c) Arrival of bank representatives and armored vehicles beyond the designated time.

CURRENCY WITHDRAWALS
l. The Cash Department (CD) and the Bangko Sentral Regional Offices/Branches shall service cash withdrawals of banks from unverified fit currency deposits and/or from verified fit/new currency in stock. In case of withdrawals using unverified fit currency

deposits (that are still sealed), any discrepancy found during verification shall be for the account of the depositing bank.

m. Only the authorized representative of the depositor-bank may open the sealed bag(s) of unverified fit note deposits, from which the Bangko Sentral shall service the cash withdrawal of another bank. It is understood that said representative, who upon at least one (1) day notice, shall make himself available to service the withdrawals of another bank, whenever assigned to the Bangko Sentral CD/Regional Office/Branch to effect cash withdrawals.

n. The manner of withdrawal shall be as follows:

(1) At CD, cash withdrawals of banks shall be effected using the Electronic Cash Withdrawal System. On Day 1, Cash Order Slip (COS) shall be sent by banks through fax to CD not later than 12:00 noon. COS shall be accurately prepared and submitted without alterations/erasures. If there are corrections to the detail/s in the COS, at least one of the two (2) signatories to the COS shall validate the correction/s on Day 2.

On Day 2, cash withdrawal shall be settled through PhilPaSS and bank representatives shall present to CD the original and authenticated COS with their final order.

For banknotes, banks may opt to withdraw these in bundles/boxes (new or fit notes) and/or in cassette-ready form (consisting of two (2) bundles or 2,000 pieces reissued banknotes; for CD only).

At the Bangko Sentral CD, emergency withdrawals may be allowed but not to exceed two (2) times a week.

(2) At the Bangko Sentral Regional Offices/Branches, cash withdrawal shall be made using the electronic cash transaction system of RMASS [e.g., Integrated Regional Information System (IRIS)]. Banks shall transmit their withdrawal transactions via the system not

later than 4:00 pm, one (1) business day prior to the date of actual withdrawal.¹ On the day of the withdrawal, required documents (such as Authority to Debit, the Bangko Sentral demand deposit check/s, and Authority to Withdraw) shall be presented by the bank not later than 12:00 noon. Otherwise, the withdrawal shall no longer be processed.

Cash withdrawals that were not transmitted within the prescribed period shall only be considered on a case-to-case basis, upon formal written request/ explanation from the bank, at the discretion of the Bangko Sentral Regional Office or Branch Head.

(3) Bank Representatives

(a) Bank representatives must wear the prescribed uniform, i.e., pocketless pants

(for both CD and RMASS); and T-shirt with the bank's logo and name printed at the back (for CD only).

(b) Personal belongings, including cell phones, are not allowed in the loading bay area.

o. The authorized representative of the withdrawing bank shall conduct box/bag/ bundle/wrapper count of the notes, and bag/ box count of the coins withdrawn from the new/verified fit/unverified fit currency note/ coin deposits witnessed by authorized representative of the Bangko Sentral. Additionally, for withdrawals of unverified fit notes and coins, the representative of the bank from whose deposits the unverified notes/ coins are withdrawn shall witness the count. *(M-2007-027 dated 19 September 2007, as amended by Circular No. 931 dated 09 December 2016 and M-2009-021 dated 16 June 2009)*

¹ The requirement for banks to submit their withdrawal transactions thru the electronic cash transaction system of RMASS (e.g., IRIS) not later than 4:00 p.m., one (1) business day prior to the date of actual withdrawal shall be effective the first banking day of January 2017.

**APPRAISAL AND LOAN VALUATION FRAMEWORK
FOR RIGHTS-BASED SECURE TENURE ARRANGEMENTS
AS COLLATERAL SUBSTITUTES
(Appendix to Subsec. X361.5)**

In the appraisal of real properties or rights offered as collateral substitutes under the housing microfinance program, the form of the secure tenure instrument must be considered. Generally, two (2) appraisal methodologies or approaches may be applied: the market value must be determined using the market data or sales comparison approach for properties under freehold and right to occupy and/or build (in respect of the housing unit or improvement to be used as collateral substitute), and for properties under Lease agreement and usufruct, the value of the Leasehold interest of the borrower must be determined.

Market value

Market value is the most probable price that a property should obtain in a competitive and open market under all conditions requisite of a fair sale, with the buyer and seller each acting prudently and knowledgeably, and assuming that the price is not affected by undue stimulus. In determining the market value of the property, the appraiser must use the Market Data or Sales Comparison approach. This approach attempts to compare the subject property’s value with similar properties and adjust its value according to the presence or absence of value determining characteristics. This approach is based upon the principles of supply and demand and upon the principle of substitution.

Valuation of leasehold

A leasehold is the real right of the lessee acquired from an owner (the lessor) of a piece of real estate to occupy and use it for a fixed term or period at a stipulated rental rate, and subject to conditions set forth in a written document of lease. The lease may include the right of the lessee to improve the land, mortgage the building, sublet all or part of the property, and assign or sell his leasehold.

The task of the appraiser is to estimate the present worth or “market value” of the imputed rental income of the lessee derived from the property over and above the rent required to be paid by him to the lessor under the terms of the lease and his interest in any improvements made by him. In evaluating a leasehold, the appraiser must have a thorough knowledge of all the salient terms and conditions of the primary or main lease and any subleases, for these affect the value of the leasehold considerably, such as:

- a. Rental. If the rental to be paid under the terms of the lease is below the rental prevailing in the market, the leasehold may have a substantial value. Where the rental actually paid is the prevailing rental value of the property, the leasehold may have no value. Prevailing rental rates refer to the rental rates of comparable properties within comparable locations.
- b. Term of Lease. A long-term lease or the right of the lessee to renew the lease at the expiration of the original term of the lease may add value to the leasehold.
- c. Payment for Improvement
- d. Option to Purchase
- e. Leasehold Restrictions

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Loan Valuation Based on Appraisal
Valuation Framework or Methodology

The valuation of properties under the housing microfinance loan program will be based on prevailing market values of real estate properties (freehold and right to

occupy and/or build) or prevailing rental rates (leasehold/usufruct). The standard practice of participating banks in determining the loan to collateral ratios shall be adopted.The following terms provided in the table below may be applied:

FORM OF SECURE TENURE OR PROPERTY RIGHT	NATURE AND DESCRIPTION OF ACCEPTABLE INSTRUMENT	TERMS AND CONDITIONS	APPRAISAL METHODOLOGY	LOAN VALUATION
Usufruct	<i>Usufruct agreement or contract</i> – Duly executed contract executed by the owner of the property granting the usufructuary/ beneficiary/ client the right to use, possess, and enjoy the real property including its fruits and other rights or benefits	The Term of Lease must not be less than the term of the loan.	Valuation of Leasehold Interest	70% of the appraised value of the collateral
Lease	<i>Lease agreement or contract</i> – Duly executed contract granting the lessee the right to use and possess the real property for a fixed long-term period in consideration of rental payments	The Term of Lease must not be less than the term of the loan	Valuation of Leasehold Interest	70% of the appraised value of the collateral
Freehold	<i>OCT/TCT</i> – Torrens title issued by the Register of Deeds evidencing absolute ownership of real property <i>Interim Title, Contract to Sell or Conditional Sale</i> – Duly executed contract or other legal instrument issued by the appropriate government agency indicating full payment for the purchase of the property or its conditional sale or conveyance to be perfected upon full payment of the purchase price and/or the fulfillment of other conditions	Adjustment of appraisal value due to documentary nature or status of instrument must be taken into account	Market Data Approach	90% of the appraised value of the collateral

FORM OF SECURE TENURE OR PROPERTY RIGHT	NATURE AND DESCRIPTION OF ACCEPTABLE INSTRUMENT	TERMS AND CONDITIONS	APPRAISAL METHODOLOGY	LOAN VALUATION
Right to occupy and/or build	(1) Certification validly issued by the appropriate government agency stating that the borrower/client has the right to occupy, build and/or acquire the property he/she is possessing being an eligible beneficiary of a public or private social housing program or a Presidential proclamation, or (2) certification or written acknowledgment from the owner of the property that the borrower/client has the owner's consent and permission to occupy and build on such property	Adjustment of appraisal value due to documentary nature or status of instrument must be taken into account	Market Data Approach (as to the improvement or housing unit)	70% of the appraised value of the collateral

(MAB-2008-015 dated 19 March 2008)

FORMAT CERTIFICATION ON DEPOSIT/CASH DELIVERY SERVICES
(Appendix to Sec. X266)

Name of Bank

CERTIFICATION

We, _____, Executive Vice President (or its equivalent position) and _____, Compliance Officer, certify that the (Name of Bank) shall render deposit pick-up/cash delivery services beyond regular banking hours/days to the following clients:

Servicing Banking Unit ^{1/}	Client Name and Address ^{2/}	Deposit Pick-up/Cash Delivery services	
		Days	Hours

1/ The name of the branch or banking unit that will render the Deposit Pick-up/Cash Delivery Services
2/ Name and address of client requesting deposit pick-up/cash delivery services

We further certify that in the performance of deposit pick-up/cash delivery services to the above clients, the (Name of Bank) shall comply with all the conditions provided under Section X266 of the Manual of Regulations for Banks on Deposit Pick-up/Cash Delivery Services.

This certification executed on _____ is being submitted in compliance with the requirements of abovementioned regulation.

Signed:

Signed:

(Name of Executive Vice President)
Position:

(Name of Compliance Officer)
Position:

Subscribed and sworn to before me, this _____ day of _____, affiants exhibiting their valid identifications indicated below:

<u>Name</u>	<u>Government ID/Passport No.</u>	<u>Date/Place Issued</u>
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Notary Public

(Circular No. 614 dated 14 July 2008)

**BASIC STANDARDS IN THE ADMINISTRATION OF TRUST, OTHER FIDUCIARY
AND INVESTMENT MANAGEMENT ACCOUNTS**
(Appendix to Subsec. X401)

I. Introduction

Trust and other fiduciary business and investment management activities have evolved with the changes in the financial market and advancement in technology. These innovations have allowed trust entities to expand the scope of trust products and services offered to customers, thus increasing their exposure to various risks. As trust entities grow more diverse, necessarily policies and procedures as well as risk management practices must keep pace. The basic standards would provide common processes for an efficient operation and administration of trust, other fiduciary and investment management activities across the trust industry.

II. Statement of policy

It is the policy of the BSP to provide adequate level of protection to investors who, under a fiduciary arrangement, engage the services or avail of products of trust entities which are required to observe prudence in the exercise of their fiduciary responsibility. Along this line, the BSP prescribes basic standards for the efficient administration and operation of trust and other fiduciary business and investment management activities.

III. Standards

The basic standards in the administration of trust, other fiduciary and investment management accounts are meant to address the significant areas of operations and provide minimum set of requirements and procedures:

A. Account acceptance and review processes

1. Pre-acceptance account review

This review must document that the trust entity (TE) can effectively administer

the account. It shall be covered by a written policy which shall contain, among other things, the types of trust, other fiduciary and investment management accounts that are desirable and consistent with the TE's risk strategies and the specific conditions for accepting new accounts, and approved by the Trust Committee, or the Trust Officer, or subordinate officer of the trust department, authorized by the board of directors or its functional oversight equivalent, in the case of foreign banks and institutions.

The review process entails the thorough and complete review of the client's/account's characteristics and investment profile, including the assets/properties to be contributed/delivered. Non-financial/non-traditional assets (i.e., real estate and the like) which are more likely to be illiquid shall be carefully reviewed prior to acceptance to ensure that the TE only accepts accounts which hold assets it may be able to properly manage.

Prior to the acceptance of a fiduciary account, the TE shall review the underlying instrument (trust agreement or contract) for potential conflicts of interest. If such conflict exists, the TE shall take appropriate action to address such condition before the account is accepted.

In cases where the TE is chosen as a successor trustee or investment manager, the TE shall perform a review and evaluation of all assets to be delivered to the TE to determine how these would serve the client's objectives, whether the TE can properly handle such assets and to assess any possible issue/problem which may arise with respect to such assets before acceptance of such assets and/or assumption of the trust, fiduciary or investment management relationship.

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2. Establishment and post-acceptance review

Acceptance policies for new accounts shall, at a minimum, include the following processes and/or requirements:

(a) *Account opening process.* This process defines the TE's policies and procedures for client/account identification, consistent with the TE's KYC policy for compliance with anti-money laundering regulations; identification of the needs of the client; the objective(s) of the engagement; the vehicle to be used; and the account's investment parameters. The trust officer or other authorized personnel of the trust department shall conduct the account opening process for trust, fiduciary and investment management accounts. In the case of UIT Funds, only authorized branch managers/officers as well as UIT marketing personnel, who have all successfully undergone the required certification/accreditation/licensing process, may perform said process for UIT Fund clients. The account opening process shall at least involve the following:

(a) As a general rule, client profiling shall be performed for all UIT Fund and regular trust, other fiduciary and investment management accounts via a duly acknowledged Client Suitability Assessment (CSA), which aims to provide the TE with information leading to the prudent design of investment packages, suited to a particular client or investment account. The CSA, however, shall not be required for the following trust and other fiduciary accounts:

- (i) court trust;
- (ii) legislated and quasi-judicial trust;
- (iii) trust under indenture;
- (iv) facility/loan agency;
- (v) transfer agency;
- (vi) depository and reorganization;
- (vii) escrow;
- (viii) custodianship;
- (ix) safekeeping; and
- (x) institutional trust – pre-need plans.

The profiling process, to be documented through a CSA Form signed by the concerned parties, shall be undertaken on a per client basis, which shall emphasize the level of risk tolerance of the client.

- CSA

The TE shall obtain adequate information from the client to determine the appropriateness of the fiduciary product/service to be provided and ensure the suitability of the investment product/portfolio/strategy to be recommended to each client. It shall provide prospective clients with client suitability questionnaire and require them to accomplish the same prior to the acceptance of the account and execution of a transaction.

For this purpose, the TE shall make an assessment of the client's level of financial sophistication and consider factors relevant to the creation and management of, or participation in, an investment portfolio, such as but not limited to, the specific needs and unique circumstances of the client and/or beneficiary/(ies), basic characteristics of the clients' investment and experience, financial constraints, risk tolerance, tax considerations and regulatory requirements.

The same CSA process shall be applied by the TE for directional accounts.

- Minimum information required for CSA:

i. Personal/Institutional data. Minimum personal/institutional information that are unique to a natural or juridical client, which shall also cover demographics and KYC information; the identity of beneficiaries, where applicable, and approximate portion of total assets administered/managed.

ii. Investment objective. A clear statement or definition of the client's investment goals/purposes to be achieved through a particular trust, fiduciary or investment product or service. The client may opt to open several accounts, each one (1) with specific investment objectives

separate and distinct from the other accounts.

iii. Investment experience. A list of various types of investment the prospective client is familiar with, acquired from actual/personal investment experience, or of similar investment circumstances.

iv. Knowledge and financial situation. For complex transactions where the level of risk involved is greater, the TE must take into account the knowledge, experience and financial situation of the client or potential client to assess the level of investment sophistication. This may include the careful assessment whether the specific type of financial instrument/service/portfolio/strategy is in line with the client's disclosed financial capacity.

Such assessment is necessary as there are significant risks involved on financial investments (e.g., derivatives), the type of transaction (e.g. sale of options), the characteristics of the order (e.g., size or price specifications) or the frequency of the trading.

v. Investment time frame and liquidity requirement. The TE is able to organize the portfolio in a manner that will provide for anticipated liquidity requirement through redemption of principal contribution or earnings.

vi. Risk tolerance. Allow the TE to classify clients in accordance with its own pre-set internal risk classification.

Based on the results of the CSA, classification of clients by the TE may include, but need not be limited to the following:

i. *Conservative*. Client wants an investment strategy where the primary goal is to prevent the loss of principal at all times, and where the client prefers investment grade and highly liquid assets, government securities, Republic of the Philippines' bonds (ROPs), deposits with local banks/branches of foreign banks operating in the

Philippines, and deposits with FIs in any foreign country: *Provided*, That said FI has at least an investment grade credit rating from a reputable international credit rating agency. For purposes of investing in a UIT Fund, a client wants an investment strategy where the primary objective is to prevent the loss of principal at all times and where the fund is invested in deposits with local banks/branches of foreign banks operating in the Philippines and with FI in any foreign country: *Provided*, That said FI has at least an investment grade credit rating from a reputable international credit rating agency.

ii. *Moderate*. Client wants a portfolio which may provide potential returns on investment that are higher than the regular traditional deposit products and client is aware that a higher return is accompanied by a higher level of risk. Client is willing to expose the funds to a certain level of risks in consideration for higher returns.

iii. *Aggressive*. Client wants a portfolio which may provide appreciation of capital over time and client is willing to accept higher risks involving volatility of returns and even possible loss of investment in return for potential higher long-term results.

- Investment policy statement

The TE shall have in place a method by which suitability of investment is determined based on the results of the CSA and formulated via an Investment Policy Statement (IPS). It shall communicate to prospective clients the results of the assessment, recommend the investment product/portfolio/strategy, and explain the reasons why, on the basis of the given information, its recommendation is to the best interest of the client as of a defined timeframe. The TE shall make a recommendation only after having reasonably determined that the proposed investment is suitable to the client's and/or beneficiary's financial situation, investment experience, and investment objectives.

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The IPS is a clear reference frame for investment decisions and must be based on the investment objectives and risk tolerance of the client. It must include, at a minimum, a description of the following:

- i. Investment objective;
- ii. Investment strategy-indicating how assets will be allocated indicating the agreed portfolio mix;
- iii. Investment performance review – indicating proposed market benchmarks, if any and the desired frequency of the performance review/reporting;
- iv. Investment limits – identifies any limitation which the client may have for the portfolio such as investment restrictions (e.g., prohibited investments) and client's consent for taking losses.

For UIT Fund, the IPS is equivalent to the investment objective of the fund specifically stated in the Declaration of Trust.

- Option of client to re- classification

Generally, the TE shall recommend the investment product/portfolio/strategy suitable to the client based on the results of the CSA. The TE may, however, provide a process for allowing clients to invest in investment products/ portfolio/strategy with a higher risk than those corresponding to the CSA profile results. A client who exercises the option to be re-classified outside the CSA process thereby waives some of the protection afforded by these guidelines. Such re-classification may be allowed subject to the observance of the following:

- i. The client shall state in writing to the TE that -
 - He does not agree with or accept the recommendation of the TE on the investment product/portfolio/strategy appropriate to the client's profile based on the results of the CSA;
 - He would like to avail of the investment product/portfolio/strategy other than that which is consistent with the results of the CSA;

- He requests/intends to be re-classified, either generally or in respect to a particular investment/service/ transaction/ product; and

- He fully understands and is willing to take the risks incidental to the investment product/portfolio/strategy to be availed of.

- ii. The TE shall issue a clear written warning to the client of the protections he may lose and conversely, of the risks that he is exposed to.

- iii. The TE shall have taken all reasonable steps to ensure that the client meets all relevant requirements as provided for in the TE's written policies.

- Frequency of CSA and IPS

- i. The CSA shall be performed and the IPS shall be formulated and executed prior to the opening of the account;

- ii. The TE shall update the CSA and the IPS at least every three (3) years except in the following instances;

- Whenever updates are necessitated by the client, upon notice/advise to the TE, on account of a change in personal/financial circumstances or preferences, the TE shall adjust/modify its investment strategy/ portfolio and recommendation, subject to the conformity of the client;

- Whenever managed trust, other fiduciary, and investment management accounts express intention to invest in complex investment products such as financial derivatives, the TE shall ensure that the CSA and the IPS are updated at least annually. Otherwise, the TE shall not make new/additional investments in complex investment products.

- iii. The TE shall ensure that periodic written notices given to clients reminding them of such updates are received/ acknowledged by clients or their authorized representatives;

- iv. Updated CSA and IPS shall be acknowledged by the client;

- v. The frequency of review shall be included as a provision in the written agreement; and

vi. The latest CSA and IPS will continue to be applied for any subsequent principal contributions to the account, until these are amended or updated by the client.

(b) Identification of degree of discretion granted by client to the TE. This process involves the determination of the extent of discretion granted to the TE to manage the client's portfolio.

(1) Discretionary. The TE has authority or discretion to invest the funds/property of the client in accordance with the parameters set forth by the client. Such authority of the TE which obtained a composite Trust Rating of "4" in the latest BSP examination will not be subject to the investment limitations provided under Subsecs. X409.2 and X409.3 for trust and other fiduciary accounts and Subsecs. X411.4 and X411.5 for investment management accounts, respectively; and

(2) Non-discretionary. Investment activity of the TE is directed by the client or limited only to specific securities or properties and expressly stipulated in the agreement or upon written instruction of the client.

(3) Documentation. The trust, fiduciary or investment management relationship shall be formally established through a written legal document such as the trust or investment management agreement. The engagement documents shall clearly specify the extent of fiduciary assignments/responsibilities of the TE and articulate the nature and limits of each party's status as trustor/principal or trustee/agent. Policies and procedures shall provide that trust or investment management agreements are signed by the trust officer or , subordinate officer of the trust department, or in the case of UIT Funds, branch managers/officers duly authorized by the board of directors.

The documentation process must also consider the following:

(a) The Agreement must conform to the requirements provided under Subsec. X409.1 for trust and other fiduciary accounts

and Subsec. X411.1 for investment management accounts. In addition, the Agreement shall contain the following provisions:

(i) A description of the services to be provided;

(ii) All charges relating to the services or instruments envisaged and how the charges are calculated;

(iii) The obligations of the client with respect to the transactions envisaged, in particular his financial commitments towards the TE; and

(iv) For engagements involving management of assets or properties, the degree of discretion granted to the trustee or agent must be clearly defined and stated in the agreement;

(b) The Agreement shall be in plain language understandable by the client and/or personnel of the TE responsible for explaining the contents of the agreement to the client.

(c) For complex investment products such as financial derivatives instruments or those that use synthetic investment vehicles, the TE shall disclose to the client and require client's prior written conformity to the following:

(i) Key features of investment services and financial instruments envisaged, according to the nature of such instruments and services;

(ii) The type(s) of instruments and transactions envisaged;

(iii) The obligations of the TE with respect to the transactions envisaged, in particular, its reporting and notice obligations to the clients; and

(iv) An appropriate disclosure bringing to the client's attention the risks involved in the transactions envisaged.

(d) In order to give a fair and adequate description of the investment service or financial instrument, the TE shall provide a clearly stated and easily understood Risk Disclosure Statement to its clients, which

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forms part of or attached to the trust, fiduciary or investment management agreement. The Risk Disclosure Statement shall contain, among other things, the following provisions:

(i) Cautionary statement on the general risks of investing or associated with financial instruments, i.e., if the market is not good, an investor may not be able to get back his principal or original investment. Such statement must be given due prominence, and not to be concealed or masked in any way by the wording, design or format of the information provided;

(ii) If the investment outlet is exposed to any major or specific risks, a description and explanation of such risks shall be clearly stated; and

(iii) Advisory statement that for complex investment products, said instruments can be subject to sudden and sharp falls in value such that the client may lose its/his entire investment, and, whenever applicable, be obligated to provide extra funding in case it/he is required to pay more later.

Additional risk disclosures may be provided as appropriate.

The TE must ensure that the trust, fiduciary and investment management agreements and documents have been reviewed and found to be legally in order.

B. Account administration

It is the fundamental duty of a fiduciary to administer an account solely in the interest of clients. The duty of loyalty is a paramount importance and underlies the entire administration of trust, other fiduciary and investment management accounts. A successful administration will meet the needs of both clients and beneficiaries in a safe and productive manner.

Account administration basically involves three (3) processes, namely; (1) periodic review of existing accounts, (2) credit process and (3) investment process.

(1) Periodic review of existing accounts
The board of directors and Trust

Committee shall formulate and implement a policy to ensure that a comprehensive review of trust, fiduciary and investment management accounts (including collective investment schemes such as UIT Funds) shall be conducted. The periodic review of managed accounts shall be aligned with the provisions on the review and updating of the CSA and IPS. The board of directors may delegate the conduct of account review to the Trust Officer or Trust Department Committee created for that purpose. The policy shall likewise indicate the scope of the account review depending upon the nature and types of trust, fiduciary and investment management accounts managed.

A comprehensive accounts review, which shall entail an administrative as well as investments review, shall be performed on a periodic basis to ascertain that the account is being managed in accordance with the instrument creating the trust and other fiduciary relationship. The administrative review of an account is taken to determine whether the portfolio/assets are appropriate, individually and collectively, for the account, while an investment review is used to analyze the investment performance of an account and reaffirm or modify the pertinent investment policy statement, including asset allocation guidelines. Whether the administrative and investment review are performed separately or simultaneously, the reviewing authority shall be able to determine if certain portfolio/assets are no longer appropriate for the account, (i.e., not consistent with the requirements of the client) and to take proper action through prudent investment practices to change the structure or composition of the assets.

The periodic review process also involves disclosure of information on the investment portfolio and the relevant investing activities. Regardless of the degree of discretion granted by the client to the TE, the former assumes full risk on the

investment and related activities, and counterparties. Relevant changes in the TE's organization or investment policies that may affect the client's decision to continue the services of the TE shall be disclosed to the client.

In the case of non-discretionary public interest accounts such as employee benefit/retirement or pension funds, due diligence review of the investment portfolio by the TE shall include providing investors with appropriate information needed to make an informed investment decision and avoid possible conflict of interest and self-dealing situations.

The TE should be able to show (in addition to the specific written directive from the client) what it has done in the exercise of due diligence and prudence on its part to protect the interest of the client and/or beneficiaries, especially for accounts of public interest like retirement/pension fund accounts.

The TE shall keep its clients informed of the investment and related activities by rendering periodic reports and financial statements prescribed under Subsec. X425.1 and as necessary. The types of reports and statements and the frequency of their submission must be clearly specified in the TE's written policies and procedures.

The TE shall also establish a system that enables a trust account representative or officer to periodically contact clients and/or beneficiaries to determine whether their financial objectives and circumstances have changed.

(2) Credit process

Each trust entity shall define its credit process in relation to the discharge of the TE's investment function. The process ensures credit worthiness of investment undertakings including dealings and relationship with counterparties. It also serves to institutionalize the independence of the credit process of the TE. The credit process must at least cover the following:

a. *Credit policies.* Trust entities must clearly define its credit policies and processes, including the use of internal and external credit rating and approval process relative to the delivery of its instrument function. The TE can share credit information with the bank proper subject to proper delineation and documentation. The credit process shall show the following at the minimum:

- i. Clear credit process flow, from initiation of the lending activities envisioned by the TE up to the execution of actual investment;
- ii. Credit criteria and rating used;
- iii. Manner by which the TE handles the information, including confidential and material data, which is shared between and among the departments, subsidiaries or affiliates of the TE; and
- iv. Clear delineation of duties and responsibilities of each of the departments, subsidiaries and affiliates of the TE, where such groups or entities share the credit process.

b. *Counterparty accreditation process.* The TE must clearly define the policies and the processes it will undertake to accredit counterparties, including the bank proper, and its subsidiaries and affiliates, for their investment trading functions. It may use or avail itself of the accreditation process of its bank proper provided there is proper delineation of functions. The counterparty accreditation process shall show the following at the minimum:

- i. Clear accreditation process flow from the initiation of credit activities up to the actual usage of lines;
- ii. Credit criteria and rating used;
- iii. Manner by which the TE handles the information, including confidential and material data, which are shared between and among the departments, subsidiaries or affiliates of the TE;
- iv. Usage, duties and responsibilities of each of the department, subsidiaries and

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affiliates of the TE, where there is sharing of credit lines between and among these concerned groups/entities; and

v. Clear delineation of duties and responsibilities of each of the departments, subsidiaries and affiliates of the TE, where such groups or entities share the accreditation credit process.

(3) Investment process

This process defines the investment policies and procedures, including decision-making processes, undertaken by the TE in the execution of its fund/asset management function. The primary objective of such process is to create a structure that will assure TEs observe prudence in investment activities at all levels, preservation of capital, diversification, a reasonable level of risk as well as undivided loyalty to each client and adherence to established structure for the TE's investment undertakings. The investment process covers a broad range of activities; thus, the investment policies shall clearly outline the parameters that, at a minimum, include the following:

a. *Overall investment philosophy, standards and practices.* A general statement of principles that guides the portfolio manager in the management of investments outlined in the board-approved policy, along with a discussion on the practices and standards to be implemented to achieve the desired result.

b. *Investment Policies and Processes.* Defines the policies and the processes undertaken to create the portfolio to ensure the proper understanding of the client's preferences.

i. Profiling of client. Aims to understand the level of maturity of the client relevant to the creation of an appropriate portfolio.

ii. Portfolio construction for custom-made portfolios. Includes the process of researching and selecting recommended portfolio and setting objectives or strategies for diversification by types and classes of securities into general and specialized portfolios.

- Asset allocation. Outlines the process and criteria for selecting and evaluating different asset classes identified to be appropriate for the client's profile and investment objective. It includes the allocation of desired tenors in conjunction with the client or portfolio profile based on the CSA or IPS. The asset allocation may be based on percentage to total funds managed by the TE or stated in absolute amount whichever is preferred by the client.

- Security selection. Policies and procedures on the selection of investment outlets, including investment advisory, must be in place. This involves the selection of issuers for each of the identified asset classes. The process provides for the review of investment performance using risk parameters and comparison to appropriate benchmarks. It shall also identify the documentation required for all investment decisions.

If the TE uses approved lists of investments, there shall be an outline of the criteria for the selection and monitoring of such investments, as well as a description of the overall process for addition to and deletion from the lists.

- Benchmark selection/creation. Selects or crafts the benchmarks to reflect the desired return of the portfolio and to measure the performance of the portfolio manager. The TE shall be required to measure performance based on benchmarks to gauge or measure the performance of the account. The TE must have clear definition of its benchmarking policy.

- Limits. Identifies any limitations on portfolio management which the client may impose on the TE. These limitations have to be specific as to the nature of the portfolio, such as but not limited to, core holdings, investment in competitor companies, and companies engaged in vices.

- Risk disclosure statement. A clear and appropriately worded statement/s to disclose different risks to clients of the

various investment undertakings of the investment manager done in behalf of the client.

iii. Internal policies on trade allocation. Defines the institution's policies in ensuring timely, fair and equitable allocation of investments across investing portfolios.

iv. Diversification of discretionary investments. The TE shall have a policy on the general diversification requirements for asset administration, as well as the process implemented to monitor and control deviations from policy guidelines.

v. A TE shall have access to timely and competent economic analyses and forecasts for the capital markets and other products in which its clients will be investing. TEs engaged in more complex transactions may consider providing an economic and securities research unit that continually monitors global trends and capital markets. This unit provides necessary forecasts of capital market expectations, currency relationships, interest rate movements, commodity prices, and expected returns of asset classes and individual investment instruments, which help the TE establish appropriate investment policies and strategies, select appropriate investments, and manage risks effectively.

vi. The TE shall have a process that will confirm trust personnel with investment functions know and follow the BOD-approved investment policies and processes.

c. *Selection and use of brokers/ dealers.* The quality of execution is an important determinant in broker selection. In selecting brokers/dealers, a TE must consider the following minimum standards and criteria:

i. Execution capability and ability to handle specialized transactions;

ii. Commission rates and other compensation;

iii. Financial strength, including operating results and adequacy of capital and liquidity;

iv. Past record of good and timely delivery and payment on trades;

v. Value of services provided, including research; and

vi. Available information about the broker from other broker customers, regulators, and self-regulated organizations authorized by the SEC.

The TE with large portfolio may opt to evaluate broker performance using a formalized point scoring system. A list of approved brokers shall be made available by the TE, reviewed periodically and updated at least annually.

d. *Best practices.* The TE shall document best practices policies and processes to institutionalize proper safeguards for the protection of its clients and itself. At a minimum, the policies must include the following standards:

i. Best execution. The TE shall use reasonable diligence to ensure that investment trades are executed in a timely manner and on the best available terms that are favorable to the client under prevailing market conditions as can be reasonably obtained elsewhere with an acceptable counterparty. For related counterparties, no purchase/sale must be made for discretionary accounts without considering at least two (2) competitive quotes from other sources. The policy on best execution must document processes to warrant such execution is readily and operationally verifiable.

ii. Chinese wall. A clear policy on Chinese Wall aims to protect the institution from conflict of interest arising from varying functions carried by the TE in relation to credit (debt), shareholder, and investment position taking. The policy shall state the duties and responsibilities of the TE and each department including that of the bank proper and subsidiaries and affiliates should transactions involve the concerned departments and entities.

iii. Personnel investment policies. These policies aim to ensure honest and fair discharge of investment trading functions of all qualified personnel. Qualified personnel

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are those that may have access to information on clients and investment position-taking of clients, investment manager or portfolios. The use of such information may be abused and detrimental to the clients. The policy shall state the duties and responsibilities of each qualified personnel in relation to trading and portfolio management activities including allowed and not allowed transactions as well as sanctions in case of violations.

iv. Confidentiality and materiality of Information. The TE must keep information about past, current and prospective clients confidential, unless disclosure is authorized in writing by the client or required by law and the information involve illegal activities perpetrated by the client. It must ensure safekeeping of confidential and material information and prevent the abuse of such information to the detriment of the institution or its clients.

v. Fair dealing. The TE shall document dealing practices to ensure fair, honest and professional practices in accordance with the best interest of the client and counterparties at all times and for the integrity of the market. It must ensure that any representations or other communications made and information provided to the client are accurate and not misleading. The TE must also take care not to discriminate against any client but treat all clients in a fair and impartial manner.

vi. Diligence and reasonable basis. In conducting its investment services, the TE shall act with skill, and care and diligence, and in the best interests of its clients and the integrity of the market. The duty of due diligence is intertwined with the duty to maintain independence and objectivity in providing investment recommendations or taking investment actions. When providing advice to a client, the TE shall act diligently and make certain that its advice and recommendations to clients are based on thorough analysis and take into account available alternatives.

- The TE shall take all reasonable steps to execute promptly client orders in accordance with the instruction of clients.

- The TE, when acting for or with clients, shall always execute client orders on the best available terms.

- The TE shall ensure that transactions executed on behalf of clients are promptly and fairly allocated to the accounts of the clients on whose behalf the transactions were executed.

Where a client opts not to accept the recommendation of the TE and chooses to purchase another investment product which is not recommended, the TE may proceed with the client's request/ instruction, provided it shall document the decision of the client and highlight to him/her that it is his/her responsibility to ensure the suitability of the product selected.

vii. In-House or related party transactions handling. The TE shall define the policies in handling related-interest transaction to ensure that the best interest of clients prevails at all times and all dealings are above board. It must conform to the requirements of Subsecs. X409.3 and X411.5.

viii. Valuation. The TE shall document the institution's valuation process to show the sources of prices, either market or historical value, and the formula used to derive the NAV of investment portfolios. Valuation shall be understood, compliant with written policies and operating procedures, and used consistently within the TE. The TE must ensure that the valuation processes of service providers, custodians, and other subcontractors are compatible with those of the TE and in compliance with relevant statutory or regulatory valuation standards.

Risk officers shall document the accuracy and reliability of all valuation processes and data sources and ensure that valuations are completed as required by internal policies and procedures and regulatory reporting standards.

e. *Conflicts of interests.* These may arise when the TE exercises any discretion where mutually opposing interests are involved. The most serious conflict of interest is self-dealing, which could include transactions such as an investment in related interests of the TE or purchase of securities from or through an affiliate. Such transactions must be fully disclosed and authorized in writing by clients. Because of the complexity and sensitivity of the issue, a TE must develop policies and procedures to identify and deal with conflicts of interest situations.

3. Account termination

Accounts may be terminated for a variety of reasons, including the occurrence of a specified event or upon written notice of either the client or the TE. The trust or investment management agreement shall provide for the terms and manner of liquidation, return and delivery of assets/portfolio to the client. Generally, the TE's responsibilities include distribution to the client, the successor trustee and/or beneficiaries of the remaining assets held under trusteeship/agency arrangement, preparation and filing of required reports. The TE must ensure the risk control processes are

observed when terminating accounts just as when accepting them.

The TE must have a general policy with respect to the termination of trust accounts, which policy shall take into consideration the general processes to be observed in the return or delivery of different types of assets, the possible modes of distribution, fees to be paid, taxes to be imposed, the documentation required to effect the transfer of assets, the provision of terminal reports, and whenever applicable, the timing of distribution, needs and circumstances of the beneficiaries. Should the TE anticipate possible issues or problems with respect to the termination of the account, such as the liquidation of certain assets or the partition or division of assets, these issues shall be disclosed to the client for proper disposition. The policy on the termination of trust, fiduciary and investment management accounts shall likewise include the approval process to be observed for the termination of these accounts as well as the reporting requirements for accounts terminated and closed.

(Circular No. 618 dated 20 August 2008, as amended by Circular No. 721 dated 13 May 2011)

**RISK MANAGEMENT GUIDELINES FOR TRUST AND OTHER FIDUCIARY BUSINESS
AND INVESTMENT MANAGEMENT ACTIVITIES
(Appendix to Sec. X401)**

I. Introduction

Recent changes in the nature and complexity of fiduciary activities have underscored the need for an effective and sound risk management process. With the deepening of the capital market and the increasing complexity of the financial environment, the risk management practices and techniques employed by financial institutions should continuously improve and adapt to these evolving financial landscape.

These guidelines aim to provide principles-based guidance in the implementation of sound risk management practices for trust, other fiduciary business, and investment management activities. As such, the applicability of these guidelines shall depend on the size, complexity, and risk profile of the institution’s fiduciary activities.

II. Statement of Policy

It is the policy of the Bangko Sentral ng Pilipinas to support the development of the Philippine financial market and promote adequate level of protection to investors through, full and fair disclosure on financial instruments covering banking and fiduciary activities. With the continuous emergence of complex financial products, investor protection is a significant concern in building investors’ confidence in the Philippine financial market. It is in furtherance of this policy that Bangko Sentral prescribes risk management guidelines for fiduciary activities aligned with the basic standards in the administration of fiduciary products and services by trust entities (TEs).

III. Risk Management Principles for Fiduciary Activities

Risk management practices must be designed to ensure that exposures are well within TEs capacity to manage and risks taken by the TE and

its clients are consistent with their respective risk tolerance. Risk management practices shall also promote efficiency in the administration and operation of the fiduciary business; ensure adherence and conformity with the terms of the instrument or contract; and maintain absolute separation of property free from any intrusion of conflict of interest.

As fiduciary activities become more diverse and complex, an institution’s ability to effectively identify, measure, monitor and control risks should keep pace and continue to evolve. There is no single risk management framework that would effectively work for all TEs due to differing size, business model, complexity of activities, and risk profile. Nevertheless, regardless of the structure in place, the framework shall cover the following key elements of sound risk management system:

- a. Active and appropriate oversight by the BOD/Trust Committee or its functional oversight equivalent in case of foreign banks/institutions;
- b. Adequate risk management processes, policies and procedures;
- c. Appropriate risk measurement system, prudent risk limits, monitoring and management information system; and
- d. Comprehensive and effective internal control system, audit, and compliance program.

IV. Risks Associated with Fiduciary Activities

For purposes of these Guidelines, the following definitions of risks are adopted:

1. *Credit/counterparty risk* is the current and prospective risk to client’s earnings or principal contribution arising from an obligor’s failure to meet the terms of any contract with the TE or otherwise perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer, or borrower performance. It arises anytime fiduciary funds are extended,

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committed, invested, or otherwise exposed through actual or implied contractual agreements, and reflected in the client's financial statements. Credit/counterparty risk exists in the loan portfolio and other forms of credit accommodations.

2. *Market risk* is the current and prospective risk to client's earnings or principal contribution arising from changes in the value of the TE's holdings of investment portfolios. Market risk arises from dealing and position-taking activities in interest rate, foreign exchange and equity markets.

3. *Liquidity risk* is the current and prospective risk to client's earnings or principal contribution arising from a TE's inability to recognize or address unplanned changes in client's and/or beneficiary's needs thereby affecting the ability to liquidate assets quickly with minimal loss in value. The TE shall determine and maintain adequate level of liquidity in each accounts based on client-defined constraints/circumstances or product specifications.

4. *Operational risk* is the current and prospective risk to the bank's earnings or capital arising from fraud or error, and the inability of the TE to deliver products or services, maintain a competitive position and manage information. Operational risk is evident in each fiduciary product and service offered. As the fiduciary products and services become sophisticated or volume of activities expands, so does the level of operational risk. This risk encompasses product development and delivery, operational processing, systems development, and the internal control environment. Operational risk is present in the day-to-day operations of TEs and in all aspects of fiduciary activities.

A part of operational risk is legal risk which arises from non-adherence with the terms of the fiduciary agreement and the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect the operations of a TE.

5. *Compliance risk* is the current and prospective risk to the bank's earnings or capital arising from violation of laws, rules and

regulations of regulatory authorities, prescribed practices or sound fiduciary principles, internal policies and procedures, and prudent ethical standards. Compliance risk also arises in situations where the laws or rules governing certain fiduciary products or activities of the TE may be ambiguous or untested. This risk exposes the TE to fines, payment of damages, and the voiding of contracts. Compliance risk can lead to limited business opportunities, reduced expansionary potential, unenforceability of contract or even adversely affect TE's reputation.

6. *Strategic risk* is the current and prospective risk to the bank's earnings and capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. Strategic risk is a function of the compatibility of a financial institution's strategic goals, the business strategies developed to achieve those goals, the resources deployed in support of these goals, and the quality of implementation. The TE's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes. Financial success requires a sound strategic planning process embraced by the board and senior management.

7. *Reputation risk* is the current and prospective risk to the bank's earnings and capital arising from negative publicity regarding the financial institution's fiduciary business practices. The negative public opinion can cause (a) clients to question or doubt the TE's integrity to engage in fiduciary activities which can result in the termination of fiduciary relationships, (b) litigation costs to increase, or (c) revenues to decline. Reputation risk affects the TE's ability to establish new fiduciary relationships or services, or continue servicing existing relationships. Since public perception is critical in the fiduciary business, TEs should exercise an abundance of caution in dealing with clients and the public in general.

V. Risk Management Process

A TE shall develop and implement a formal, comprehensive, and effective risk management program that outlines, among other things, the risk management processes that effectively identify, measure, monitor and control risks affecting the clients and the TE. These processes shall also recognize and address the differences in the needs, objectives and risk tolerance of the clients and the TE. An effective risk management program can serve as an early warning system that enables the TE to anticipate and/or pro-actively identify potential problems from arising which may result in unanticipated loss to the clients and the TE. A risk management program should:

1. *Identify risk.* TEs shall recognize and understand existing exposures or those that may arise from new products/services, acceptance of new clients, and changes in operating environment. They shall establish procedures that identify and address such risks prior to initiation of the activities. Risk identification is a continuing process that should be embedded in all phases of TE's activities and shall cover both the individual investment transactions and portfolio activities. Identifying risk also involves the determination of the desired level of exposures both for the TE and client after taking into account the willingness and the ability to absorb risks.

2. *Measure risk.* TEs shall have appropriate systems or tools in place that could adequately quantify or measure both their client and their own risk exposure/s. It shall be the TE's responsibility to ensure that the risk measurement tools can adequately and reliably capture and quantify exposures. Risk measurement tools shall be subjected to independent and periodic validation and review to ensure that they remain reliable and appropriate. Effective risk measurement systems assess the risks of both individual transactions and portfolios and ensure that the sophistication of the risk measurement tools remains proportionate to the complexity of exposures.

3. *Monitor risk.* TEs shall monitor risk levels to ensure timely review of risk positions and exceptions. Monitoring reports should be frequent, timely, accurate, and informative and should be distributed to clients/individuals and appropriate level of management to ensure corrective action, when necessary.

4. *Control risk.* TEs shall establish and communicate risk limits through policies, standards, and procedures that define responsibility and authority. The types and sophistication of control processes shall be consistent with the risk tolerance standards defined by the BOD/Trust Committee and the client. TEs shall implement a process for tracking and reporting exposures to monitor the TE's compliance with risk tolerance standards.

The risk management process for fiduciary activities should be structured and incorporated in the required basic standards in the administration of fiduciary products and services.

VI. Sound Risk Management System

Consistent with the guidelines on supervision by risk set forth under *Appendix 72* (Appendix to Section X173), the Bangko Sentral shall assess the suitability and adequacy of a TE's risk management system in accordance with the following elements:

A. Active Board and Senior Management Oversight

1. The Board of Directors (or its functional oversight equivalent which may include the country head in the case of foreign banks/institutions) and the Trust Committee shall perform their responsibilities in accordance with the applicable provisions of this Manual.

2. *Independent Risk Management Function.* To uphold the principles of undivided loyalty and impartiality, and discourage possible conflicts of interest, the process of measuring, monitoring, and controlling risks shall be managed as independently as practicable by a body or personnel apart from those individuals who have

the authority to initiate transactions. The Board-designated body or personnel performing independent risk management on fiduciary activities shall either be part of or directly report to the risk management unit/department of the bank proper to ensure holistic implementation of enterprise-wide risk management framework. Nevertheless, the Board-designated body or personnel tasked to perform risk management function for fiduciary activities is not precluded to freely communicate with the trust officer or relevant trust committee any information relative to the discharge of its function.

B. Adequate Risk Management Processes, Policies and Procedures

The TE shall have Board-approved written risk management policies and documentation standards which provide detailed guidance for the day-to-day implementation of the TE’s strategies and generally include risk limits, operating procedures and control processes designed to safeguard the TE and its clients from excessive and imprudent risks. Terminologies relevant to trust, other fiduciary and investment management activities shall be specifically defined and clearly described through appropriate sample documents/exhibits to avoid the likelihood of incomplete communication, ambiguities and misinterpretations.

Policies shall provide an outline on the formal process for the BOD/Management’s review (at least annually), amendment and approval. In the case of personnel management, the policies and procedures shall provide for personnel recruitment, training, performance evaluation, and salary administration that must address staffing needs, and compensation programs. Effective risk management requires experienced and competent officers and supporting staff.

Policies and procedures shall delineate lines of responsibility and accountability. Copies of policies and procedures, including updates and changes, shall be promptly transmitted to all concerned personnel who are directly or indirectly involved in fiduciary activities. Policies

and procedures shall, at the minimum, include:

1. Scope of fiduciary products and types of services offered to clients with clear description of each product and service
2. Organizational structure
3. Authorities and responsibilities of the:
 - (a)Board of directors
 - (b)Trust committee
 - (c)Trust investment committee and other related committees
 - (d)Trust officer*
 - (e)Trust Department/Branch/Unit Heads*
 - (f)Account officers/Marketing personnel, including those assigned in branches*
 - (g)Trading or Dealing officers and staff*
 - (h)Backroom officers and staff*
4. Basic standards in the administration of trust, other fiduciary business and investment management activities
5. Accounting and records maintenance
6. Policy review
7. System of financial and regulatory reporting
8. Client-oriented safety nets

C. Appropriate Risk Measurement System, Prudent Risk Limits, Monitoring and Management Information System

The process of measuring, controlling and monitoring fiduciary risks shall be carried out independently by personnel not directly involved in fiduciary activities. Results of this process shall be reported to the BOD, or to the appropriate Board-level committee, thru the risk management unit/department of the bank/institution proper in a timely and comprehensive manner. In the same manner, the trust officer or relevant trust committee should be apprised of the results of these processes and relevant risk management issues.

Risk Measurement System

In formulating the risk measurement models and methodologies for its fiduciary risk-taking activities, the TEs shall be guided by the minimum

* including minimum qualification standards

requirements prescribed in Appendices 73 (appendix to Section X174) and 74 (appendix to Section X175), and the guidelines provided under Appendix 25 (appendix to Section X611) as applicable.

TEs are expected to adopt models/ methodologies commensurate to the size, complexity and nature of the fiduciary activities undertaken. In addition, the TE's risk measurement system shall provide detailed guidelines on the:

- a. Frequency of risk measurement
- b. Sources of data, i.e., market prices
- c. Appropriateness of risk measurement tools given the complexity and level of risk assumed (including the reasonableness and validity of assumptions)
- d. Frequency of validation of risk measurement tools
- e. Ability to measure risk at both transactional and portfolio levels
- f. Frequency of review of the risk measurement system by the BOD and the trust committee

TEs shall develop a liquidity contingency plan for its investment portfolios especially for the UITFs to demonstrate how liquidity funding needs will be handled in times of crises, as well as supplement their market and liquidity risk measurement models with periodic stress testing.

Prudent Risk Limits

Risk limits shall be established, approved and periodically reviewed by the BOD or trust committee. In setting limits, the risk management policy shall include the determination of the experience, background and authority of individuals involved in setting portfolio limits, and the processes for setting and changing individual and portfolio limits; and shall recognize the restrictions/constraints that the client may impose on the TE. The risk management policy should also indicate when excess over approved limits may be allowed and the appropriate approving authority for such excess.

Limits must be documented and promptly communicated to all concerned personnel. Portfolio limits must be reviewed at least annually, but client-set limits must be reviewed at least quarterly to ensure consistency with the investment objectives set by the client and conformity to the terms of the contract.

Risk Monitoring and Management Information Systems (MIS)

Effective risk monitoring and control is dependent on accurate, timely, reliable, and relevant information processing and reporting systems. Rapid technology advancements create new risk monitoring and control issues, thus, the BOD should ensure that the impact of emerging technologies on fiduciary activities is properly considered. The BOD and Trust Committee shall be afforded with adequate information on the trust and investment management activities to properly fulfill their responsibilities. Accordingly, the TEs shall have policies and procedures in reporting information on fiduciary activities to the BOD and trust committee specifying, among other things, the type, amount and timing of information reported; methodology to ensure all identified risks are monitored; frequency, timeliness, accuracy and clarity of monitoring reports; report distribution to management and staff; and comparability of output against predetermined limits.

The sophistication of management information system (MIS) shall be commensurate with the complexity and diversity of the TE's operations such that a complex TE shall have a more comprehensive MIS.

Because of the cost involved in developing technology, a TE may opt to purchase information technology rather than develop its own internal system. Nonetheless, regardless of the source of information system, the BOD and Trust Committee shall exercise the proper level of control and oversight to appropriately fulfill their fiduciary duties. Service Agreements or vendor contracts shall be thoroughly reviewed by legal counsel to ensure that they include appropriate

indemnification and recourse language. In addition, contracts shall contain specific language recognizing the authority of the TE’s regulators to conduct reviews of third-party vendors as part of their overall supervisory activities.

D. Comprehensive and effective internal controls, audit, and compliance program

Internal Control Systems

A comprehensive internal control is the foundation for the safe and sound functioning of a TE and its fiduciary risk management system. It shall form an integral part of the TE’s overall system of controls and shall promote effective fiduciary operations and reliable financial and regulatory reporting, safeguard assets and help ensure compliance with relevant laws, regulations, and institutional policies.

Effectiveness of the internal control system shall be periodically tested by an independent party (preferably the auditor, or at least an individual not involved in the process being reviewed) who shall submit a formal report on the results of such testing/review directly to the BOD or the audit committee. The review shall cover all material controls and shall consider:

- The change in the nature and extent of significant risks, and the TE’s ability to respond to such changes;
- The scope and quality of management’s ongoing monitoring of risks and of the system of internal control, and the work of its internal audit function;
- The extent and frequency of the communication of results of the monitoring to the BOD or appropriate committee;
- The incidence of significant control failings or weaknesses that have been identified, and the extent to which they have resulted in losses or potential losses; and
- The effectiveness of the TE’s reporting processes.

Given the importance of appropriate internal controls to an organization, management’s

response to results of the test/review should be documented.

The system of internal control shall set forth clear lines of authority and appropriate segregation of operational duties and functions to ensure independence of the control areas from the business lines. An organizational chart shall specify the reporting lines for risk management, compliance, and internal audit groups.

Audit Program

A well-designed and executed internal audit program is essential to effective risk management and provides an independent assessment of the efficiency and effectiveness of the internal control system.

An effective audit program shall be based on an appropriate risk assessment methodology that documents the TE’s significant fiduciary activities and their associated risks, and internal control systems. Such documentation shall be available for review by the Bangko Sentral. It shall describe the objectives of specific audit activities and list the procedures to be performed during the process.

While the frequency and extent of the internal audit review and testing shall be consistent with the nature, complexity and risk of the TE’s fiduciary activities, existing Bangko Sentral regulations require the conduct of periodic internal audits of the TE at least once every twelve (12) months. The BOD may also require the adoption of a suitable continuous audit system to supplement or replace the periodic audit. In any case, the audit shall ascertain whether the TE’s fiduciary activities have been administered in accordance with laws, Bangko Sentral rules and regulations, and sound fiduciary principles.

There shall also be a system that allows sensitive findings (e.g., defined non-observance of the basic principles on fiduciary relationships, unsafe and unsound practices, operational lapses/ deficiencies resulting to recognition of material losses) to be reported directly to the BOD. Moreover, the audit committee and/or BOD shall review the effectiveness of the internal audit and

other control review activities on a regular basis.

Bangko Sentral regulations also require annual external audit of the fiduciary activities of TEs and of each unit investment trust fund by an independent auditor acceptable to the Bangko Sentral.

Compliance Program

The TE shall develop and implement a compliance system for its trust, other fiduciary business and investment management activities, and appoint/designate a compliance officer to oversee its implementation in accordance with Secs. X180 and their corresponding subsections. The Board-designated body or personnel performing independent compliance function on fiduciary activities shall either be part of or directly report to the compliance unit/department of the bank proper to ensure holistic implementation of enterprise-wide compliance program. Nevertheless, the Board-designated body or personnel tasked to implement the compliance program for fiduciary activities is not precluded to freely communicate with the trust officer or relevant trust committee any information relative to the discharge of its function.

The compliance system must provide a

written and comprehensive compliance program designed to monitor observance with relevant laws, rules and regulations, internal policies including risk limits, internal control systems, fiduciary principles, and agreements with clients. The compliance system shall be periodically reviewed for relevance, effectiveness and appropriate follow-up.

The BOD must recognize the scope and implications of applicable laws; approve a compliance program that protects the TE from adverse litigation, increased regulatory oversight, and damage to reputation; and ensure that the compliance officer primarily undertakes to oversee and coordinate the implementation of the compliance system.

The extent of formality of the compliance program may vary from one TE to another. Nevertheless, an effective compliance programs have common elements that include:

- 1. A strong commitment from the BOD and Trust Committee;
- 2. A formalized program coordinated by a designated compliance officer that includes periodic testing and validation process;
- 3. Responsibility and accountability from line management;
- 4. Comprehensive training programs; and
- 5. Timely reporting and follow-up process

(Circular 766 dated 17 August 2012)

GUIDELINES FOR DAYS DECLARED AS PUBLIC SECTOR HOLIDAYS													
(Appendix to Secs. X207, X256 and Subsec. X601.6)													
Table of standard operating procedures of the Bangko Sentral ng Pilipinas (BSP), the Bureau of the Treasury (BTR) and the Philippine Clearing House Corp (PCHC) during the public sector holidays. Exceptions to these guidelines shall be issued by the Bangko Sentral when deemed necessary.													
Time of receipt of Public Holiday Announcement by the Bangko Sentral		Bangko Sentral ng Pilipinas							Reserve Position	Bureau of the Treasury		PCHC	
		Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal					
		Trading and Settlement											
		ODF	OLF	TDF	Overnight RRP Facility					Auction	Sec. Mkt	Manila	Regional
1. On an ordinary business day prior to the date of effectivity		Closed	Closed	Closed. TDF offering to be rescheduled by the Auction Committee	Closed	Closed	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its members that it will continue accepting and processing checks	To be decided in coordination with Head Office	
2. On a Saturday or Sunday to take effect the following Monday or on a non-working holiday to take effect the next business day													
a. Under good weather conditions		Open	Open	Open	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office	
b. Under unfavorable conditions such as bad weather, (e.g., Typhoon signal no. 3), natural calamities or civil disturbances		Closed	Closed	Closed. TDF offering to be rescheduled by the Auction Committee	Closed	Closed	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its members that it will continue accepting and processing checks	To be decided in coordination with Head Office	
3. Before 9:00 am on the date of effectivity		Closed	Closed	Closed. The TDF offering to be rescheduled by the Auction Committee	Closed	Closed	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its members that it will continue accepting and processing checks	To be decided in coordination with Head Office	

Time of receipt of Public Holiday Announcement by the Bangko Sentral		Bangko Sentral ng Pilipinas							Reserve Position	Bureau of the Treasury		PCHC	
		Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal					
		Trading and Settlement											
		ODF	OLF	TDF	Overnight RRP Facility					Auction	Sec. Mkt	Manila	Regional
4. After 9:00 am and before 12:00 pm on the date of effectivity	Day 1	Suspended at 12:00 pm; to resume on Day 2 at 8:00 am to 8:45 am. Settlement of all Overnight Deposits dealt from Day 1 until 8:45 am of Day 2 shall be until 9:00 am of Day 2	Suspended at 12:00 pm; to resume on Day 2 at 8:00 am to 8:30 am. Settlement of all Overnight Lendings dealt from Day 1 until 8:30 am of Day 2 shall be until 9:00 am of Day 2	No change in auction time, settlement will be until 9:00 am of Day 2	Offering suspended; to resume on Day 2 at 8:00 am and settle until 9:00 am of Day 2	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
	Day 2	Day 1 transactions to resume from 8:00 am to 8:45 am for value Day 1 and settle until 9:00 am of Day 2 then, Regular trading and settlement hours for same day value transactions.	Day 1 transactions to resume from 8:00 am to 8:30 am for value Day 1 and settle until 9:00 am of Day 2 then, Regular trading and settlement hours for same day value transactions.	Settlement of Day 1 transactions until 9:00 am of Day 2 then, Regular trading and settlement hours for same day value transactions, if there is a scheduled auction.	Bid submission at 8:00 am to 8:20 am, allocation until 8:45 am, settlement until 9:00 am of Day 2 for value Day 1 then, Regular trading and settlement of same day value transactions.	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
5. After 12:00 pm on the date of effectivity		No change in trading and settlement hours	No change in trading and settlement hours	No change in trading and settlement hours	No change in trading and settlement hours	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office

Time of receipt of Public Holiday Announcement by the Bangko Sentral		Bangko Sentral ng Pilipinas							Reserve Position	Bureau of the Treasury		PCHC	
		Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal					
		Trading and Settlement											
		ODF	OLF	TDF	Overnight RRP Facility								
6. In case the suspension of work is extended to Day 2													
a. Before 9:00 am of Day 2	Day 2	Closed; If the ODF was suspended on Day 1, Day 1 transactions and settlement will resume on Day 3 at 8:00 am	Closed; If the OLF was suspended on Day 1, Day 1 transactions and settlement will resume on Day 3 at 8:00 am	Closed; If there were TDF transactions on Day 1, settlement will continue from 8:00 am to 9:00 am on Day 3. If the TDF offering was suspended on Days 1 and 2, the Auction Committee will reschedule.	Closed; If the Overnight RRP offering was suspended on Day 1, Day 1 transactions will be moved to Day 3 at 8:00 am	Closed	Closed	Closed	Non-Reserve	Closed	Closed	No clearing; no settlement. PCHC will issue an advisory to its members that it will continue accepting and processing checks	To be decided in coordination with the Head Office
	Day 3	Day 1 transactions to resume from 8:00 am to 8:45 am and settle for value Day 1 until 9:00 am of Day 3 then, Regular trading and settlement of same day value transactions.	Day 1 transactions to resume from 8:00 am to 8:30 am and settle for value Day 1 until 9:00 am of Day 3 then, Regular trading and settlement of same day value transactions.	Settlement of Day 1 transactions, if any, until 9:00 am of Day 3 then, Regular trading and settlement hours for same day value transactions if there is a scheduled auction.	Bid submission from 8:00 am to 8:20 am, allocation until 8:45 am. Settlement for value Day 1 until 9:00 am of Day 3 then, Regular trading and settlement of same day value transactions.	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with the Head Office

Time of receipt of Public Holiday Announcement by the Bangko Sentral		Bangko Sentral ng Pilipinas							Reserve Position	Bureau of the Treasury		PCHC	
		Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal					
		Trading and Settlement											
		ODF	OLF	TDF	Overnight RRP Facility								
b. After 9:00 am but before 12:00 pm of Day 2	Day 2	Day 1 transactions, if any, to resume from 8:00 am to 8:45 am and settle for value Day 1 until 9:00 am of Day 2 then, Day 2 suspended at 12:00 pm; to be resumed on Day 3 from 8:00 am to 8:45 am. Settlement of all Overnight Deposits dealt from Day 2 until 8:45 am of Day 3 shall be until 9:00 am of Day 3.	Day 1 transactions, if any, to resume from 8:00 am to 8:30 am and settle for value Day 1 until 9:00 am of Day 2 then, Day 2 suspended at 12:00 pm; to be resumed on Day 3 from 8:00 am to 8:30 am. Settlement of all Overnight Lendings dealt from Day 2 until 8:30 am of Day 3 shall be until 9:00 am of Day 3.	Settlement of Day 1 transactions, if any, until 9:00 am of Day 2 then, Regular trading hours for same day value transactions, if there is a scheduled auction. Settlement of Day 2 transactions will be until 9:00 am of Day 3	If the Overnight RRP offering was suspended on Day 1, bid submission from 8:00 am to 8:20 am, allocation until 8:45 am. Settlement for value Day 1 until 9:00 am of Day 2 then, Offering for Day 2 suspended at 12:00 pm; to be resumed on Day 3 at 8:00 am and settled until 9:00 am of Day 3	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
		Day 2 transactions to resume from 8:00 am to 8:45 am and settle for value Day 2 until 9:00 am of Day 3 then, Regular trading and settlement of same day value transactions.	Day 2 transactions to resume from 8:00 am to 8:30 am and settle for value Day 2 until 9:00 am of Day 3 then, Regular trading and settlement of same day value transactions.	Settlement of Day 2 transactions, if any, until 9:00 am of Day 3 then, Regular trading and settlement hours for same day value transactions if there is a scheduled auction.	Bid submission from 8:00 am to 8:20 am, allocation until 8:45 am. Settlement for value Day 2 until 9:00 am of Day 3 then, Regular trading and settlement of same day value transactions.	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with the Head Office

Time of receipt of Public Holiday Announcement by the Bangko Sentral		Bangko Sentral ng Pilipinas							Reserve Position	Bureau of the Treasury		PCHC	
		Treasury Department				PDS	PhilPASS	Cash Dept Withdrawal					
		Trading and Settlement											
		ODF	OLF	TDF	Overnight RRP Facility								
c. After 12:00 pm of Day 2	Day 2	Day 1 transactions, if any, to resume from 8:00 am to 8:45 am and settle for Value Day 1 until 9:00 am of Day 2 then, Regular trading and settlement of same day value transactions.	Day 1 transactions, if any, to resume from 8:00 am to 8:30 am and settle for Value Day 1 until 9:00 am of Day 2 then, Regular trading and settlement of same day value transactions.	Settlement of Day 1 transactions, if any, until 9:00 am of Day 2 then, Regular trading and settlement hours for same day value transactions if there is a scheduled auction.	If the Overnight RRP offering was suspended on Day 1, bid submission from 8:00 am to 8:20 am, allocation until 8:45 am. Settlement for value Day 1 until 9:00 am of Day 2 then, Regular trading and settlement of same day value transactions.	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with Head Office
7. In case the suspension of work does not apply to all government offices (Manila Day, Quezon City Day, etc)		No change in trading and settlement hours	No change in trading and settlement hours	No change in trading and settlement hours	No change in trading and settlement hours	Open	Open	Open	Reserve	Open	Open	Normal	To be decided in coordination with the Head Office
Notes:													
1. The Bangko Sentral consulted with and obtained the agreement of BAP, ACI and MART in formulating these standard operating procedures.													
2. Placements in the ODF, TDF and Overnight RRP Facility which would have matured on the public sector holiday will instead mature on the next business day and earn additional interest.													

(M-2008-025 dated 13 august 2008, as amended by Circular Nos. 921 dated 22 August 2016 and 913 dated 02 June 2016)

ILLUSTRATIVE ACCOUNTING ENTRIES

*(Please refer to App. 16.1 of the MORFXT using this link:
<http://www.bsp.gov.ph/download/Regulations/MORFXT/MORFXT.pdf>)*

**GUIDELINES ON THE AVAILMENT OF US DOLLAR DENOMINATED
REPURCHASE AGREEMENT FACILITY WITH THE BANGKO SENTRAL
(Appendix to Subsec. X601.1)**

The guidelines on the availment of USD denominated repo agreement facility of banks with the BSP are as follows:

A. Eligible borrowers

RBU's or FCDU/EFCDU's of banks with FCDU/EFCDU authority who can demonstrate legitimate funding needs can avail of this facility.

B. Qualifying purposes

Proceeds from the borrowings shall be used for legitimate liquidity requirements of FCDU/EFCDU or RBU for local operations as follows:

1. Compliance with FCDU/EFCDU cover requirements;
2. Servicing of withdrawals of FCDU/EFCDU; and
3. Servicing trade-related requirements.

Borrowing shall be for the account of the applicant bank and shall not be used to fund liquidity requirements of foreign head office, foreign branches, affiliates, or subsidiaries

C. Acceptable collateral

Eligible securities shall cover USD-denominated evidences of indebtedness issued directly by the Government of the Philippines (ROP Bonds) held by the applicant bank. These can be lodged in FCDU/EFCDU's or RBU's Available-for-Sale, HFT and HTM portfolios.

ROP Bonds to be pledged have to be transferred/credited to BSP's designated securities account before availment of the USD repo agreement facility.

The tenor of the underlying security should not be shorter than the overlying instrument.

D. Valuation of securities

The haircut on the underlying securities shall be determined by the Treasury Department, with the concurrence of the Governor. Collateral cover will be maintained through periodic margin calls as specified in the repo agreement.

Said valuation will be subject to periodic review and will be modified when necessary.

E. Available credit line

Credit lines shall be based on outstanding USD-denominated evidences of indebtedness issued directly by the Government of the Philippines (ROP Bonds) held by the applicant bank as of 30 September 2008.

F. Rate, term and trading time

The rates of the USD denominated repo agreement facility shall be set by the Treasury Department, with the concurrence of the Governor, taking into account prevailing liquidity/market conditions.

The term of the USD denominated repo agreement facility shall be set by the Treasury Department, with the concurrence of the Governor: *Provided*, That, should a bank become disqualified for the repo agreement facility, the outstanding repo agreement shall immediately become due and payable.

Trading time for the USD repo agreement transactions shall be set from 10:00 AM to 12 Noon, then from 1:00 PM to 2:00 PM.

G. Application requirements

Applicant bank shall submit the following information/documents, and

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such other documents as may be deemed necessary, to the Treasury Department, copy furnished the appropriate CPCD and SES, to aid BSP evaluate applications:

1. Application for availment of the facility stating therein the amount, requested term, specific purpose of the borrowing, including disclosure of the specific collateral, including source, i.e. RBU or FCDU/EFCDU;

2. Notarized undertaking/certification signed by the bank's president or country manager (in the case of local branch of a foreign bank), compliance officer and head of treasury, indicating the following:

(a) Specific purpose of fund utilization;

(b) Proceeds of borrowing shall be used exclusively to fund liquidity requirements of FCDU/EFCDU or RBU local operations;

(c) That the Bank is not a conduit for another bank nor will the Bank take arbitrage positions on the availment of the repo agreement facility.

H. Reportorial requirements

Banks with outstanding USD denominated repo agreement with the BSP are required to submit to the appropriate CPCD of the SES the following:

1. Report on the deployment/utilization of USD repo borrowing and other documents and supplemental information, as may be required, to enable BSP to assess the legitimacy of the utilization of such funds, within three (3) banking days from release of the proceeds of the repo agreement; and

2. All documents and records relative to the Bank's availment and use of proceeds of the USD denominated repo agreement facility shall be made available to the BSP upon request.

I. Pre-termination

1. The repo agreement may be paid at any time before maturity, subject to mutual agreement of both parties.

2. The BSP may unilaterally pre-terminate the borrowing arrangements under the following conditions:

(a) Funds are found to have been used for ineligible purposes

(b) Collateral margins, if any, are not met.

J. Documentation

The repo agreement between the bank and the BSP shall be covered by a master repo agreement, repo agreement confirmation and such other documentation as may be necessary to facilitate the transaction.

K. Accounting treatment

The USD denominated repo agreement facility shall be treated as collateralized borrowings from the BSP and shall be accounted for in accordance with the FRP issued under Subsection X161.3.

Eligible securities booked under the HTM category shall be subject to the tainting provision provided under Subsection X388.5 upon default/non-payment of the amount due three (3) banking days after the maturity of the repo agreement or disqualification of borrowers.

L. Penalty clauses

Violations of the terms and conditions of the USD repo agreement facility are governed by sanctions provided under X601.2, including but not limited, to termination of eligibility and pre-termination of any outstanding balance through repayment and/or sale of the collateral.

(M-2008-031 dated 23 October 2008 as amended/superseded by M-2008-034 dated 12 November 2008)

**GUIDELINES ON THE SUBMISSION OF APPLICATION FOR
MERGER AND CONSOLIDATION**
[Appendix to Subsec. X108.1(2008-X111.1)]

The following guidelines and procedures shall be observed by banks in their application for merger/consolidation:

1. The merging/consolidating entities shall comply with the safety and soundness test requirements as follows:

a. Compliance, especially by the acquiring bank, with major banking laws and regulations; and

b. Submission to the BSP of a satisfactory action plan, if applicable, to address serious supervisory concerns.

2. Submission of the following documentary requirements simultaneously to the BSP and the PDIC for merger/consolidation application involving a bank; and to the BSP for application involving only banks;

a. Articles of Merger or Consolidation duly signed by the President or Vice-President and certified by the secretary or assistant secretary of each of the constituent institutions setting forth the following as required in Section 78 of the Corporation Code:

- The Plan of Merger or Consolidation;
- The number of shares outstanding; and
- The number of shares voting for and against the Plan, respectively.

b. Plan of Merger or Consolidation setting forth the following:

- The names of the constituent institutions;
- The terms of the merger or consolidation and the mode of carrying the same into effect;
- A statement of the changes, if any, in the Articles of Incorporation of the surviving institution in the case of merger; and in the case

- Of consolidation, all the statements required to be set forth in the Articles of Incorporation;

- Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or desirable.

c. Resolution of the Board of Directors of the respective institutions approving the Plan of Merger or Consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

d. Resolution of the meeting of the stockholders in which at least two-thirds (2/3) of the outstanding capital stock of each corporation have approved the plan of merger or consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

e. Financial Statements:

- Latest financial statements and three (3) - year audited financial statements of the merging institutions

- Three (3) - year financial projections with valid assumptions of the merged or consolidated institutions' balance sheet and income statement.

f. List of merger incentives the bank will avail of;

g. List of stockholdings of each of the constituent institutions before and after the merger;

h. List of directors and officers of each of the merging/consolidating institutions;

i. List of proposed officers and directors of the merged or consolidated institution and the summary of their qualifications;

j. Organizational chart of the merged or consolidated institution including the number of offices and locations thereof;

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- k. Inter-company transactions relative to the submitted Financial Statements;
- l. Computation of Capital Adequacy Ratio on the submitted financial Statements;
- m. Viable Operational Plan with the following components:
 - Marketing Strategies
 - Proposed Loan Portfolio Diversification
 - Deposit Generation
 - Proposed Improvements in Accounting System
 - Operational Control
 - Computerization Plan
 - Communication System
- n. The appraiser’s report of reappraisal of bank premises, if any, done by an independent and licensed appraiser;
- o. Proposed increase of capital stock of surviving bank;

- p. Proposed amendments in the Articles of Incorporation of surviving bank;
 - q. Director’s Certificate (surviving bank) on the proposed amendment of the Articles of Incorporation increasing the authorized capital stock; and
 - r. Any other reasonable requirement deemed material in the proper evaluation of the merger or consolidation as may subsequently be requested by the BSP and/or PDIC.
3. For merger/consolidation involving a bank, the BSP shall wait for PDIC consent before elevating the proposed merger/consolidation to the Monetary Board for approval; and
4. The authority given to merge/consolidate the constituent entities shall be valid within six (6) months reckoned after BSP approval.

(M-2009-028 dated 12 August 2009)

GUIDELINES ON THE COLLECTION OF THE
ANNUAL SUPERVISORY FEES
Appendix to Subsec. X901.1 (2008 -X608.1)

The following guidelines shall govern the collection by the Bangko Sentral and the payment by banks of the Annual Supervisory Fees (ASF).

1. *Notification of amount due for ASF and mode of payment.* The Bangko Sentral Supervisory Data Center (SDC) shall send a billing notice to the bank for its ASF payment indicating, among others, the computation of the ASF due, including the two percent (2%) creditable withholding tax (CWT) thereon, if applicable, the period covered by the ASF and the specific date when the ASF will be debited from the bank’s demand deposit account (DDA) with the Bangko Sentral.

The Bangko Sentral will not accept checks as mode of ASF payment. Banks, upon receipt of the ASF billing notice from the Bangko Sentral, should maintain adequate balance in their DDA to cover the ASF and other daily obligations and, when necessary, make corresponding deposits to fully cover said obligations. In case of deficiency, the provisions on DDA deficiency in Subsec. X901.1 shall apply.

2. *Exceptions noted on billing notice of ASF.* Upon receipt of the Bangko Sentral Notice of ASF billing, a bank is encouraged to check the accuracy of the billing and to submit any of the noted exceptions therein not later than ten (10) days before the specified date of collection/debit to DDA as indicated in the billing notice. The said exceptions, together with supporting documents, shall be submitted to:

The Director
Supervisory Data Center (SDC)
Bangko Sentral Ng Pilipinas
11th Floor, Multi-Storey Building
BSP Complex, A. Mabini Street
Malate, Manila 1004

Any exceptions received after the cut-off date or any exception not duly substantiated with documents before the cut-off date will be evaluated and considered in the computation of the ASF for the immediate succeeding year.

3. *Withholding tax on supervisory fees.* The following shall apply to banks covered by Sections M and N of BIR Revenue Regulations (R.R.) No. 2-98 as amended by R.R. No. 17-2003 and R.R. No. 2-2006:

a. Within seven (7) days from specified date, the bank shall submit a written representation to the Bangko Sentral (at the address indicated in Item “2” hereof), on whether or not it is included among the institutions covered under Sections M or N of R.R. No. 2-98, as amended. If available, a certified true copy of the BIR Notice classifying it under Section M of R.R. No. 2-98, as amended, shall be attached to the written representation. The submission of the written representation or BIR Notice shall no longer be necessary if previously transmitted and received by the Bangko Sentral in connection with previous ASF assessments.

b. The ASF, net of the two percent (2%) CWT, shall be debited from their respective DDAs on the specified date referred to in the notice of ASF billing under Item “1”.

c. Three (3) original signed copies of the BIR Form No. 2307 Certificate of Creditable Tax Withheld at Source which exclusively pertain to the withholding on ASF shall be submitted to the SDC at the address provided in Item 2 above on specified date. The BIR Form No. 2307 shall accurately indicate, among others, the following details:

(1) Payee: Bangko Sentral ng Pilipinas

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- (2) Tax Identification Number: 000-354-790-000
- (3) Address: A. Mabini St. corner P. Ocampo Sr. St., Malate, Manila
- (4) Zip Code: 1004
- (5) The BIR-registered name of the payor-bank, as exactly indicated in the BIR Certificate of Registration (BIR Form No. 2303) of the Bank.
- (6) the amount of income payment pertaining to the gross ASF
- (7) the tax withheld
- (8) the period of tax return.

Furthermore, the BIR Form No. 2307 – Certificate of Creditable Tax Withheld at Source covering the withholding on ASF should not include other transactions with Bangko Sentral and should pertain exclusively to the ASF. If the concerned bank has other transactions with Bangko Sentral, a separate BIR Form 2307 for the

transaction/s shall be provided to Bangko Sentral.

d. In case of failure of concerned bank to submit the duly accomplished forms within the deadline stated above or if such forms contain errors and discrepancies that would render the BIR Form No. 2307 invalid for claiming tax credits, the Bangko Sentral shall be constrained to immediately debit an amount equivalent to the two percent (2%) CWT from the DDA of banks concerned, with no obligation on the part of the Bangko Sentral to reimburse said amount in case of late submission. In case of DDA deficiency, the provisions in Subsec. X901.1 shall apply.

(M-2009-004 dated 12 February 2009, as amended by Circular No. 903 dated 29 February 2016, M-2016-001 dated 24 February 2016, Circular No. 890 dated 02 November 2015, M-2015-022 dated 06 May 2015, M-2014-014 dated 20 March 2014, M-2013-015 dated 18 April 2013, M-2012-010 dated 17 February 2012, M-2011-029 dated 26 May 2011, M-2010-013 dated 31 May 2010, M-2009-046 dated 17 November 2009)

REGULATORY RELIEF FOR BANKS AFFECTED BY CALAMITIES

(Footnote to Sections X257, X306, X338, Subsections X178.17, X269.6, and X269.8)

The Monetary Board approved the grant of temporary regulatory relief to banks with head offices and/or branches located in the areas listed in Item "I" of Annex A hereof which were devastated by calamities.

The temporary relief shall be in the form of the following whenever applicable:

For TBs/ RBs/Coop Banks

a. During a temporary grace period for payment or upon their restructuring and subject to reporting to the Bangko Sentral, exclusion of the loans of borrowers in affected areas, which should have been reclassified as past due loans under Sec. X306 on the dates specified in Item "II" of Annex A and those maturing up to the dates indicated in Item "III" of Annex A, from computation of past due loan ratio: *Provided*, That Bangko Sentral documentary requirements for restructuring of loans for this purpose are waived: *Provided, further*, That bank will adopt appropriate and prudent operational controls;¹

b. Reduction of the five percent (5%) general loan loss provision to one percent (1%) for restructured loans to borrowers in affected areas within the inclusive dates specified in Item "III" of Annex A;

c. Non-imposition of penalties on legal reserve deficiencies of RBs/TBs/Coop Banks with head office and/or branches in the affected areas incurred within the inclusive dates specified in Item "III" of Annex A: *Provided*, These reserve deficiencies can be shown to be calamity related as certified

by the bank, rather than due to pre-existing condition;

d. Moratorium without penalty on monthly payments due to the Bangko Sentral until the respective dates specified in Item "III" of Annex A for banks with ongoing rehabilitation programs upon filing of application for extension/rescheduling;

e. For all types of credits extended to individuals and businesses directly affected by the calamity, allowing, subject to Bangko Sentral prior approval, the booking of allowances for probable losses on a staggered basis over a maximum period of five (5) years on loans outstanding as of dates specified in Item "III" of Annex A;

f. Non-imposition of monetary penalties for delays in the submission of all supervisory reports due to be submitted within the inclusive dates specified in Item "III" of Annex A;¹ and

g. Allowing banks to provide financial assistance to their officers and employees who were affected by the calamity even if not within the scope of the existing Bangko Sentral-approved Fringe Benefit Program (FBP) subject to subsequent submission of request for approval of the amendment to FBP to the appropriate supervision and examination department for regularization².

For All Rediscounting Banks

a. Upon application, granting of a 60-day grace period to settle the outstanding rediscounting obligations as of the dates

¹ Also available to banks with head offices and/or branches located in Zamboanga City affected by the armed assault/stand-off from 9 September to 8 November 2013: *Provided*, That the bank shall maintain appropriate records on the said loan transactions and pass on such regulatory relief measure to their borrowers.

² Item "g" also covers UBs/KBs affected by Habagat, Helen, Gener, Pablo, Quinta, Labuyo, Habagat, Santi, Earthquake in Sagbayan, Bohol, Yolanda, Agaton, Glenda, Luis, Mario, Ruby, Seniang and Ineng.

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specified in Item "II" of Annex A with the Bangko Sentral of all rediscounting banks with head office, or with branches/extension offices/MBOs or with end-user borrowers in the affected areas except those with serious violations or findings with the SES; and

b. In addition to above, allowing the rediscounting banks to restructure with the Bangko Sentral, on a case-to-case basis the outstanding rediscounted loans of their end-user borrowers affected by the calamity, subject to the terms and conditions stated

in the implementing guidelines provided in Item "III" of Annex A; and

For RBs and Coop Banks affected by the El Niño Phenomenon

c. Allow the affected RBs and Coop Banks up to 31 May 2010 to apply for a special rediscounting line and up to 31 December 2010 to avail themselves of such line. Loans availed by affected RBs and Coop Banks under the special rediscounting lines are subject to renewal based on the original term of the loans but not to exceed five (5) years.

(M-2009-036 dated 07 October 2009, as amended by M-2016-020 dated 08 December 2016, Circular No. 917 dated 08 July 2016, M-2016-006 dated 17 May 2016 and M-2015-039 dated 04 November 2015, M-2015-035 dated 07 October 2015, M-2015-009 dated 28 January 2015, M- 2015-005 dated 20 January 2015, 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 24 August 2012, M-2012-001 dated 03 January 2012, M-2011-056 dated 10 November 2011, M-2011-055 dated 17 October 2011, M-2011-043 dated 12 August 2011, M-2011-007 dated 04 February 2011, M-2010-039 dated 03 November 2010, M-2010-007 dated 23 April 2010, M-2009-037 dated 08 October 2009 and M-2009-038 dated 08 October 2009, M-2009-040 dated 30 October 2009)

LIST OF AREAS COVERED BY THE REGULATORY RELIEF; INCLUSIVE DATES OF
COVERAGE; AND IMPLEMENTING GUIDELINES ON THE RESTRUCTURING SCHEME
(Footnote to Secs. X257, X306, X338, Subsecs. X178.17, X269.6, and X269.8)

<p>I. Areas that were Declared under State of Calamity:</p> <p>EL NIÑO</p> <p>a) (2010)</p> <p>Region I: La Union, Pangasinan, Ilocos Norte, and Ilocos Sur</p> <p>Region II: Cagayan, Isabela, Nueva Vizcaya, and Quirino</p> <p>Region III: Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac, and Zambales</p> <p>Region IV-A: Cavite , Laguna, Batangas, Rizal, and Quezon</p> <p>Region V: Albay [six (6) municipalities and two (2) cities], Camarines Sur [eighteen (18) municipalities and two (2) cities], Camarines Norte [nine (9) municipalities], Sorsogon [one (1) municipality], Catanduanes [six (6) municipalities], and Masbate [fourteen (14) municipalities and one (1) city]</p> <p>Region VI: Antique, Guimaras, Iloilo, Negros Occidental and Capiz</p> <p>Region VII: twenty eight (28) mountain barangays in Cebu City, and Negros Oriental</p> <p>Region IX: Zamboanga del Norte, Zamboanga Sibugay, and Zamboanga City</p> <p>Region X: Lanao del Sur, Lanao del Norte, Bukidnon, Misamis Occidental, and Misamis Oriental</p> <p>Region XI: Davao del Sur, Davao del Norte, and Davao City</p> <p>Region XII: Cotabato Province, Sultan Kudarat, Sarangani, South Cotabato, and Maguindanao Province [seventy five (75) municipalities] Cordillera: Ifugao, Kalinga, Apayao, Mt. Province and Abra; and Administrative Region</p>	<p>b) (2016)</p> <p>Banks with head offices and/or branches located in areas which were affected by the El Niño phenomenon: <i>Provided</i>, That a declaration of a state of calamity is issued by the National Disaster Risk Reduction Management Council or the local sanggunian, upon the recommendation of the Regional or Local Disaster Risk Reduction and Management Council.</p> <p>JUAN</p> <p>a. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan;</p> <p>b. Region II: Cagayan, Isabela Nueva Vizcaya, and Quirino</p> <p>c. Region III: Aurora, Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales</p> <p>d. Region IV –A: Cavite and Rizal</p> <p>e. Cordillera Administrative Region (CAR): Abra, Apayao, Benguet, Ifugao, Kalinga and Mt. Province; and</p> <p>f. National Capital Region: Manila</p> <p>LANDSLIDES AND FLOODING</p> <p>a. Region IV-B: Palawan;</p> <p>b. Region V: Albay, Sorsogon, Camarines Sur, and Catanduanes;</p> <p>c. Region VI: Negros Occidental;</p> <p>d. Region VII: Cebu, Bohol, Negros Oriental, and Siquijor;</p> <p>e. Region VIII: Southern Leyte, Eastern Samar, Western Samar, Northern Samar, and Leyte;</p> <p>f. Region X: Lanao del Norte and Misamis Occidental;</p>
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- g. Region XI: Compostela Valley, Davao del Norte, Davao del Sur, and Davao Oriental;
- h. Region XII: South Cotabato;
- i. CARAGA: Surigao del Norte, Surigao del Sur, Agusan del Norte, and Agusan del Sur; and
- j. Autonomous Region of Muslim Mindanao: Maguindanao.

JUANING

- a. NCR: Las Piñas City, Muntinlupa City, Pasay City and Quezon City
- b. CAR: Benguet, Ifugao and Kalinga
- c. Region I: La Union and Pangasinan
- d. Region II: Isabela, Nueva Vizcaya and Quirino
- e. Region III: Aurora, Bulacan, Nueva Ecija and Pampanga
- f. Region IV-A: Batangas and Quezon
- g. Region IV-B: Marinduque and Romblon
- h. Region V: Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate, and Sorsogon
- i. Region VI: Iloilo and Antique
- j. Region VII: Siquijor and Cebu
- k. Region VIII: Leyte and Eastern Samar
- l. Region X: Lanao del Norte

MINA

- a. NCR: Navotas City
- b. CAR: Abra, Apayao, Benguet, Kalinga and Mt. Province
- c. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan
- d. Region II: Cagayan, Isabela and Nueva Vizcaya
- e. Region III: Tarlac and Zambales
- f. Region V: Albay
- g. Region VI: Iloilo and Negros Occidental

PEDRING

- a. NCR: Caloocan City, Malabon City, Manila City, Marikina City, Muntinlupa

- City, Navotas City, Parañaque City, Pasay City, Pasig City, Pateros, Quezon City and Valenzuela City
- b. CAR: Abra, Apayao, Benguet, Ifugao, Kalinga and Mt. Province
- c. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan
- d. Region II: Cagayan, Isabela, Nueva Vizcaya and Quirino
- e. Region III: Aurora, Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales
- f. Region IV-A: Batangas, Cavite, Laguna, Quezon and Rizal
- g. Region IV-B: Occidental Mindoro, Oriental Mindoro and Romblon
- h. Region V: Albay, Camarines Norte, Camarines Sur and Catanduanes
- i. Region VI: Antique and Iloilo

SENDONG

- a. Region V: Catanduanes
- b. Region VI: Capiz
- c. Region VII: Bohol and Negros Oriental
- d. Region IX: Zamboanga del Norte
- e. Region X: Bukidnon, Lanao del Norte, Misamis Occidental and Misamis Oriental
- f. Region XI: Compostela Valley and Davao del Norte
- g. Region XIII (CARAGA): Agusan del Sur and Surigao del Sur
- h. Autonomous Region in Muslim Mindanao (ARMM): Lanao del Sur

HABAGAT

- a. NCR: Caloocan City, Las Piñas City, Makati City, Malabon City, Mandaluyong City, Manila City, Marikina City, Navotas City, Parañaque City, Pasay City, Pasig City, Pateros, Quezon City, San Juan City, Taguig City and Valenzuela City

- b. Region I: Ilocos Sur, La Union and Pangasinan
- c. Region III: Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales
- d. Region IV-A: Batangas, Cavite, Laguna and Rizal
- e. Region IV-B: Occidental Mindoro and Oriental Mindoro
- f. Region VI: Iloilo

HELEN

- a. Region I: Ilocos Sur, La Union, Ilocos Norte, and Pangasinan
- b. Region II: (Cagayan Valley) Isabela
- c. Region III: Zambales
- d. Region IV-B: Occidental Mindoro
- e. CAR: Apayao, Benguet, and Mountain Province

GENER

- a. NCR: Makati City, Malabon City, Manila City, Marikina City, Muntinlupa City, Navotas City, Parañaque City, Quezon City, Taguig City and Valenzuela City
- b. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan
- c. Region II: Cagayan
- d. Region III: Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales
- e. Region IV-A: Batangas, Cavite, Laguna and Rizal
- f. Region IV-B: Occidental Mindoro and Oriental Mindoro
- g. Region V: Masbate and Sorsogon
- h. Region VI: Aklan, Antique, Iloilo and Negros Occidental
- i. Region VII: Cebu
- j. Region IX: Zamboanga del Norte
- k. Region X: Lanao del Norte and Misamis Oriental
- l. Region XI: Davao del Sur
- m. Region XII: North Cotabato
- n. CAR: Abra, Apayao, Benguet, Ifugao, Kalinga and Mountain Province

PABLO

- a. Region IV-B: Palawan
- b. Region VI: Guimaras, Iloilo and Negros Occidental
- c. Region VII: Bohol, Cebu, Negros Oriental and Siquijor
- d. Region VIII: Leyte, Northern Samar and Southern Leyte
- e. Region IX: Zamboanga del Norte, Zamboanga del Sur and Zamboanga Sibugay
- f. Region X: Bukidnon, Camiguin, Lanao del Norte, Misamis Occidental and Misamis Oriental
- g. Region XI: Compostela Valley, Davao del Norte, Davao del Sur and Davao Oriental
- h. Region XII: North Cotabato and South Cotabato
- i. Region XIII (CARAGA): Agusan del Norte, Agusan del Sur, Dinagat Islands, Surigao del Norte and Surigao del Sur

QUINTA

- a. Region IV-B: Palawan and Oriental Mindoro
- b. Region V: Albay, Camarines Norte, Camarines Sur, Sorsogon and Masbate
- c. Region VI: Iloilo, Negros Occidental, Aklan and Capiz
- d. Region VII: Cebu
- e. Region VIII: Leyte

LABUYO

- a. Region I: La Union and Pangasinan
- b. Region II: Isabela, Nueva Vizcaya and Quirino
- c. Region III: Aurora, Bulacan, Nueva Ecija, Pampanga and Zambales
- d. Region V: Albay and Sorsogon
- e. CAR: Benguet, Ifugao, Kalinga and Mountain Province

HABAGAT

- a. Region I: Ilocos Sur, La Union and Pangasinan

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- b. Region III: Bataan, Zambales, Bulacan, Pampanga and Tarlac
- c. Region IV-A: Batangas, Cavite, Laguna and Rizal
- d. Region IV-B: Occidental Mindoro
- e. NCR: Mandaluyong City, Marikina City, Manila City, San Juan City, Makati City, Quezon City, Pasay City, Pasig City, Caloocan City, Valenzuela City, Paranaque City, Taguig City, Las Pinas City, Muntinlupa City, Navotas City, Malabon City and Pateros
- f. CAR: Abra, Benguet and Mountain Province

- SANTI
- a. Region I: Pangasinan
 - b. Region II: Isabela, Nueva Vizcaya and Quirino
 - c. Region III: Aurora, Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales
 - d. Region IV-A: Laguna and Rizal

- EARTHQUAKE THAT ORIGINATED IN SAGBAYAN, BOHOL
- a. Region VI: Guimaras, Iloilo, Negros Occidental
 - b. Region VII: Bohol, Cebu, Siquijor

- YOLANDA
- a. Region IV-A: Batangas, Cavite, Laguna, Quezon, Rizal
 - b. Region IV-B: Marinduque, Occidental Mindoro, Oriental Mindoro, Palawan, Romblon
 - c. Region V: Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate, Sorsogon
 - d. Region VI: Aklan, Antique, Capiz, Guimaras, Iloilo, Negros Occidental
 - e. Region VII: Bohol, Cebu, Negros Oriental
 - f. Region VIII: Biliran, Eastern Samar, Leyte, Northern Samar, Samar, Southern Leyte
 - g. Region X: Bukidnon, Camiguin, Lanao del Norte, Misamis Oriental
 - h. Region XI: Compostela Valley, Davao Oriental

- i. Region XIII (CARAGA): Agusan del Norte, Dinagat Island, Surigao del Norte, Surigao del Sur

- AGATON
- a. Region X: Bukidnon, Camiguin, Lanao Del Norte, Misamis Occidental and Misamis Oriental
 - b. Region XI: Compostela Valley, Davao Del Norte, Davao Del Sur and Davao Oriental
 - c. Region XII: Cotabato (North Cotabato)
 - d. Region XIII (CARAGA): Agusan del Norte, Agusan Del Sur, Dinagat Islands, Surigao Del Norte and Surigao Del Sur
 - e. Autonomous Region of Muslim Mindanao: Maguindanao

- GLENDIA
- a. National Capital Region (NCR): Caloocan City, Las Pinas City, City of Manila, Malabon City, Mandaluyong City, Marikina City, Muntinlupa City, Navotas City, Paranaque City, Pasay City, Pasig City, Quezon City, Taguig City and Valenzuela City
 - b. Region I: Ilocos Norte and Pangasinan
 - c. Region III: Aurora, Bataan, Bulacan, Pampanga, Tarlac and Zambales
 - d. Region IV-A: Batangas, Cavite, Laguna, Quezon and Rizal
 - e. Region IV-B: Marinduque, Occidental Mindoro, Oriental Mindoro and Romblon
 - f. Region V: Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate and Sorsogon
 - g. Region VIII: Eastern Samar, Leyte, Northern Samar and Western Samar

- LUIS AND MARIO
- a. NCR: Caloocan City, Las Pinas City, Malabon City, Mandaluyong City, Manila, Marikina City, Pasay City, Pasig City, Quezon City, San Juan City, Valenzuela City, Makati

City, Muntinlupa City, Navotas City and Taguig City

- b. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan
- c. Region II: Cagayan, Isabela and Nueva Vizcaya
- d. Region III: Aurora, Bulacan, Nueva Ecija, Pampanga, Tarlac, Zambales and Bataan,
- e. Region IV-A: Batangas, Cavite, Laguna and Rizal
- f. Region IV-B: Occidental Mindoro
- g. Region V: Camarines Norte and Camarines Sur
- h. Region VI: Negros Occidental
- i. Region VII: Cebu
- j. Cordillera Administrative Region (CAR): Abra, Benguet, Apayao, Kalinga. Mt. Province and Ifugao.

RUBY

- a. NCR: Caloocan City, Las Pinas City, Malabon City, Mandaluyong City, City of Manila, Marikina City, Muntinlupa City, Navotas City, Paranaque City, Pasay City, Pasig City, Quezon City, Taguig City, Valenzuela City
- b. Region III: Bataan
- c. Region IV-A: Batangas, Cavite, Laguna, Quezon, Rizal
- d. Region IV-B: Marinduque, Occidental Mindoro, Oriental Mindoro, Palawan, Romblon
- e. Region V: Albay, Camarines Norte, Camarines Sur, Catanduanes, Masbate, Sorsogon
- f. Region VI: Aklan, Antique, Capiz, Guimaras, Iloilo, Negros Occidental
- g. Region VII: Bohol, Cebu, Negros Oriental, Siquijor
- h. Region VIII: Biliran, Eastern Samar, Leyte, Northern Samar, Samar (Western Samar), Southern Leyte
- i. Region XIII: Agusan del Norte, Agusan del Sur, Dinagat Islands, Surigao del Norte, Surigao del Sur

SENIANG

- a. Region IV-B: Occidental Mindoro and Palawan
- b. Region VI: Antique, Capiz, Iloilo and Negros Occidental
- c. Region VII: Bohol, Cebu and Siquijor
- d. Region VIII: Eastern Samar, Leyte, Northern Samar (Western Samar)
- e. Region IX: Zamboanga Del Sur
- f. Region X: Bukidnon, Camiguin, Lanao Del Norte and Misamis Oriental
- g. Region XI: Compostela Valley, Davao Del Norte and Davao Oriental
- h. Region XIII: Agusan Del Norte, Agusan Del Sur, Dinagat Islands, Surigao Del Norte, Surigao Del Sur

INENG

- a. Region I: Ilocos Norte, Ilocos Sur, La Union, and Pangasinan
- b. Region II: Batanes, Cagayan, Isabela, and Nueva Vizcaya
- c. Region III: Bataan, Bulacan, Nueva Ecija, and Zambales
- d. Region IV-A: Laguna
- e. Region IV-B: Oriental Mindoro
- f. Cordillera Autonomous Region (CAR): Abra, Apayao, Baguio City, Benguet, Ifugao, Kalinga and Mountain Province

LANDO

- a. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan
- b. Region II: Cagayan, Isabela, Nueva Vizcaya and Quirino
- c. Region III: Aurora, Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales
- d. Region IV-A: Cavite, Batangas, Laguna, Quezon and Rizal
- e. Region V: Camarines Norte and Catanduanes
- f. Cordillera Administrative Region: Abra, Apayao, Benguet, Ifugao, Kalinga and Mountain Province

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- LAWIN
- a. Region I: Ilocos Norte, Ilocos Sur, La Union and Pangasinan

b. Region II: Cagayan, Isabela, Nueva Vizcaya and Quirino

c. Region III: Aurora, Bataan, Bulacan, Nueva Ecija, Pampanga, Tarlac and Zambales

d. Region IV-A: Batangas, Quezon and Rizal

e. Region V: Camarines Norte and Sorsogon

f. CAR: Abra, Apayao, Benguet, Ifugao, Kalinga and Mountain Province

II. Inclusive Dates of the Applicability of Temporary Relief to Banks Affected by Calamities

	For RBs/TBs/Coop Banks						For All Rediscounting Banks
	Exclusion from computation of past due loans ratio	GLL of only 1% for restructured loans	Non-imposition of penalties for late submission of supervisory reports	Non-imposition of penalties on legal reserve deficiencies from reserve week ended / to	Moratorium on monthly payments due to the Bangko Sentral until	Staggered booking of allowance for loan losses for loans outstanding as of	Sixty (60)-day grace period to pay rediscounting obligations outstanding as of
El Niño (2010) ^{1/}	03/01/2010 to 04/30/2011	03/01/2010 to 04/30/2011		03/04/2010 to 09/30/2010		03/31/2010	03/15/2010
Juan	10/18/2010 to 12/31/2011	10/18/2010 to 12/31/2011	10/18/2010 to 04/30/2011	10/21/2010 to 04/21/2011	04/30/2011	10/18/2010	10/20/2010
Landslides/ Flooding	12/29/2010 to 12/31/2011	12/29/2010 to 12/31/2011	12/29/2010 to 06/30/2011	12/30/2010 to 06/30/2011	06/30/2011	12/29/2010	12/29/2010
Juaning	07/25/2011 to 12/31/2012	07/25/2011 to 12/31/2012	07/25/2011 to 01/31/2012	07/28/2011 to 01/26/2012	01/31/2012	07/25/2011	07/25//2011
Mina	08/25/2011 to 12/31/2012	08/25/2011 to 12/31/2012	08/25/2011 to 02/29/2011	09/01/2011 to 02/23/2012	02/29/2012	08/25/2011	08/25/2011
Pedring	09/24/2011 to 12/31/2012	09/24/2011 to 12/31/2012	09/24/2011 to 03/31/2012	09/29/2011 to 03/29/2012	03/31/2012	09/24/2011	09/24/2011
Sendong	12/15/2011 to 12/31/2012	12/15/2011 to 12/31/2012	12/15/2011 to 06/30/2012	12/22/2011 to 06/21/2012	06/30/2012	12/15/2011	12/15/2011
Habagat	08/06/2012 to 12/31/2013	08/06/2012 to 12/31/2013	08/06/2012 to 02/28/2013	08/09/2012 to 02/07/2013	02/28/2013	08/06/2012	08/06/2012
Helen	08/13/2012 to 12/31/2013	08/13/2012 to 12/31/2013	08/13/2012 to 02/28/2013	08/16/2012 to 02/14/2013	02/28/2013	08/13/2012	08/13/2012
Gener	07/28/2012 to 12/31/2013	07/28/2012 to 12/31/2013	07/28/2012 to 02/28/2013	08/02/2012 to 02/01/2013	02/28/2013	07/28/2012	07/28/2012
Pablo	12/04/2012 to 03/31/2014	12/04/2012 to 03/31/2014	12/04/2012 to 06/30/2013	12/06/2012 to 06/06/2013	06/30/2013	12/04/2012	12/04/2012
Quinta	12/26/2012 to 03/31/2014	12/26/2012 to 03/31/2014	12/26/2012 to 06/30/2013	12/27/2012 to 06/27/2013	06/30/2013	12/26/2012	12/26/2012
Labuyo/Habagat	08/12/2013 to 12/31/2014	08/12/2014 to 12/31/2014	08/12/2013 to 03/31/2014	08/15/2013 to	03/31/2014	08/21/2013	08/21/2013

^{1/} Excluding TBs

For RBs/TBs/Coop Banks							For All Rediscounting Banks
	Exclusion from computation of past due loans ratio	GLL of only 1% for restructured loans	Non-imposition of penalties for late submission of supervisory reports	Non-imposition of penalties on legal reserve deficiencies from reserve week ended / to	Moratorium on monthly payments due to the Bangko Sentral until	Staggered booking of allowance for loan losses for loans outstanding as of	Sixty (60)-day grace period to pay rediscounting obligations outstanding as of
Armed Assault/ Stand off	09/09/2013 to 11/08/2013		09/09/2013 to 11/08/2013				
Santi	10/13/2013 to 12/31/2014	10/13/2013 to 12/31/2014	10/13/2013 to 06/30/2014	10/17/2013 to 04/17/2014	06/30/2014	10/13/2013	10/13/2013
Earthquake (Sagbayan, Bohol)	10/15/2013 to 12/31/2014	10/15/2013 to 12/31/2014	10/15/2013 to 06/30/2014	10/17/2013 to 04/17/2014	06/30/2014	10/15/2013	10/15/2013
Yolanda	11/08/2013 to 12/31/2014	11/08/2013 to 12/31/2014	11/08/2013 to 06/30/2014	11/14/2013 to 05/15/2014	06/30/2014	11/08/2013	11/8/2013
Agaton	01/17/14 to 03/31/15	01/17/14 to 03/31/15	01/17/14 to 09/30/14	01/23/14 to 07/24/14	09/30/14	01/17/14	01/17/14
Glenda	07/14/14 to 09/30/15	07/14/14 to 09/30/15	07/14/14 to 03/31/15	07/14/14 to 01/15/15	03/31/15	07/14/14	07/14/14
Luis and Mario	09/14/14 to 09/30/15	09/14/14 to 09/30/15	09/14/14 to 03/31/15	09/19/14 to 03/13/15	03/31/15	09/14/14	09/14/14
Ruby	12/06/14 to 12/31/15	12/06/14 to 12/31/15	12/06/14 to 06/30/15	12/11/14 to 06/11/15	06/30/15	12/06/14	12/06/14
Seniang	12/29/14 to 12/31/15	12/29/14 to 12/31/15	12/29/14 to 06/30/15	01/01/15 to 07/02/15	06/30/15	12/29/14	12/29/14
Ineng	08/18/15 to 08/31/16	08/18/15 to 08/31/16	08/18/15 to 02/29/16 to	08/21/15 to 02/25/16	02/29/16	08/18/15	08/18/15
Lando	10/18/15 to 10/31/16	10/18/15 to 10/31/16	10/18/15 to 04/30/16	10/22/15 to 04/21/16	04/20/16	10/18/15	10/18/15

For RBs/TBs/Coop Banks							For All Rediscounting Banks
	Exclusion from computation of past due loans ratio	GLL of only 1% for restructured loans	Non-imposition of penalties for late submission of supervisory reports	Non-imposition of penalties on legal reserve deficiencies from reserve week ended / to	Moratorium on monthly payments due to the Bangko Sentral until	Staggered booking of allowance for loan losses for loans outstanding as of	Sixty (60)-day grace period to pay rediscounting obligations outstanding as of
El Niño (2016)	for a period one (1) year from declaration date of a state of calamity including those loans becoming past due six (6) months after date of declaration	for a period of one (1) year from declaration date of a state of calamity	NA	for a period of one (1) year starting from reserve week following the declaration date of a state of calamity	for a period of one (1) year from declaration date of a state of calamity	declaration date of a state of calamity	declaration date of a state of calamity
Lawin	10/19/16 to 10/31/17	10/19/16 to 10/31/17	10/19/16 to 04/30/17	10/25/16 to 04/25/17	04/30/17	10/19/16	10/19/16

III. Implementing Guidelines on the Restructuring Scheme Covering the Rediscounting Obligations with the Bangko Sentral of Rediscounting Banks in the Areas Affected by Natural Calamities

A. Objectives

The objectives of the loan settlement scheme are, as follows:

- a. To support the recovery efforts of rediscounting banks in the areas affected by the calamity;
- b. To enable the rediscounting banks to liquidate their loan obligations with the Bangko Sentral by way of restructuring; and
- c. To ensure the collection of the rediscounted loans which may become past due in view of the damages caused by the calamity, and maintain if not improve the quality of the loan portfolio of the Bangko Sentral.

B. Qualified banks

- a. All rediscounting banks with end-user borrowers located in the areas declared as “under state of natural calamity” as enumerated under Item “I” hereof;
- b. Rediscounting banks with serious violations or findings with the SES, and/or which are currently under investigation or subject to legal action by the Office of Special Investigation shall not be qualified to avail of the restructuring scheme.
- c. In addition to Item No. “B.b”, the DLC shall evaluate each bank to determine if each would qualify for the restructuring.

C. Terms and conditions

- a. *Maturity*
The restructured loan shall have a maximum term of five (5) years;
- b. *Amount to be restructured*
The amount to be restructured shall be equivalent to the following:

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(1) *Principal*. Unpaid outstanding balance of the principal obligation in the books of accounts of the Bangko Sentral; and

(2) *Accrued interest*. Unpaid interest due on the outstanding principal obligation as of the end of the applicable repayment or amortization date, preceding the approval of the loan restructuring.

c. *Interest rate*

The interest rate to be charged against the outstanding principal balance of the restructured loan shall be based on prevailing rediscount rate. The interest shall be re-priced annually.

d. *Maximum bank lending rate*

The restructured interest rate of the bank to its end-user borrowers shall not exceed six percent (6%) over and above the applicable Bangko Sentral interest rate. Moreover, the bank shall not charge interest on accrued interest.

e. *Terms of repayment*

(1) *Settlement Value*. The settlement value shall be paid by the bank in equal monthly amortizations: *Provided*, That the amortization period shall not exceed five (5) years, to wit:

(a) *Principal*. The principal obligation shall be paid in equal monthly amortization plus the applicable rediscount rate; and

(b) *Accrued interest*. The accrued interest on the principal obligation as of the end of the month immediately preceding the approval of the loan settlement scheme shall likewise be paid in equal monthly amortizations. No interest shall be charged on the accrued interest.

(2) *Grace Period*. The bank shall be given a grace period of six (6) months within which to pay the first amortization.

f. *Collaterals*. The following shall be the acceptable collaterals:

- (1) Restructured promissory notes of end-user borrowers;
 - (2) Hard collaterals owned by the bank such as bank premises and government securities; and
 - (3) Other collaterals acceptable to the DLC.
- g. Default cause
- (1) Failure to pay two (2) or more amortizations shall be considered an event of default and shall render the unpaid balance of the loan, plus accrued interest and penalty charges due thereon, immediately due and demandable;
 - (2) A penalty charge of twelve percent (12%) per annum shall be assessed on the defaulted amortization payment, reckoned from the amortization due date to date of payment; and
 - (3) The DLC may exercise the option to refer to the Office of Special Investigation or to an external lawyer for appropriate legal action, without further need for demand or notice to the defaulting bank.
- h. Required documents. Qualified banks shall submit the following documents:
- (1) Letter of Understanding (LOU), agreeing to the terms and conditions of the restructuring. The LOU shall be executed by the senior officers of the bank, duly designated by its board of directors; and
 - (2) Surety Agreement, if there is collateral deficiency.

D. Application procedures

- a. Filing of application
The bank shall file with the DLC an application for restructuring of its outstanding rediscounting loans, supported by the following documents:
 - (1) Resolution of the board of directors (a) authorizing the bank to enter

- into a loan settlement arrangement with the Bangko Sentral, and (b) designating authorized senior officers therefor;
 - (2) The restructured promissory notes of the end-user borrowers and other supporting documents; and
 - (3) Promissory Note with Trust Receipt Agreement and Deed of Assignment executed by the authorized senior officers of the bank, duly notarized.
- b. Notice of approval of application
- The DLC shall notify the bank of the approval of its application to avail of the loan settlement scheme. Upon receipt of said advice, the bank shall:
- (1) Execute the applicable document under Item No. “D.a”; and
 - (2) Pay the required amortization immediately on the month following the date of approval of the loan restructuring scheme and monthly thereafter until fully paid.

E. Authorized signatories of the Bangko Sentral

Transaction	Authorized Bangko Sentral Officer
Approval of the application to avail of the loan restructuring scheme	Director, DLC, or in his/her absence, any of the DLC Deputy Directors
Approval to release the collateral documents	Director, DLC, or in his/her absence, any of the DLC Deputy Directors
Execution of Cancellation of Deeds of Real Estate Mortgage Assignment or Pledge	Deputy Governor, Monetary Stability Sector

F. Other provisions

- a. Value-Date of the Settlement Scheme
The value–date of the settlement value shall be the end of the month immediately

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- preceding the date of approval of the loan restructuring.
- b. Effectivity date
The loan settlement scheme shall be made available, as follows:
 - a) El Niño (2010) - up to 31 May 2010;
 - b) Juan - up to 30 April 2011;
 - c) Landslides and Flooding - up to 30 June 2011;
 - d) Juaning - up to 31 January 2012;
 - e) Mina - up to 29 February 2012;
 - f) Pedring - up to 31 March 2012;
 - g) Sendong - up to 30 June 2012;
 - h) Habagat - up to 28 February 2013;
 - i) Helen - up to 28 February 2013;
 - j) Gener - up to 28 February 2013;
 - k) Pablo - up to 30 June 2013;
 - l) Quinta – up to 30 June 2013;
 - m) Labuyo and Habagat – up to 31 March 2014;
 - n) Santi – up to 30 June 2014;
 - o) Earthquake that originated in Sagbayan, Bohol – up to 30 June 2014;
 - p) Yolanda – up to 30 June 2014;
 - q) Agaton - up to 30 September 2014;
 - r) Glenda - up to 31 March 2015;
 - s) Luis and Mario - up to 31 March 2015;
 - t) Ruby - up to 30 June 2015;
 - u) Seniang - up to 30 June 2015;
 - v) Ineng - up to 29 February 2016;
 - w) Lando - up to 30 April 2016; and
 - x) El Niño (2016)- upto 13 November 2016
 - y) Lawin- up to 30 April 2017.

(M-2009-036 dated 07 October 2009, as amended by M-2016-006 dated 08 December 2016, Circular No. 917 dated 08 July 2016, M-2016-006 dated 17 May 2016, M-2015-039 dated 04 November 2015, M-2015-035 dated 07 October 2015, M-2015-009 dated 28 January 2015, M- 2015-005 dated 20 January 2015, 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 24 August 2012, M-2012-001 dated 03 January 2012, M-2011-056 dated 10 November 2011, M-2011-055 dated 17 October 2011, M-2011-043 dated 12 August 2011, M-2011-007 dated 04 February 2011, M-2010-039 dated 03 November 2010, M-2010-007 dated 23 April 2010, M-2009-037 dated 08 October 2009 and M-2009-038 dated 08 October 2009, as amended by M-2009-040 dated 30 October 2009)

**ADDITIONAL SPECIAL REGULATORY RELIEFS TO BANKS IN AREAS
SEVERELY AFFECTED BY TROPICAL DEPRESSION "YOLANDA"**
*(Footnote to Sec. X151, Subsecs. X151.9, X151.10, X160.1, X306.5, X394.2,
X806.2c and X901.1)*

Statement of Policy. The Bangko Sentral aims to provide affected banks a set of additional special regulatory reliefs that are intended to translate into direct, immediate and measurable improvements in the quality of life of calamity victims, particularly bank clients.

Scope and Coverage. All banks¹ with head offices (HO) and/or branches located in the following areas which were “severely affected” by tropical depression “Yolanda” and declared under a state of national calamity under Proclamation No. 682 dated 11 November 2013:

- a. Palawan in Region IV-B;
- b. Iloilo, Aklan and Capiz in Region VI;
- c. Cebu in Region VII; and
- d. Samar provinces and Leyte in Region VIII.

Available Reliefs. The additional special regulatory reliefs shall be in the following form:

- a. *Staggered Booking of Losses Arising from Loan Write-Offs*

Banks shall be allowed to book losses on affected loans outstanding as of 07 November 2013 that are condoned and written off (partially or in full), staggered over a period of 5 years.

Banks are required, however, to disclose the regulatory relief in relevant reports in accordance with existing Bangko Sentral rules and regulations.

Borrowers who benefited from the debt relief may be allowed to avail of new loans subject to appropriate credit underwriting standards.

- b. *Staggered Booking of Losses Arising from Write-Down of Bank Premises, Furniture, Fixture and Equipment and ROPA*

Impairment losses arising from the need to write down Bank Premises, Furniture, Fixture and Equipment, and Real and Other Properties Acquired (ROPA) as of 07 November 2013 that are rendered economically useless by Typhoon Yolanda, may be recognized on a staggered period of five (5) years. The write-off shall be properly disclosed in the relevant reports in accordance with Bangko Sentral existing rules and regulations.

- c. *Condonation of Annual Supervisory Fees of TB, RB and Coop Banks*

Banks with HO in the affected areas may request for condonation of the Annual Supervisory Fee for the assessable year 2014. The Bangko Sentral, after due consideration of the severity of losses incurred by the bank concerned, may condone the supervisory fees for up to 5 years, subject to application.

- d. *Flexibility on Branch Relocation and Temporary Offices*

- 1. *Temporary Relocation of Affected Banking Offices*

Banks may relocate affected offices and branches to more viable locations within the province with a minimum of Bangko Sentral intervention.

Banks availing of temporary relocation of offices to cities/municipalities of higher classification² within the province, for instances where the capital requirement under Subsec. X111.1 of this Manual is not met, shall be temporarily relieved from

¹ Universal, Commercial, Thrift, Rural and Cooperative Banks
² E.g., from Medellin, Cebu (4th class municipality with capital requirement of P10 million) to Bogo City (all other cities except Cebu and Davao cities with capital requirement of P25 million)

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compliance with the additional capital requirement for a period of 6 months.

Applications for relocation of affected offices and branches to municipalities outside the province shall be evaluated on a case-to- case basis¹.

The 45-day prior notice requirement for temporary closure of offices² in affected areas is hereby waived for offices that have been de facto closed since 8 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.

2. Establishment of Temporary Banking Offices in Affected Areas

Banks in affected areas may be authorized to establish temporary banking offices for a period not exceeding 6 months.

e. Relaxation of Reporting Requirements

TBs, RBs and Coop Banks with HO in the affected areas shall be allowed to defer their submission of periodic reports for 6 months.

Banks with branches in the affected areas may defer the submission of branch reports for a period of 6 months. The HO may submit consolidated reports without the report of the affected branches for a period of 6 months.

f. Relaxation on the Presentation of Required Clients’ Documents

Industry associations or federations are enjoined to come up with common guidelines for the reconstitution of documents (both clients and banks) for adoption of member banks in the severely affected areas. The common guidelines shall include measures addressing clients’ concerns such as relaxation in the presentation of required documents when accessing financial services without sacrificing appropriate controls.

Availment. Banks in the “severely affected” areas may avail themselves of the additional special regulatory reliefs by submitting a letter-request to the appropriate supervising department of the Bangko Sentral, specifying the particular reliefs they will be availing of, together with the justifications therefor.

Sanctions. In the event that the availing bank is found to have abused the policy, the additional special reliefs granted shall be reversed and set aside, and the availing bank shall be subject to appropriate sanctions.

(Circular No. 820 dated 06 December 2013 and Circular No. 827 dated 28 February 2014)

¹ To cover situations such as relocation to an adjoining municipality that is part of another province (e.g., from Tacloban, Leyte, to Basey, Samar, which are adjacent municipalities of different provinces).

² Required under Subsec. X151.10

**GUIDELINES ON BANKS' INTERNAL CAPITAL
ADEQUACY ASSESSMENT PROCESS**
(Appendix to Sec. X117)

A. Introduction

1. This document sets out the broad guidelines that UBs and KBs (hereinafter referred to as 'banks') should follow in the design and use of their Internal Capital Adequacy Assessment Process (ICAAP). A bank's ICAAP supplements the Bangko Sentral's Risk-Based Capital Adequacy Framework (the Framework) as contained in existing regulations and, thus, must be applied on a group-wide basis, i.e., it should cover all of a bank's subsidiaries and affiliates.

2. Although the Framework prescribes the guidelines for determining banks' minimum regulatory capital requirements in relation to their exposure to credit risk, market risk and operational risk, a bank's Board of Directors and senior management are still ultimately responsible in ensuring that the bank maintains an appropriate level and quality of capital commensurate not just with the risks covered by the Framework, but also with all other material risks to which it is exposed. Hence, a bank must have in place an ICAAP that takes into account all of these risks.

B. Guiding principles

1. Banks must have a process for assessing their capital adequacy relative to their risk profile (an ICAAP).

2. The ICAAP is the responsibility of banks. Banks are responsible for setting internal capital targets that are consistent with their risk profile, operating environment, and strategic/business plans. The ICAAP should be tailored to a bank's circumstances and needs, and it should use

the inputs and definitions that a bank normally uses for internal purposes.

3. Banks' ICAAP (i.e., the methodologies, assumptions and procedures) and other policies supporting it (e.g., capital policy, risk management policy, etc.) should be formally documented, and they should be reviewed and approved by the board. The results of the ICAAP should also be regularly reported to the board.

In addition, the board and senior management are responsible for integrating capital planning and capital management into banks' overall management culture and approach. They should ensure that formal capital planning and management policies and procedures are communicated and implemented group-wide and supported by sufficient authority and resources.

Banks' ICAAP document should be submitted to the appropriate Central Point of Contact Department (CPCD) of the Bangko Sentral every 31 March of each year. A suggested format of the ICAAP submission to the Bangko Sentral is provided in *Annex A of Appendix 90*.

4. The ICAAP should form an integral part of banks' risk management processes so as to enable the board and senior management to assess, on an on-going basis, the risks that are inherent in their activities and material to their bank. This could range from using the ICAAP in more general business decisions (e.g. expansion plans) and budgets, to the more specific decisions such as allocating capital to business units, or to having it play a role in the individual credit decision process.

5. The ICAAP should be reviewed by the board and senior management at least

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annually, or as often as is deemed necessary to ensure that risks are covered adequately and that capital coverage reflects the actual risk profile of their bank. Moreover, any changes in a bank's strategic focus, business plan, operating environment or other factors that materially affect assumptions or methodologies used in the ICAAP should initiate appropriate adjustments to the ICAAP. New risks that occur in the business of a bank should be identified and incorporated into the ICAAP. The ICAAP and its review process should be subject to independent internal or external review. Results thereof should be communicated to the board and senior management.

6. Banks should set capital targets which are consistent with their risk profile, operating environment, and business plans. Banks, however, may take other considerations into account in deciding how much capital to hold, such as external rating goals, market reputation and strategic goals. If these other considerations are included in the process, banks must be able to show to the Bangko Sentral how they influenced their decisions concerning the amount of capital to hold.

7. The ICAAP should capture the risks covered under the Framework – credit risk, market risk, and operational risk. If applicable, banks should disclose major differences between the treatments of these risks in the calculation of minimum regulatory capital requirement under the Framework and under the ICAAP. In addition, the ICAAP should also consider other material risks that banks are exposed to, albeit that there is no standard definition of materiality. Banks are free to use their own definition, albeit that they should be able to explain this in detail to the Bangko Sentral, including the methods used, and the coverage of all material risks. These other material risks may include any of the following:

a. Risks *not fully* captured under the Framework, for example, credit concentration risk, risk posed by non-performing assets, risk posed by contingent exposures, etc.;

b. Risks *not* covered under the Framework. As a starting point, banks may choose to use the other risks identified under Circular No. 510 dated 03 February 2006. Some of these risks are less likely to lend themselves to quantitative approaches, in which cases banks are expected to employ more qualitative methods of assessment and mitigation. Banks should clearly establish for which risks a quantitative measure is warranted, and for which risks a qualitative measure is the correct risk assessment and mitigation tool; and

c. Risk factors external to banks. These include risks which may arise from the regulatory, economic or business environment.

8. Banks should have a documented process for assessing risks. This process may operate either at the level of the individual banks within the banking group, or at the banking group level. Banks are likely to find that some risks are easier to measure than others, depending on the availability of information. This implies that their ICAAP could be a mixture of detailed calculations and estimates. It is also important that banks not rely on quantitative methods alone to assess their capital adequacy, but include an element of qualitative assessment and management judgment of inputs and outputs. Non-quantifiable risks should be included if they are material, even if they can only be estimated. This requirement might be eased if banks can demonstrate that they have an appropriate policy for mitigating/managing these risks.

9. The ICAAP should take into account banks' strategic plans and how they

relate to macro-economic factors. Banks should develop an internal strategy for maintaining capital levels which can incorporate factors such as loan growth expectations, future sources and uses of funds and dividend policy, and any procyclical variation of minimum regulatory capital requirements.

Banks should also have an explicit, board-approved capital plan which states their objectives and the time horizon for achieving those objectives, and in broad terms the capital planning process and the responsibilities for that process. The plan should also lay out how banks will comply with capital requirements in the future, any relevant limits related to capital, and a general contingency plan for dealing with divergences and unexpected events (for example, raising additional capital, restricting business, or using risk mitigation techniques).

In addition, banks should conduct appropriate scenario/stress tests which take into account, for example, the risks specific to the particular stage of the business cycle. Banks should analyze the impact that new legislation/regulation, actions of competitors or other factors may have on their performance, in order to determine what changes in the environment they could sustain.

10. The results and findings of the ICAAP should feed into banks' evaluation of their strategy and risk appetite. For less sophisticated banks in particular, for which genuine strategic capital planning is likely to be more difficult, the results of the process should mainly influence the bank's management of its risk profile (for example, via changes to its lending behavior or through the use of risk mitigants). The ICAAP should produce a reasonable overall capital number and assessment. Banks should be able to explain to the Bangko Sentral's satisfaction the similarities and differences between its

ICAAP and its minimum regulatory capital requirements under the Framework.

C. ICAAP Methodologies

1. While banks may use simple or model-based ICAAP methodologies depending on what they think is appropriate for them (*please see Annex B of Appendix 90 for description of the different broad classification of methodologies*), at the minimum, the Bangko Sentral expects banks to adopt an ICAAP based on the minimum regulatory capital requirement under the Framework and, where applicable, assess extra capital proportionate to the other risks that are not covered under said Framework. This requires an assessment first of whether the risks covered under the Framework - credit risk, market risk and operational risk - are fully captured, and second, how much capital to allocate against other risks and external factors.

2. Regardless of which methodology a bank decides to adopt, it should compare its actual and future projected capital with the actual and future internal capital need arising from the assessment. The actual calculation and allocation of capital always needs to be supplemented by sufficiently robust qualitative procedures, measures and provisions to identify, manage, control and monitor all risks.

3. The ICAAP will always consist of two parts. One part covers all steps necessary for assessing the risks. The other part covers all steps necessary to assess the actual capital (risk-taking capacity). As these two parts will always meet at the end of the ICAAP and have to be in balance, there is no procedure which says which part has to be assessed first.

4. After choosing its ICAAP methodology, a bank could take its thinking through the following steps in developing the ICAAP:

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a. Risk identification

A bank could prepare a list of all material risks to which it is exposed; for that purpose it may find it useful to identify and consider its largest past losses and whether those losses are likely to recur. The identification of all material risk to which a bank is exposed should be conducted in a forward looking manner.

b. Capital assessment

For all the risks identified through the process above, a bank could then consider how it would act, and the amount of capital that would be absorbed, in the event that one or more of the risks identified was to materialize.

c. Forward capital planning

A bank could then consider how its capital need as calculated above might change in line with its business plans over its strategic time horizon, and how it might respond to these changes. In doing so, a bank may want to perform a sensitivity analysis to understand how sensitive its capital is to changes in internal and external factors such as business risks, and changes in economic/ business cycles.

d. ICAAP outcome

Finally, a bank should document the ranges of capital required as identified above and form an overall view on the amount of internal capital which it should hold.

(Circular No. 639 dated 15 January 2009, as amended by Circular No. 869 dated 30 January 2015)

**INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS
(Suggested Format)**

The BSP expects that there would be a fair degree of variation in the length and format of submissions since banks’ business and risk profiles differ. As such the ICAAP document should be proportional to the size, nature and complexity of a bank’s business.

This format has been provided as a starting point. Banks are not required to adopt this format. However, adopting this format may be convenient for banks as it covers the minimum issues which typically would be the subject of review by the BSP and may therefore make the review process more efficient for both the bank and the BSP.

Equally, use of this template is not a substitute for being aware of the relevant rules.

What is an ICAAP document?

An ICAAP document is a bank’s explanation to the BSP of its internal capital adequacy assessment process. While this may be based on existing internal documentation from numerous sources, the BSP will clearly find it helpful to have a summary prepared to communicate the key results and issues to it at a senior level. Since the BSP will be basing many of its views on the information contained in the ICAAP document, the bank’s board of directors and senior management should have formally approved its contents. As such, the BSP would expect the ICAAP document to be in a format that can be easily understood at a high level and to contain all the relevant information that is necessary for the bank and BSP to make an informed judgment and decision as to the

appropriate capital level and risk management approach.

Where appropriate, technical information on risk measurement and capital methodologies, and all other works carried out to validate the approach (e.g. board papers and minutes, internal or external reviews) could be contained in appendices.

1. EXECUTIVE SUMMARY

The purpose of the Executive Summary is to present an overview of the ICAAP methodology and results. This overview would typically include:

- i. The purpose of the report and which group entities are covered by the ICAAP;
- ii. The main findings of the ICAAP analysis:
 - How much and what composition of internal capital the bank considers it should hold as compared with the capital adequacy requirement under the existing BSP Risk-Based Capital Adequacy Framework (the Framework), and
 - The adequacy of the bank’s risk management processes given the risks assumed;
- iii. A summary of the financial position of the business, including the strategic position of the bank, its balance sheet strength, and future profitability;
- iv. Brief descriptions of the capital and dividend plan; how the bank intends to manage capital going forward and for what purposes;
- v. Commentary on the most material risks, why the level of risk is acceptable or, if it is not, what mitigating actions are planned;

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- vi. Commentary on major issues where further analysis and decisions are required; and
- vii. Who has carried out the assessment, how it has been challenged, and who has approved it.

2. BACKGROUND

This section would cover the relevant organizational structure and business lines, and historical financial data for the bank (e.g., group structure (legal and operational), operating profit, profit before tax, profit after tax, dividends, equity, capital resources held and as compared with regulatory requirements, total loans, total deposits, total assets, etc., and any conclusions that can be drawn from trends in the data which may have implications for the bank’s future).

3. CAPITAL ADEQUACY

This section could start with a description of the risk appetite used in the ICAAP. It is vital for the BSP to understand whether the bank is presenting its view regarding: (1) the amount of capital required to meet minimum regulatory needs, or (2) the amount of capital that a bank believes it needs to meet its business objectives (e.g., whether the capital required is based on a particular desired credit rating, or includes buffers for strategic purposes, or minimizes the chances of breaching regulatory requirements). A description of the methodology used to assess the bank’s capital adequacy should also be included.

The section would then include a detailed review of the capital adequacy of the bank.

The information provided would include:

Timing

- i. The effective date of the ICAAP calculations together with consideration of any events between this date and the date of submission which would materially

impact the ICAAP calculation together with their effects; and

- ii. Details of, and rationale for, the time period over which capital has been assessed.

Risks analyzed

- i. An identification of the major risks faced in each of the following categories:
 - credit risk;
 - market risk;
 - interest rate risk in the banking book;
 - liquidity risk;
 - operational risk;
 - compliance risk;
 - strategic/business risk; and
 - reputation risk;
- ii. And for each, an explanation of how the risk has been assessed and, where appropriate, the quantitative results of that assessment;
- iii. Where relevant, a comparison of that assessment with the results of the assessment under the Framework (specifically for credit risk, market risk, and operational risk);
- iv. A clear articulation of the bank’s risk appetite by risk category if this varies from the assessment; and
- v. Where relevant, an explanation of any other methods apart from capital used to mitigate the risks.

The discussion here would make clear which additional risks the bank considers material to its operation and, thus, would warrant additional capital on top of that required for credit risk, market risk, and operational risk under the Framework.

Methodology and assumptions

A description of how assessments for each of the major risks have been approached and the main assumptions made.

At a minimum, the BSP expects banks to base their ICAAP on the results of the capital adequacy requirement under the

Framework and additional risks, where applicable, should be assessed separately.

Capital transferability

Details of any restrictions that may curtail the management’s ability to transfer capital into or out of the business(es) covered, for example, contractual, commercial, regulatory or statutory restrictions that apply.

4. CURRENT AND PROJECTED FINANCIAL AND CAPITAL POSITIONS

This section would explain the current and expected changes to the business profile of the bank, the environment in which it expects to operate, its projected business plans (by appropriate lines of business), and projected financial position for, say three to five years.

The starting balance sheet and date as of which the assessment is carried out would be set out.

The projected financial position might consider both the projected capital available and projected capital resource requirements to support strategic/business initiatives. These might then provide a baseline against which adverse scenarios (please see Capital Planning below) might be compared.

Given these business plans, this section would also discuss the bank’s assessment on whether additional capital is necessary on top of that assessed to cover their existing risk exposures, as well as future planned sources of capital.

5. CAPITAL PLANNING

This section would explain how a bank would be affected by an economic recession or downswings in the business or market relevant to its activities. The BSP is interested in how a bank would manage its business and capital so as to survive a recession/market disruption while meeting minimum regulatory standards. The analysis would include financial projections forward for,

say, three to five years based on business plans and solvency calculations. Likewise, a bank should disclose here the key assumptions and other factors that would have significant impact on its financial condition, in conducting scenario analyses/stress testing.

Typical scenarios would include how an economic downturn/market disruption would affect:

- i. the bank’s capital resources and future earnings; and
- ii. the bank’s capital adequacy requirement under the Framework taking into account future changes in its projected balance sheet.

It would also be helpful if these projections showed separately the effects of management potential actions to change the bank’s business strategy and the implementation of contingency plans.

In addition, banks are encouraged to include an assessment of any other capital planning actions that would be necessary to enable it to continue to meet its regulatory capital requirements throughout a recession/market disruption such as new capital injections from related companies or new share issues.

Given the projected capital needs arising from an economic recession or business/market downswings, this section would also discuss the bank’s assessment on whether additional capital is necessary on top of that assessed to cover their existing risk exposures and business plans.

6. CHALLENGE AND ADOPTION OF THE ICAAP

This section would describe the extent of challenge and testing of the ICAAP. Banks should describe the review and sign-off procedures used by senior management and the board. It might also be helpful if a copy of any relevant report to senior management or the board and their response were attached.

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Details of the reliance placed on any external suppliers would also be detailed here, e.g. for generating economic scenarios. In addition, a copy of any report obtained from an external reviewer or internal audit would also be included.

7. USE OF THE ICAAP WITHIN THE BANK

This section would describe the extent to which capital management is embedded within the bank including the extent and use of scenario analysis and/or stress testing within the bank’s capital management policy, e.g. in business decisions (e.g. expansion plans) and budgets, or in

allocating capital to business units, or in individual credit decision process. Banks should include a statement of the actual operating philosophy on capital management and how this links to the ICAAP. For instance differences in risk appetite used in the ICAAP as compared to that used for business decisions might be discussed. Lastly, it would be helpful if details on any anticipated future refinements within the bank’s ICAAP (highlighting those aspects which are work-in-progress), as well as any other information that would help the BSP review the bank’s ICAAP could be provided.
(Circular No. 639 dated 15 January 2009)

ALTERNATIVE INTERNAL CAPITAL ADEQUACY
ASSESSMENT PROCESS METHODOLOGIES

This appendix outlines ICAAP methodologies which banks may adopt in lieu of that based on the minimum regulatory capital requirement under the BSP Risk-Based Capital Adequacy Framework (the Framework). However, the choice of methodology should clearly be commensurate with banks’ ability to collect the necessary information and to calculate the necessary inputs in a reliable manner.

Structured approach - In this case, banks will need to set the internal capital requirement at a starting point of zero capital and then build on capital due to all risks (both those captured under the Framework and those that are not) and external factors. This methodology could be seen as a simple model for calculating economic capital and is not based on the minimum regulatory capital requirement. A sensitivity analysis could form the starting point. The sensitivity analysis should be based on an exceptional but plausible scenario. Risks which are not included in the sensitivity analysis should also be considered in terms of the structured approach.

Allocation-of-risk-taking approach – In this approach, banks might start with its actual capital and break it down to all its material risks. This step in the process requires quantification or at least an estimation method for various risks. The amount of capital provided for each risk category is determined by the current and envisaged amount of risk in each category, a risk buffer and their risk appetite. Banks will decide which type of risk quantification/estimation method is suitable and sufficient for its particular use. If the allocated capital seems insufficient, either the risk has to be reduced or capital has to be raised. The allocated amounts of the capital will therefore work as a limit system, which assists and facilitates banks in balancing their risk-taking capacity and their risks.

Formal economic capital models – These are expected to be used eventually by banks that use advanced approaches in determining the minimum regulatory capital requirement, or those that have substantial derivatives and structured products transactions (i.e., those that have expanded dealer and/or user capabilities).

(Circular No. 639 dated 15 January 2009)

**GUIDELINES ON THE BANGKO SENTRAL'S
SUPERVISORY REVIEW PROCESS**
(Appendix to Sec. X117)

A. Introduction

1. The BSP's supervisory review process (SRP) in the context of this document involves (1) an evaluation of banks' internal capital adequacy assessment processes (ICAAP) and their output, (2) a dialogue with banks with regard to their ICAAP, and (3) the prudential measures that may be taken to address issues identified. These guidelines should be observed mainly by the appropriate Central Point of Contact Department (CPCD) within the BSP and, where appropriate for on-site validation during regular examination, by the examination personnel. This therefore supplements the existing guidelines set out in the Manual of Examinations, the CAMELS Rating, and the Risk Assessment System (RAS). The CPCD may draft, for its own use, detailed guidelines on the conduct of the assessment of banks' ICAAP and of the BSP-bank dialogue.

2. Although these guidelines are directed mainly at BSP supervision and examination personnel, banks will have a clear interest in knowing the approach the BSP intends to take in assessing their capital adequacy.

B. Guiding principles in assessing banks' ICAAP

1. As a first step, the BSP should evaluate banks' compliance with the minimum regulatory capital requirements as prescribed under the Framework. This would involve the verification of banks' calculation of their risk weighted assets (RWA) and capital adequacy ratio (CAR). The minimum regulatory capital requirements should always be the starting point in the assessment of banks' capital adequacy. The validated CAR should then

be compared with the required capital resulting from the ICAAP.

2. Next, the assessment of banks' ICAAP should include an evaluation of their assumptions, components, methodologies, coverage and outcome. This review should cover both banks' risk management processes and their assessment of adequate capital. The BSP should review how banks assess the other risks they are exposed to, especially Elements 2 to 4 listed in Item "C.4" hereof, the controls they have in place to mitigate these risks, as well as the adequacy and composition of capital held against those risks.

3. The BSP should then identify existing or potential problems and key risks faced by banks, the deficiencies in their control and risk management frameworks, and the degree of reliance that can be placed on the outputs of their ICAAP. This process will enable the BSP to tailor its approach for each individual bank and will provide the foundation for the BSP's general approach for each bank and its actions.

4. The BSP's evaluation of the adequacy of banks' capital in relation to their risk profile would serve as the basis for assigning a rating for the Capital component of the bank's CAMELS rating. It would also serve as the basis for identifying any prudential measures or other supervisory actions required. For example, where there is an imbalance between business and risk controls, the BSP should consider the range of remedial supervisory actions that may be needed to rectify a deficiency in controls and/or perceived shortfalls in capital, either as a long-term requirement(s) or as a short-term action(s).

5. The results of the SRP will be communicated to the board and senior

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management of banks together with any action that is required of them and any significant action planned by the BSP. This may be done as part of the dialogue between the BSP and each bank on the ICAAP.

6. In evaluating the ICAAP of branches of foreign banks in the Philippines, the BSP will refer to the home supervisor’s consolidated assessment of the ICAAP of the head office/parent bank. The BSP will also take into account the strength and availability of parental support.

C. Guiding principles on BSP-bank dialogue

1. A key element of the SRP is the dialogue between the BSP and each bank. The dialogue will inform the BSP about the way each bank’s ICAAP is structured, and the assumptions and methodologies which are used to assess its risk exposures.

2. The ICAAP document, which banks are required to submit to the BSP every January of each year (suggested format is in *Annex A of Appendix 90*), will be the basis for the BSP-bank (specifically, BSP-CPCD) dialogue. This dialogue may feed into the regular examination, and the findings of the regular examination may in turn feed into the dialogue. The BSP will determine the nature and depth of the dialogue, based on the type and complexity of the bank.

3. Banks should be able to justify their processes for identifying and measuring their risks as well as how much capital, if any, they allocate against them, taking into account other qualitative mitigants of risk. Banks should be able to explain any differences between their own assessment of capital needs and targets under the ICAAP and the minimum regulatory capital requirements prescribed under the Framework.

4. The dialogue should embrace the following four main elements:

a. Element 1: Risks covered under the Framework (i.e., credit risk, market risk, and operational risk);

b. Element 2: Risks *not fully* covered under the Framework (for example, credit concentration risk, risk posed by non-performing assets, risk posed by contingent exposures, etc.);

c. Element 3: Risks *not* covered under the Framework (other risks identified under Circular No. 510 dated 3 February 2006); and

d. Element 4: External factors, which include risks which may arise from the regulatory, economic or business environment.

5. Aside from these four main elements, the dialogue should also cover the quality of internal governance of banks, including risk controls, compliance and internal audit, as well as operational and organizational structure.

6. For the SRP to be effective, the BSP will need to develop a sufficiently thorough understanding of how the ICAAP is determined and the differences between it and the minimum regulatory capital requirement under the Framework. This would help in evaluating the ICAAP outcome. The SRP emphasizes the importance of analyzing the main elements, and understanding the differences between ICAAP assumptions and minimum regulatory capital requirement assumptions.

7. Once the process has begun, the dialogue will provide the opportunity for iteration between the ICAAP and SRP, with each informing the other, i.e., banks may make changes to the ICAAP in the course of the dialogue, in response to challenge and feedback from the BSP, and vice versa. Following the dialogue, the BSP will reach an assessment.

D. Guidelines on prudential measures

1. If the BSP considers that a bank’s ICAAP does not adequately reflect its overall

risk profile, or does not result in the bank having adequate capital, then consideration should be given to applying prudential measures.

2. The measures available to the BSP include:

- a. Requiring the bank to improve its internal control and risk management frameworks;
- b. Requiring the bank to reduce the risk inherent in its activities, products and systems;
- c. Restricting or limiting the business, operations or network of the bank;
- d. Limiting or prohibiting the distribution of net profits and requiring that part or all of the net profits be used to increase the capital accounts of the bank; and
- e. Requiring the bank to increase its capital.

3. The choice of prudential measures should be determined according to the severity and underlying causes of the situation and the range of measures and sanctions available to the BSP. Measures can be used individually or in combination. The requirement to increase capital should, however, be imposed on any bank which exhibits an imbalance between its business risks and its internal control and risk frameworks, if that imbalance cannot be remedied by other prudential measures or

supervisory actions within an appropriate timeframe.

4. The requirement to increase capital may also be set where the BSP judges the existing capital held by a bank to be inherently inadequate for its overall risk profile. It must be acknowledged that there is no ‘scientific’ method for determining the amount, and that capital is not a long-run substitute for remedying deficiencies in systems and controls. In practice, the process relies heavily on subjective judgment and peer-group consistency to ensure a level playing field and a defense to possible challenge that may be posed by banks.

5. Prudential measures should be communicated promptly and in sufficient detail. In communicating its decision on prudential measures, the BSP should:

- a. Explain in sufficient detail the factors which have led to the risk assessment conclusions;
- b. Indicate areas of weakness and the timeframe for remedial action;
- c. Explain the reasons for any additional capital requirement; and
- d. Indicate what improvements could be made to systems and controls to make them adequate for the risks and activities of the bank, and for this improvement to be reflected in the bank’s capital requirements.

(Circular No. 639 dated 15 January 2009)

**SUPPLEMENTAL GUIDELINES ON THE
INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)
AND SUPERVISORY REVIEW PROCESS (SRP) FOR FOREIGN BANK BRANCHES
(Appendix to Sec. X117)**

In implementing the provisions of Section X117 and *Appendices 90 and 90a*, the Bangko Sentral shall consider the following guidelines with respect to the ICAAP and the related SRP for foreign bank branches:

1. The guiding principles for banks' ICAAPs and SRP in *Appendix 90 and 90a* respectively shall apply to foreign bank branches on a proportionate basis. In this regard, the Bangko Sentral expects that there will be variation in foreign banks branches' ICAAPs in accordance with the nature, size and complexity of their business in the Philippines;
2. The Bangko Sentral will primarily be interested in finding out how a foreign bank branch assesses its capital in relation to its business plans and operations in the Philippines;
3. The ICAAP of a foreign bank branch should cover risks arising from the occurrence of domestically-oriented scenarios. It should also take into account the specific circumstances of the branch, i.e., regulatory commitments in relation to special licenses or authorities, etc.;
4. The Bangko Sentral acknowledges that a foreign bank branch is likely to make use of the methodology of the head office/parent bank for its own ICAAP or portion thereof. However, the branch should be able to explain that such processes and methodologies are appropriate to its business in the Philippines;

5. A branch must include in its ICAAP how capital is being allocated to the branch and the factors that influence this allocation. It should also be able to illustrate how this capital is managed, and how capital can be made available to the branch in a timely manner when it has been determined that there is a need to do so.

6. In line with *Appendix 90a* Item "B.6" the Bangko Sentral will refer to the ICAAP developed at the level of the head office/parent bank, and the home supervisor's assessment thereof. The Bangko Sentral will look at the extent that the head office/parent bank ICAAP covers the risks of its branch in the Philippines, including the possible impact of scenarios that primarily affect the operations of the head office/parent bank on the operations and capital adequacy of the branch; and

7. The ICAAP document¹ of foreign bank branches should be submitted to the Central Point of Contact Department (CPCD) of the Bangko Sentral on or before 31 March of each year. Banks may refer to Annex A of *Appendix 90* for the suggested format of the document. While a common outline facilitates the Bangko Sentral's evaluation, banks are not precluded from modifying the format and content of the ICAAP document if certain sections or suggested content do not apply to the operations of the branch, or, if presenting the information in another way would best reflect the internal capital assessment process of the branch.

(Circular 731 dated 28 July 2011, as amended by Circular No. 869 dated 30 January 2015)

¹ A "trial" ICAAP document shall be submitted to the CPCD of the Bangko Sentral on or before 30 September 2011. (Circular 731 dated 28 July 2011, as amended by Circular No. 869 dated 30 January 2015)

EFFECTIVE INTEREST CALCULATION MODELS
(Appendix to Subsec. X305.5)

Illustration 1

EFFECTIVE INTEREST CALCULATION MODEL
FIXED EQUAL AMORTIZATION CASE

	A	B	C	D	E	F	G
1	Loan Amount		120,000.00				
2	Monthly Installment		11,001.60				
3	Contractual Rate (Monthly)		1.50%				
4	Other Charges		3.00%				
5	No. of Monthly Installment		12				
6							
7	Installment	Gross			Other		O/S
8	Period	Loan	Principal	Interest	Charges	Cash flows	Balance
9		120,000.00					120,000.00
10	0				3,600.00	116,400.00	120,000.00
11	1		9,201.60	1,800.00		(11,001.60)	110,798.40
12	2		9,339.62	1,661.98		(11,001.60)	101,458.78
13	3		9,479.72	1,521.88		(11,001.60)	91,979.06
14	4		9,621.91	1,379.69		(11,001.60)	82,357.15
15	5		9,766.24	1,235.36		(11,001.60)	72,590.91
16	6		9,912.74	1,088.86		(11,001.60)	62,678.17
17	7		10,061.43	940.17		(11,001.60)	52,616.74
18	8		10,212.35	789.25		(11,001.60)	42,404.39
19	9		10,365.53	636.07		(11,001.60)	32,038.86
20	10		10,521.02	480.58		(11,001.60)	21,517.85
21	11		10,678.83	322.77		(11,001.60)	10,839.01
22	12		10,839.01	162.59		(11,001.60)	-
23	TOTAL		120,000.00	12,019.20	3,600.00		
	Monthly Installment (using Excel PMT Function)	=	PMT (C3, C5, -C1)*-1		=		11,001.60
	Effective Annual Interest Rate (EIR) (using Excel IRR Function)	=	(1 + IRR (F10:F22)) ¹² -1		=		26.71%
	Effective Monthly Interest Rate (MIR) (using Excel IRR Function)	=	IRR (F10:F22)		=		1.99%

Illustration 2

EFFECTIVE INTEREST CALCULATION MODEL FIXED PRINCIPAL AMORTIZATION CASE							
	A	B	C	D	E	F	G
1	Loan Amount		120,000.00				
2	Monthly Principal Installment		10,000.00				
3	Contractual Rate (Monthly)		1.50%				
4	Other Charges		3.00%				
5	No. of Monthly Installment		12				
6							
7	Installment	Gross		Other			O/S
8	Period	Loan	Principal	Interest	Charges	Cash flows	Balance
9		120,000.00					120,000.00
10	0				3,600.00	116,400.00	120,000.00
11	1		10,000	1,800.00		(11,800.00)	110,000.00
12	2		10,000	1,650.00		(11,650.00)	100,000.00
13	3		10,000	1,500.00		(11,500.00)	90,000.00
14	4		10,000	1,350.00		(11,350.00)	80,000.00
15	5		10,000	1,200.00		(11,200.00)	70,000.00
16	6		10,000	1,050.00		(11,050.00)	60,000.00
17	7		10,000	900.00		(10,900.00)	50,000.00
18	8		10,000	750.00		(10,750.00)	40,000.00
19	9		10,000	600.00		(10,600.00)	30,000.00
20	10		10,000	450.00		(10,450.00)	20,000.00
21	11		10,000	300.00		(10,300.00)	10,000.00
22	12		10,000	150.00		(10,150.00)	-
23		TOTAL	120,000.00	11,700.00	3,600.00		

Effective Annual Interest Rate (EIR)

(using Excel IRR Function)

=

(1 + IRR (F10:F22))¹²-1

=

26.91%

Effective Monthly Interest Rate (MIR)

(using Excel IRR Function)

=

IRR (F10:F22)

=

2.01%

Illustration 3

EFFECTIVE INTEREST CALCULATION MODEL							
FIXED EQUAL AMORTIZATION CASE WITH GRACE PERIOD							
	A	B	C	D	E	F	G
1	Loan Amount		120,000.00				
2	Monthly Installment		11,001.60				
3	Contractual Rate (Monthly)		1.50%				
4	Other Charges		3.00%				
5	No. of Monthly Installment		12				
6	(2 months grace period on principal and interest payments)						
7	Installment	Gross			Other		O/S
8	Period	Loan	Principal	Interest	Charges	Cash flows	Balance
9		120,000.00					120,000.00
10	0				3,600.00	116,400.00	120,000.00
11	1					-	120,000.00
12	2					-	120,000.00
13	3		9,201.60	1,800.00		(11,001.60)	110,798.40
14	4		9,339.62	1,661.98		(11,001.60)	101,458.78
15	5		9,479.72	1,521.88		(11,001.60)	91,979.06
16	6		9,621.91	1,379.69		(11,001.60)	82,357.15
17	7		9,766.24	1,235.36		(11,001.60)	72,590.91
18	8		9,912.74	1,088.86		(11,001.60)	62,678.17
19	9		10,061.43	940.17		(11,001.60)	52,616.74
20	10		10,212.35	789.25		(11,001.60)	42,404.39
21	11		10,365.53	636.07		(11,001.60)	32,038.86
22	12		10,521.02	480.58		(11,001.60)	21,517.85
23	13		10,678.83	322.77		(11,001.60)	10,839.01
24	14		10,839.01	162.59		(11,001.60)	(0.00)
25	TOTAL		120,000.00	12,019.20	3,600.00		
Monthly Installment			=	PMT (C3, C5, -C1)*-1		=	11,001.60
(Using excel PMT Function							
Effective Annual Interest Rate (EIR)			=	(1 + IRR (F10:F24)) ¹² -1		=	19.68%
(using Excel IRR Function)							
Effective Monthly Interest Rate (MIR)			=	IRR (F10:F24)		=	1.51%
(using Excel IRR Function)							

Illustration 4

EFFECTIVE INTEREST CALCULATION MODEL
CASE: PERIODIC INTEREST PAYMENT, BALLOON PAYMENT AT MATURITY

	A	B	C	D	E	F	G
1	Loan Amount		120,000.00				
2	Monthly Installment		1,800.00	(Interest Only)			
3	Contractual Rate (Monthly)		1.50%				
4	Other Charges		3.00%				
5	No. of Monthly Installment		12				
6							
7	Installment	Gross				Other	O/S
8	Period	Loan	Principal	Interest	Charges	Cash flows	Balance
9		120,000.00					120,000.00
10	0				3,600.00	116,400.00	120,000.00
11	1			1,800.00		(1,800.00)	120,000.00
12	2			1,800.00		(1,800.00)	120,000.00
13	3			1,800.00		(1,800.00)	120,000.00
14	4			1,800.00		(1,800.00)	120,000.00
15	5			1,800.00		(1,800.00)	120,000.00
16	6			1,800.00		(1,800.00)	120,000.00
17	7			1,800.00		(1,800.00)	120,000.00
18	8			1,800.00		(1,800.00)	120,000.00
19	9			1,800.00		(1,800.00)	120,000.00
20	10			1,800.00		(1,800.00)	120,000.00
21	11			1,800.00		(1,800.00)	120,000.00
22	12		120,000.00	1,800.00		(121,800.00)	-
23		TOTAL	120,000.00	21,600.00	3,600.00		

Effective Annual Interest Rate (EIR)

(using Excel IRR Function)

Effective Monthly Interest Rate (MIR)

(using Excel IRR Function)

=

(1 + IRR (F10:F22))¹²-1

=

23.58%

=

IRR (F10:F22)

=

1.78%

Illustration 5

EFFECTIVE INTEREST CALCULATION MODEL
FIXED EQUAL AMORTIZATION CASE
(WEEKLY INSTALLMENTS QUOTED IN MONTHLY EFFECTIVE RATE)

	A	B	C	D	E	F	G
1	Loan Amount		10,000.00				
2	Weekly Installment		788.00				
3	Contractual Rate (Monthly)		1.50%				
4	Weekly Compounding Rate		0.35%				
5	Other Charges		3.00%				
6	Term (Weeks)		13				
7	Period/Year		52				
8	Installment	Gross			Other		O/S
9	Period	Loan	Principal	Interest	Charges	Cash flows	Balance
10		10,000.00					10,000.00
11	0				300.00	9,700.00	10,000.00
12	1		753.38	34.62		-	9,246.62
13	2		755.99	32.01		(788.00)	8,490.63
14	3		758.61	29.39		(788.00)	7,732.02
15	4		761.23	26.76		(788.00)	6,970.78
16	5		763.87	24.13		(788.00)	6,206.91
17	6		766.51	21.49		(788.00)	5,440.40
18	7		769.17	18.83		(788.00)	4,671.24
19	8		771.83	16.17		(788.00)	3,899.41
20	9		774.50	13.50		(788.00)	3,124.91
21	10		777.18	10.82		(788.00)	2,347.72
22	11		779.87	8.13		(788.00)	1,567.85
23	12		782.57	5.43		(788.00)	785.28
24	13		785.28	2.72		(788.00)	(0.00)
25		TOTAL	10,000.00	244.00	300.00		

Weekly Installment

(Using excel PMT Function

Effective Annual Interest Rate (EIR)

(using Excel IRR Function)

Effective Monthly Interest Rate (MIR)

(using Excel IRR Function)

=

PMT (C4, C6, - C1)*-1

=

(1 + IRR (F11:F24))⁵²-1

=

(1 + IRR (F11:F24))^{13/3}-1

=

50.46%

=

3.46%

(Circular No. 730 dated 20 July 2011, as amended by M-2011-040 dated 28 July 2011)

Appendices 1 to 19 of Part V

For the updated version of the Appendices of the Manual of Regulations on Foreign Exchange Transactions, please refer to http://www.bsp.gov.ph/regulations/reg_MORB.asp, then click Forms, Annexes and Appendices (.zip file)

**PROCESSING GUIDELINES FOR MICROFINANCE OTHER
BANKING OFFICES OR MICROBANKING OFFICES**
(Appendix to Subsection X160.3)

The establishment of other banking offices and the notes on microfinance shall be guided by the following processing guidelines:

The processing of applications will be undertaken in a two-stage process.

Stage 1: Letter of Intent and Pre-qualification

Stage 2: Business Plan (Strategic and Operational Plan Assessment)

Stage 1: The applicant bank shall submit a letter of intent duly authorized by the Board of Directors, signed by the President or equivalent rank. The letter will be evaluated by the appropriate Supervision and Examination Sector (SES) Department based on safety and soundness considerations.

Stage 2: The applicant bank will be required to submit a business plan containing the strategic and operational details. Among others, such plan shall address the following questions:

1. Why is the bank establishing micro-banking offices and how does it relate to the overall corporate strategy?
2. How many are to be established in the next one (1) year, three (3) years, five (5) years? Where are these to be established? Why have these areas been identified?
3. What are the products and services to be offered?
4. How is the expansion to be funded?
5. How does the bank plan to maintain adequate command and control over the expanded network?
6. The proposed MBOs are to be linked operationally to which branches?

7. How does the bank propose to comply with the minimum fifty percent (50%) microfinance transaction requirement per MBO? (Microfinance transactions comprise of micro-loans and micro-deposits)

8. What is the policy on the minimum cash position of the MBO? This shall include arrangement for replenishment.

9. What are the management and organizational arrangements for the MBO? This shall include proposed staffing pattern and functions and qualification of the personnel in accordance with the requirements in Subsec. X160.3.

10. What are the Management Information Systems (MIS) and financial accounting arrangements to support customer handling and proper recording and reporting of transactions?

11. What are the physical security arrangements? These arrangements shall be included in the overall security program of the bank.

A final decision will be made based on the quality of Stage 2 submissions. Stage 2 submissions will be evaluated whether the proposed operational plan is commensurate and proportionate to the strategy to ascertain safe and sound MBO operations. A bank may apply for additional MBOs, after six (6) months from approval of the initial set/batch. All MBOs must be opened within one (1) year from their approval. If not deemed satisfactory, the application may be denied. Re-application shall only be allowed after six (6) months from the date of receipt of denial.

All applications are to be submitted through the appropriate department of the SES.

(M-2010-040 dated 04 November 2010, as amended by Circular No. 917 dated 08 July 2016)

**GUIDELINES ON THE GRANT OF REGULATORY RELIEF UNDER THE
STRENGTHENING PROGRAM FOR RURAL BANKS
(Appendix to Subsec. 3108.3)**

The following are the guidelines and the documentary requirements (Annex “A”) on the grant of regulatory relief under the Strengthening Program For Rural Banks (SRPB). Said guidelines contain the merger or consolidation incentives which recipient RBs under the SRPB may avail in accordance with the provisions of the guidelines.

The SRPB is a joint undertaking of the BSP and the Philippine Deposit Insurance Corporation (PDIC) aimed at promoting mergers and consolidations as a means to further strengthen the rural banking system through the grant of financial assistance (FA) by the PDIC and regulatory relief by the BSP to eligible strategic third party investors (STPIs) which shall be RBs, desiring to enter into mergers and consolidations with eligible distressed RBs that may be considered under the SRPB.

Constituent RBs may, subject to prior BSP approval, avail themselves of any or all of the following merger or consolidation incentives under the SRPB:

1. Conversion of the existing head offices, branches and/or extension offices of the merging or consolidating RBs into head office, branches or extension offices of the merged/consolidated RB;
2. Relocation/opening of existing/approved but unopened branches, extension offices and/or other banking offices of the merged/consolidated RB within two (2) years from date of merger or consolidation subject to applicable requirements on relocation of branches, extension offices and/or banking offices;
3. Condonation of liquidated damages on past due rediscounting/emergency loans and/or monetary penalties for violation of BSP issuances on rediscounting/emergency

loans of eligible RBs as of the end of the month immediately preceding the date of request for loan restructuring;

4. Restructuring of past due rediscounting/emergency loans of the eligible RBs with the BSP, subject to compliance with the following guidelines:

a) Amount to be restructured

The amount to be restructured shall consist of the following:

Principal – outstanding balance of the principal obligation as of the end of the month immediately preceding the date of request for loan restructuring.

Accrued interest – accrued interest on the outstanding principal obligation as of the end of the month immediately preceding the date of request for loan restructuring.

b) Interest rate

Only the restructured principal obligation shall be charged interest at the rate equal to the prevailing 364-day treasury bill rate of the last auction immediately preceding the date of request for loan restructuring. No interest shall be charged on the restructured accrued interest.

c) Terms of repayment

The amount to be restructured shall be paid by the merged/consolidated RB in monthly amortizations over a period not exceeding ten (10) years.

d) Collateralization

A surety agreement shall be executed by the stockholders owning at least sixty seven percent (67%) of the shares of stock of the merged/consolidated RB.

e. Default clause

i. Event of default – failure to pay two (2) amortizations shall constitute an event of default and shall render the entire obligation due and demandable.

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ii. Consequence of default – the amount of liquidated damages on past due rediscounting/ emergency loans waived shall be restored and the payments already made shall be re-applied, first to liquidated damages, and the balance, if any, to interest, then to the principal loan. Monetary penalties for violation of BSP issuances on rediscounting, if any, shall also be restored and payment thereof in full shall be demanded against the defaulting merged/ consolidated RB.

iii. Legal action – The BSP may institute appropriate legal action without further need for demand or notice to the defaulting merged/ consolidated RB.

f) Documentary requirement

The merged/ consolidated RB shall execute a Letter of Understanding with the BSP covering the terms and conditions of the approved restructured loan/s together with the authority for the BSP to debit the surviving/ consolidated RB's demand deposit account with the BSP for the amortizations due. Documentary requirements in applying for the regulatory relief are attached as *Annex "A"*.

5. Preferred shares for staggered redemption.

The shares for staggered redemption shall be the LBP preferred shares of stock of the eligible RBs, representing the rediscounting arrearages with BSP converted into LBP equity. Repayment arrangement should be made by the merged or consolidated RB directly with the LBP.

a) Dividend rate

The dividend rate shall be four percent (4%).

b) Redemption term

The staggered redemption shall be effected by the merged/ consolidated RB in monthly installments over a period not exceeding ten (10) years.

c) Waiver of dividends

Dividends due on the LBP preferred shares of stock of the eligible RBs as of date of merger or consolidation shall be waived.

d) Documentary requirement

Upon approval, the merged/ consolidated RB shall execute a written agreement with the LBP for the staggered redemption of LBP preferred shares of stock of the eligible RBs, copy furnished the BSP.

6. Rediscount ceiling of at least 150% of the adjusted capital accounts of the merged/ consolidated RB for a period of one (1) year reckoned from the date of merger or consolidation, subject to compliance with the existing eligibility requirements of the BSP as provided under Subsec. X268.3.

7. Waiver of monetary penalties imposed on the eligible RBs for violations of existing laws and BSP rules and regulations, except penalties accruing to the other parties, e.g. Micro, Small and Medium Enterprises), as amended, and Agricultural Guarantee Fund Pool (AGFP) and Philippine Corp. Insurance Corporation (PCIC) as provided under Section 10 of R.A. No. 10000 (The Agri-Agra Reform Credit Act of 2009), as of date of merger/consolidation.

STENGTHENING PROGRAM FOR RURAL BANKS
Documentary Requirements

1. Articles of Merger or Consolidation duly signed by the President or Vice President and certified by the corporate secretary or assistant corporate secretary of each of the Eligible STPI and Eligible RB (constituent institutions) setting forth the following as required in Section 78 of the Corporation Code:

- The Plan of Merger or Consolidation;
- The number of shares outstanding; and
- The number of shares voting for and against the Plan, respectively.

2. Plan of Merger or Consolidation setting forth the following:

- The names of the constituent institutions;
- The terms of merger or consolidation and the mode of carrying the same into effect;
- A statement of the changes, if any, in the Articles of incorporation of the surviving institution in the case of merger; and in the case of consolidation, all the statements required to be set forth in the Articles of Incorporation; and
- Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or desirable.

3. Resolution of the Board of Directors of the respective constituent institution approving the Plan of Merger or Consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

4. Resolution of the meeting of the stockholders in which at least two-thirds

(2/3) of the outstanding capital stock of each constituent institution have approved the plan of merger or consolidation. The resolution shall be certified under oath by the respective corporate secretaries of the constituent institutions;

5. Financial statements:

- Latest financial statements as of month immediately preceding the date of application and latest three (3) year audited financial statements of the constituent institutions; and
- Ten (10)-year financial projections with valid assumptions of the merged or consolidated institutions' balance sheet and income statement.

6. List of regulatory relief the constituent institutions will avail from BSP;

7. Letter to BSP requesting restructuring of past due rediscounting/emergency loan; and letter to LBP requesting staggered redemption of matured LBP preferred shares;

8. List of stockholdings of each of the constituent institutions before and after the merger;

9. List of directors and officers of each of the constituent institutions;

10. List of proposed officer and directors of the merged or consolidated institution and the summary of their qualifications;

11. Organizational chart of the merged or consolidated institution including the number of offices and location thereof;

12. Inter-company transactions relative to the submitted Financial Statements;

13. Computation of Risk Based Capital Adequacy Ratio on the submitted financial statements;

14. Schedule of unbooked valuation reserves based on the latest BSP-ROE;

15. Viable operational plan with the following components:

- Marketing strategies
- Proposed target market
- Proposed loan portfolio diversification
- Deposit generation
- Proposed improvements in accounting system
- Operational control
- Computerization plan
- Communication system

16. The appraiser's report of reappraisal of bank premises, if any, done by an independent and licensed appraiser;

17. Proposed increase of capital stock of surviving bank;

18. Proposed amendments in the articles of incorporation of surviving bank;

19. Director's certificate (surviving bank) on the proposed amendment of the Articles of Incorporation increasing the authorized capital stock;

20. Copy of due diligence report on the eligible RB, if any; and

21. Any other reasonable requirement deemed material in the proper evaluation of the merger or consolidation as may subsequently be requested by the BSP and/or PDIC.

(Circular 693 dated 06 August 2010)

STRENGTHENING PROGRAM FOR RURAL BANKS (SPRB) PLUS,
AS AMENDED
(Appendix to Subsection X108.4)

OBJECTIVES

The SPRB Plus is intended to encourage mergers, consolidations and acquisition of weak RBs and TBs which generally serve the same niche markets to strengthen said banks via grant of financial assistance (FA) by Philippine Deposit Insurance Corporation PDIC and/or regulatory reliefs/incentives by Bangko Sentral.

PROGRAM PERIOD

The SPRB Plus, as amended, shall be effective upon approval by both PDIC and Bangko Sentral and shall be available until 31 December 2015, subject to extension if necessary.

PROGRAM FUNDING

The P5.0 billion SPRB Fund was shared equally by Bangko Sentral and PDIC. The Monetary Board and the PDIC Board approved the increase in the Program Fund from P5.0 billion to an amount to be determined by the PDIC and Bangko Sentral, once the Fund reaches a level where both agencies agree to augment the Fund.

ELIGIBILITY

- 1. Basic criteria for eligible banks:
 - a) RBs with risk-based capital adequacy ratio (RBCAR) of less than ten percent (10%); TBs with RBCAR of less than ten percent (10%) and must be serving the countryside and/or low income sectors:
- 2. Basic criteria for Eligible STPIs¹:
 - UBs/KBs, TBs and RBs
 - a. Bangko Sentral CAMELS rating of at least “3”;

- b. Not under Bangko Sentral’s Prompt Corrective Action (PCA); and
 - c. No findings of unsafe and unsound banking practice by Bangko Sentral or PDIC.
- Non-bank corporations
- a. Financially strong corporations of good reputations.

MODE OF ENTRY

Eligible STPIs which seek to merge, consolidate, acquire through P&A mode, or acquire not less than sixty percent (60%) of the total outstanding capital of an eligible bank shall qualify under SPRB Plus, as amended.

It is understood that the acquisition of sixty percent (60%) or more of the total outstanding capital of an eligible bank shall be subject to ownership limits provided under existing laws.

The STPI may be allowed, subject to Bangko Sentral approval, to convert the status of the acquired bank from RB to TB, consistent with the STPI’s over-all business plan and strategy.

FINANCIAL ASSISTANCE (FA)

The FA shall be extended only to STPIs which are TBs and RBs that are not subsidiaries of UKBs or not part of banking groups. Non-bank corporations which are not subsidiaries of UBs/KBs or not part of banking groups may also be extended FA when circumstances strongly warrant as allowed under Section 17.d of R.A. No. 3591, as amended, (the PDIC Charter).

FA will be either:

- 1) a combination of:
 - a) Preferred Shares (PS) – intended to provide additional capital to bring eligible bank’s RBCAR to ten percent (10%); and

¹ STPIs may be a single entity or group of entities.

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b) Direct loan (DL) – to build up sinking fund (SF) to provide an automatic payment mechanism for PS; or

2) Direct loan only – intended to provide income support to the surviving bank:

Provided, however, That pursuant to Section 17.d of R.A. No. 3591, as amended, the total cost (in present value terms) of providing the above combination of FA (PS and DL) shall not exceed the cost of closure of the eligible bank.

The combination of PS and DL under FA(#1) will have the following features:

Features/Terms of PS

a) Non-voting, cumulative, convertible to common

b) Redeemable starting at the end of 5th year but not later than the 10th year;

c) Put option to be exercised by PDIC as follows:

- in the event of any default on the part of the bank to comply with its covenants under the rehabilitation plan;
- SF is equal to the amount of PS.

d) Amount – up to 100% or fifty percent (50%) of the required additional capital to bring the eligible bank’s RBCAR to ten percent (10%) for eligible banks located in areas affected by Typhoon Yolanda and other eligible banks, respectively.

e) Dividend rate – equal to the prevailing 5-year FXTN (gross basis) at the time of the release of the FA.

Terms of DL

a) Purpose – to purchase Government Securities (GS).

b) Principal – equivalent to such amount that will provide an accumulated net interest spread (NIS) over the tenor of the DL to such amount equal to the PS.

c) Interest rate per annum – 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, less amount of discounts earned, if any, on the Government Securities (GS) pledged to PDIC which was purchased from the proceeds of the DL;

d) Tenor – maximum of 10 years;

e) The collateral shall exclusively be composed of the following items:

- the GS to be purchased using proceeds of DL; and
- amortization fund or the funds corresponding to the amortization of the premium on GS purchased from the proceeds of the DL, if any.

The terms of the DL under FA(#2) will have the following features:

a) Purpose - to purchase GS;

b) Principal – equivalent to such amount that will provide an accumulated NIS over the tenor of the DL to such amount equal to 100% and fifty percent (50%) of the capital deficiency to bring the eligible bank’s RBCAR to ten percent (10%) for eligible banks affected by Typhoon Yolanda and other eligible banks, respectively;

c) Interest rate per annum – equivalent to such rate that will provide the surviving bank with an annual NIS that will accumulate over the tenor of the DL to such amount equal to 100% and fifty percent (50%) of the capital deficiency to bring eligible bank’s RBCAR to ten percent (10%) for eligible banks affected by typhoon Yolanda and other eligible banks, respectively; less amount of discounts earned, if any, on the Government Securities (GS) pledged to PDIC which was purchased from the proceeds of the DL;

d) Tenor- maximum of ten (10) years;

e) The collateral shall exclusively be composed of the following items:

- the GS to be purchased using proceeds of DL; and
- amortization fund or the funds corresponding to the amortization of the premium on GS purchased from the proceeds of the DL, if any.

MAJOR TERMS AND CONDITIONS

Major terms of the conditions of the SPRB FA will be as follows:

a) Quasi-reorganization and capital restructuring;

- b) Compliance with the FA agreement terms and conditions as follows:
 - Financial covenants
 - payment terms and conditions
 - achievement of rehabilitation plan performance targets
 - Non-financial covenants
 - submission of required reports
 - improvement of bank operations and governance
 - conduct by PDIC of periodic on-site inspection and review
 - appointment of consultants and/or nomination of representatives in the bank’s board of directors
- c) Compliance with PDIC regulatory issuances and banking rules and regulations.

Other terms

Applications approved but not yet implemented or in process under the existing SPRB Plus shall qualify under the amended SPRB Plus.

REGULATING/BRANCHING INCENTIVES

In addition to the incentives/regulatory reliefs granted by Bangko Sentral under the SPRB Module 1 as listed in Annex B of this Appendix, STPI banks can avail of additional branching incentives as follows:

The branch licensing fees¹ to be waived by the Bangko Sentral shall be equivalent to the amount of capital contribution of the STPI banks to bring the eligible banks’ RBCAR to ten percent (10%). Under Subsec. X151.5, a bank applying for a branch license in cities

previously considered as restricted areas as defined under Sec. X151 shall be charged a licensing fee of P20.0 million for UBs/KBs and P15.0 million for TBs. Hence, if an STPI bank’s capital contribution in a TB is P50.0 million, said STPI bank is qualified to establish three (3) branches (P50.0 million/P15.0 million= 3.33 branches) in cities previously considered as restricted areas for free.

As additional premium, STPI UBs/KBs and TBs shall be granted one (1) additional license in cities previously considered as restricted areas while STPI RBs shall be granted one (1) additional branching license in areas outside Metro Manila, for every three (3) distressed banks resolved under the Program.

In the case of RBs, they can establish branches outside Metro Manila equivalent to the number of branches of the acquired bank/s. Branch processing fee applicable to RBs of P25.0 thousand shall be waived.

In case the capital contribution of an STPI in the acquired bank is less than the amount of branch licensing fees under Subsec. X151.5, that is, P20.0 million for UBs/KBs and P15.0 million for TBs, the STPI can still avail of one (1) branch license in cities previously considered as restricted area for free.

For STPI-RBs which have availed under Module 1 of the SPRB, the above proposed branching incentives for RBs under SPRB Plus may be granted subject to the same conditions.

(M-2012-040 dated 08 August 2012, as amended by Circular Nos. 932 dated 16 December 2016, 903 dated 29 February 2016, 890 dated 02 November 2015, M-2015-008 dated 28 January 2015 and M-2014-003 dated 27 January 2014)

¹ This is different from the branch processing fees under Subsec. X151.5. Branch processing fees will still be charged from the STPI UBs/KBs and TBs.

STRENGTHENING PROGRAM FOR RURAL BANKS PLUS
Additional Documentary Requirements for
Potential Eligible Strategic Third Party Investor (STPI)

Eligible STPIs and eligible banks shall submit to the SPRB Lane¹ a joint letter, separately addressed to the Bangko Sentral and the PDIC indicating their intention to merge or consolidate, or enter into P & A or acquisition of control under the SPRB Plus, together with the following documents/ requirements:

- 1. Full name and detailed description of the potential STPI, including details on licenses obtained from the Bangko Sentral or any regulatory agency, products and services offered and current distribution network.
- 2. Corporate history/overview (including principal shareholders and their respective shareholdings).
- 3. Brief background and experience of directors and senior management.
- 4. Audited financial statements (FS) for the last three (3) fiscal years.
- 5. Notarized certification from the potential STPI, that:
 - a. For UBs, KBs, TBs and RBs as Eligible STPI
 - (i) It is not under Bangko Sentral’s prompt corrective action (PCA);
 - (ii) There is no finding of unsafe and unsound banking practices by the PDIC or Bangko Sentral.
 - b. For non-bank corporation:
 - (i) It has strong financial condition and has good reputation.

- A. For merger or consolidation:
 - 1. Plan of Merger or Consolidation duly approved by at least two-thirds (2/3) of the outstanding capital stock of each of the

eligible STPI and eligible bank (constituent institution) present and constituting a quorum;

- 2. Notarized Secretary’s Certificate on the resolution of the board of directors of the respective constituent institutions approving the Plan of Merger or Consolidation;
- 3. Notarized Secretary’s Certificate attesting approval of at least two thirds (2/3) of the outstanding capital stock of each constituent institution approving the Plan of Merger or Consolidation duly certified by the Secretaries and attested by the respective Chairpersons;
- 4. Proof of posting/publication of the announcement of merger or consolidation in a newspaper of general circulation;
- 5. Notarized Secretary’s Certificate attesting to the following facts:
 - a) That creditors and investors are informed by mail of the merger or consolidation; and
 - b) That no objection/opposition has been filed, or if any, the same has been resolved;
- 6. Additional requirements
 - a. For merger
 - i. Articles of Merger duly attested to by the incumbent directors of the surviving entity
 - ii. Certificate of merger/registration of the surviving entity
 - b. For consolidation
 - i. Articles of Consolidation duly attested to by the incumbent directors of the consolidated entity

¹With address as follows: Strengthening Program for Rural Banks (SPRB) Lane, 7th Floor, SSS Building, 6782 Ayala Avenue cor. Rufino St., 1226 Makati City. SPRB Hotline: 813-3673

- ii. New certificate of consolidated entity

B. For purchase of assets and assumption of liabilities (P&A)

1. Sale and Purchase Agreement

2. Stockholder’s resolution approving the sale of all assets and P&A of the eligible bank by an eligible STPI duly certified by the Secretaries and attested by the President/ Chairperson of the eligible bank. The P&A must be approved by at least two thirds (2/3) of the outstanding capital stock of each constituent institution present and constituting a quorum;

3. Proof of notice to creditors of the eligible bank;

4. Joint certification from eligible bank and eligible STPI signed by their respective authorized signatories that all requirements under the Bulk Sales Law and all laws relevant have been complied with;

C. For acquisition of control through purchase of shares of the eligible bank subject to the applicable laws and rules

1. Stock Purchase Agreement duly signed by the authorized signatory of the eligible STPI and eligible bank and certified by their respective board secretary

2. Notarized Secretary’s Certificate on the board resolution of the Eligible STPI approving the acquisition of control/ purchase of majority shares of the eligible bank

D. Financial statements (FS)

1. Latest FS as of month immediately preceding the date of application and latest three (3)-year audited FS of the constituent institutions; and

2. 5-year financial projections with valid assumptions of the surviving institution’s balance sheet and income statement.

E. List of regulatory relief/incentives the constituent institution’s will avail from Bangko Sentral;

F. Letter to Bangko Sentral requesting restructuring of past due rediscounting/ emergency loan;

G. List of shareholders with their share capital/shareholdings of each of the constituent institutions duly certified by the respective Board Secretaries and attested by the respective Board Chairpersons before and after the transaction;

H. List of directors and officers of each of the constituent institutions

I. List of proposed officers and directors of the surviving/consolidated bank and the summary of their qualifications;

J. Organizational chart of the surviving/ consolidated bank including the number of offices and locations thereof;

K. Inter-company transactions relative to the submitted FS;

L. Computation of risk based CAR on the submitted FS;

M. Schedule of unbooked valuation reserves based on latest Bangko Sentral report of examination, if any;

N. Viable operational plan with the following components:
 - Marketing strategies

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- Proposed target market
- Proposed loan portfolio diversification
- Deposit generation
- Proposed improvements in accounting system
- Operations control
- Computerization plan
- Communication system

O. The appraiser’s report of reappraisal of bank premises, if any, done by an independent and licensed appraiser;

P. Proposed increase of capital stock of surviving/consolidated bank;

Q. Proposed amendments in the Articles of Incorporation of surviving/consolidated bank;

R. Director’s certificate (surviving/consolidated bank) on the proposed amendment of the Articles of Incorporation increasing the authorized capital stock;

S. Any other reasonable requirement deemed material in the proper evaluation of the transaction as may subsequently be requested by the PDIC or Bangko Sentral.
(M-2012-040 dated 08 August 2012)

Strengthening Program for Cooperative Banks
(SPCB) PLUS FRAMEWORK
(Appendix to Subsec. X108.4)

OBJECTIVES

To encourage mergers, consolidations and acquisition of Coop Banks to create a strong rural banking system via grant of financial assistance (FA) pursuant to Section 17d of RA No. 3591, as amended (the PDIC Charter).

PROGRAM PERIOD

Available from approval date of the amendment up to one (1) year¹.

PROGRAM FUNDING

Actual availments to be sourced from the approved P5 billion fund allocated for the existing SPRB (now referred to as SPRB Module 1)

ELIGIBILITY

1. Eligible banks for SPCB Plus FA are as follows:

a) coop banks (CBs) with risk based capital adequacy ratio (RBCAR) of less than ten percent (10%); and

b) merging, consolidating with or to be acquired via P&A or acquisition of shares of at least sixty seven percent (67%) by an eligible Strategic Third Party Investor (STPI).

2. Basic criteria for eligible STPIs:

For a CB to be an STPI:

a) Bangko Sentral CAMELS rating of at least “3”;

b) Not under Bangko Sentral’s prompt corrective action (PCA); and

c) No findings of U&U banking practice by the Bangko Sentral or PDIC;

For a Commercial Bank (KB), Thrift Bank (TB) or Rural Bank (RB) to be an STPI:

a) Latest Bangko Sentral CAMELS rating of at least "3";

b) Not under Bangko Sentral's PCA; and

c) No findings of U&U banking practice by the Bangko Sentral or PDIC;

For Non-bank entity, i.e., primary cooperatives/cooperative federation to be an STPI:

a) Certification or endorsement of good standing from the Cooperative Development Authority (CDA); and

b) With proven track record based on audited financial statements.

MODES OF ENTRY

a) Merger or consolidation;

b) P&A of eligible CB subject to compliance with the Bulk Sales Law; and

c) Subscription of shares of at least sixty seven percent (67%) of the eligible CB.

Provided, that in all of the above modalities, the surviving entity must have a net worth of at least P100 million and RBCAR of at least fifteen percent (15%).

FINANCIAL ASSISTANCE (FA)

FA will be either:

1) A combination of:

a) Preferred Shares (P/S) - intended to provide 100% of the additional capital to bring eligible bank’s RBCAR from negative to zero percent (0%); and

b) Direct loan (DL)- to build up sinking fund (SF) to provide an automatic payment mechanism for the PS;

or

2) Direct loan only- intended to provide income support to the surviving bank

Provided however, that pursuant to Section 17d of the PDIC Charter, the total cost (in present value terms) of providing the above of FA (either a combination of

¹The availability period for SPCB Plus was extended until 17 September 2015.

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PS and DL or DL only) should not exceed the cost of closure of the eligible bank.

The combination of PS and DL under FA#1 will have the following features:

Terms of the PS

- a) Amount- up to 100% of the required additional capital to bring the eligible bank’s RBCAR from negative to zero percent (0%);
- b) Dividend rate - equal to the rate per annum of the prevailing 10-year FXTN available at the time of the release of FA;
- c) Non-voting, non-cumulative, convertible to common shares at the end of ten (10) years; and
- d) Perpetual

Terms of DL

- a) Purpose- to purchase government securities (GS);
- b) Principal - 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;
- c) Interest Rate per annum- 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;
- d) Tenor- ten (10) years; and
- e) Collateral/Security- Pledge of GS to be purchased using proceeds of DL.

The terms of the DL under FA#2 will have the following features:

- a) Purpose- to purchase GS;
- b) Principal - equivalent to such amount that will provide an NIS equal to the capital deficiency to bring RBCAR to zero percent (0%);
- c) Interest Rate per annum - 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%);

- d) Tenor- ten (10) years; and
- e) Collateral/Security- Pledge of GS to be purchased using proceeds of DL.

MAJOR TERMS AND CONDITIONS

Major terms and conditions of the SPCB Plus FA will be as follows:

- a) Quasi-reorganization and capital restructuring;
- b) Compliance with the FA agreement terms and conditions as follows:
 - Financial covenants
 - payment terms and conditions
 - achievement of rehabilitation plan performance targets
 - Non-financial covenants
 - submission of required reports
 - improvement of bank operations and governance
 - conduct by PDIC of periodic on-site inspection and review
 - appointment of consultants and/or nomination of representative in the bank’s board of directors
- c) Compliance with PDIC regulatory issuances, CDA and banking rules and regulations;
- d) Conduct of special review of operations of eligible CB and eligible STPI by PDIC;
- e) Conduct of due diligence review by PDIC or an external auditor;
- f) If the eligible STPI is a KB, TB or RB, the surviving entity should continue to operate in the same area/location where the eligible CB originally operates; and
- g) Entitlement to board seat in the surviving entity, as necessary.

OTHER TERMS AND CONDITIONS

Application of the SF for the payment of the PS upon occurrence of the following events:

- a) In the event of any default on the part of the surviving entity to comply with its covenants under the rehabilitation plan;
- b) SF is equal to the amount of PS

MONITORING ACTIVITIES

- a) PDIC shall monitor the performance of the surviving entity and its compliance with all the conditions of the FA Agreement.
- b) The surviving entity shall comply with the regular reporting requirements including the submission of quarterly statements of condition and income and expenses, and the annual audited financial statements.
- c) PDIC, pursuant to these Guidelines and the FA Agreement, shall be authorized to conduct a special review of operations of the surviving entity anytime, as it may deem necessary, to check compliance with financial targets, business plan and relevant FA terms.

OTHER INCENTIVES

- The proponent banks may request for:
- 1) Bangko Sentral regulatory relief, branching and other incentives under the amended SPCB Plus framework as may be approved by the Monetary Board.
 - 2) LBP Assistance in accordance with the “LBP Guidelines on Grant of Assistance under SPRB-Module II as follows:
 - a) Equity investment;
 - b) Additional credit facility; and
 - c) Participation in the capacity building program.
- (M-2013-061 dated 23 December 2013, as amended by CL-2015-029 dated 06 May 2015)*

**BSP GUIDELINES ON THE GRANT OF REGULATORY RELIEF UNDER THE
STRENGTHENING PROGRAM FOR COOPERATIVE BANKS (SPCB) PLUS**
(Appendix to Subsection X108.4)

Consistent with the objective to promote mergers and consolidations with and acquisitions of cooperative banks by stronger partners as a means to strengthen the cooperative banking system, constituent banks may, subject to prior Bangko Sentral approval, avail themselves of the following regulatory reliefs:

1. Conversion of the existing head offices, branches and/or extension offices of the merging or consolidating Cooperative Banks (CB) into head office, branches or extension offices of the surviving or new bank;

2. Relocation/opening of existing/ approved but unopened branches, extension offices and/or other banking offices of the surviving or new bank within two (2) years from date of merger/ consolidation/acquisition subject to applicable requirements on relocation of branches, extension offices and/or other banking offices;

3. Condonation of liquidated damages on past due rediscounting/emergency loans and/or monetary penalties for violation of BSP issuances on rediscounting/emergency loans of the eligible CBs as of the end of the month immediately preceding the date of request for loan restructuring;

4. Restructuring of past due rediscounting/emergency loans of the eligible CBs with the Bangko Sentral, subject to compliance with the following guidelines:

a. Amount to be restructured

The amount to be restructured shall consist of the following:

Principal – outstanding balance of the principal obligation as of the end of the month immediately preceding the date of request for loan restructuring

Accrued Interest – accrued interest on the outstanding principal obligation as of the end of the month immediately preceding the date of request for loan restructuring.

b. Interest rate

Only the restructured principal obligation shall be charged interest at the rate equal to the prevailing 364-day Treasury Bill rate of the last auction immediately preceding the date of request for loan restructuring. No interest shall be charged on the restructured accrued interest.

c. Terms of repayment

The amount to be restructured shall be paid by the surviving or new bank in monthly amortizations over a period not exceeding ten (10) years.

d. Collateralization

A surety agreement shall be executed by the stockholders owning at least sixty seven percent (67%) of the shares of stock of the surviving or new bank.

e. Default clause

i. Event of default – failure to pay two (2) amortizations shall constitute an event of default and shall render the entire obligation due and demandable.

ii. Consequence of default – the amount of liquidated damages on past due rediscounting/emergency loans waived shall be restored and the payments already made shall be re-applied, first to liquidated damages, and the balance, if any, to interest, then to the principal loan. Monetary penalties for violation of Bangko Sentral issuances on rediscounting, if any, shall also be restored and payment thereof in full shall be demanded against the defaulting surviving or new bank.

iii. Legal action – the Bangko Sentral may institute appropriate legal action without further need for demand or notice to the

defaulting surviving or new bank.

f. Documentary requirement

The surviving or new bank shall execute a Letter of Understanding with the Bangko Sentral covering the terms and conditions of the approved restructured loan/s together with the authority for the Bangko Sentral to debit the surviving or new bank’s demand deposit account with the Bangko Sentral for the amortizations due.

5. Preferred shares for staggered redemption

The shares for staggered redemption shall be the Landbank of the Philippines (LBP) preferred shares of stock of the eligible CBs, representing the rediscounting arrearages with Bangko Sentral converted into LBP equity. Repayment arrangement should be made by the surviving or new bank directly with the LBP.

a. Dividend rate

The dividend rate shall be four percent (4%)

b. Redemption term

The staggered redemption shall be effected by the surviving or new bank in monthly installments over a period not exceeding ten (10) years.

c. Waiver of dividends

Dividends due on the LBP preferred shares of stock of the eligible CBs as of date of merger or consolidation shall be waived.

d. Documentary requirement

Upon approval, the surviving or new bank shall execute a written agreement with the LBP for the staggered redemption of LBP preferred shares of stock of the Eligible CBs, copy furnished the Bangko Sentral.

6. Rediscount ceiling of at least 150% of the adjusted capital accounts of the surviving or new bank for a period of one (1) year reckoned from the date of merger or consolidation, subject to compliance with the existing eligibility requirements of

the Bangko Sentral as provided under Subsec. X268.3.

7. Waiver of monetary penalties imposed on the eligible CBs for violations of existing laws and Bangko Sentral rules and regulations, except penalties accruing to the other parties, e.g., Micro, Small and Medium Enterprises Development (MSMED) Council Fund as provided under Section 19 of R.A. No. 6977 (Magna Carta for Micro, Small and Medium Enterprises), as amended, and Agricultural Guarantee Fund Pool (AGFP) and Philippine Crop Insurance Corporation (PCIC) as provided under Section 10 of R.A. No. 10000 (The Agri-Agra Reform Credit Act of 2009), as of date of merger/consolidation.

8. Exclusion of the loan to be provided by LBP to qualified surviving banks from ceilings on loans, other credit accommodations and guarantees granted to subsidiaries and/or affiliates as provided under Subsec. X328.5 even if the government ownership in the borrower-surviving bank exceeds twenty percent (20%) of the bank’s subscribed capital stock. The loan being referred herein pertains to the loan granted under the credit facility that LBP will make available under the SPCB Plus.

9. The perpetual, non-voting and non-cumulative preferred shares, convertible to common shares after ten (10) years which will be issued to PDIC and LBP for their respective equity investments under the SPCB Plus shall be considered Tier 1 Capital.

10. Additional branching¹ and other incentives as follows:

For eligible Strategic Third Party Investor (STPI) UKBs and TBs

a. The special branch licensing fees² to be waived by the Bangko Sentral shall be equivalent to the amount of capital

¹ Branching incentives for non-bank STPIs will depend on the type of banks they will acquire.
² This is different from the branch processing fees under Subsec. X151.5. Branch processing fees will still be charged from the STPI UBs/KBs ad TBs.

contribution of the STPIs to bring the eligible bank’s RBCAR to 10 percent. Under Subsec. X151.5, a bank applying for a branch license in cities previously considered as restricted areas as defined under Sec. X151 shall be charged a licensing fee of P20 million for UBs/KBs and P15 million for TBs. Hence, if an STPI’s capital contribution in a TB is P50 million, said STPI bank is qualified to establish three (3) branches (P50 million/P15 million= 3.33 branches) in cities previously considered as restricted areas for free.

In case the capital contribution of the STPI in the acquired bank is less than the amount of branch licensing fees under Subsec. X151.5, that is, P20 million for UBs/KBs and P15 million for TBs, the STPI can avail of one (1) branch license in cities previously considered as restricted area for free.

b. The STPI banks may be allowed, subject to Bangko Sentral approval, to convert the status of the acquired bank from RB to TB, consistent with the STPI’s over-all business plan and strategy.

For Eligible STPI RBs

a. In the case of RBs, they can establish branches outside Metro Manila equivalent to the number of branches of the acquired bank/s. Branch processing fee applicable to RBs of P25,000 shall be waived.

b. For STPI RBs which will acquire single/ one (1) unit RBs, they are still entitled to establish one branch outside Metro Manila.

c. For STPI RBs which have availed under Module 1 of the SPRB, the above proposed branching incentives for RBs under SPRB Plus may be granted subject to the same conditions.

For All Eligible STPIs

a. As additional premium, STPI UBs/KBs and TBs shall be granted one (1) additional branching license in cities previously considered as restricted areas while STPI RBs shall be granted one (1) additional branching license in areas outside Metro Manila for every three (3) eligible banks resolved under the Program.

(As amended by Circular No. 932 dated 16 December 2016)

STRENGTHENING PROGRAM FOR COOPERATIVE BANKS (SPCB PLUS)
DOCUMENTARY REQUIREMENTS
(Appendix to Subsec. X108.4)

FOR PDIC FA

- A. For merger or consolidation:
- 1. Plan of Merger or Consolidation duly approved by at least three-fourth (3/4) votes of all members with voting rights, present and constituting a quorum of each of the constituent institutions.
 - 2. Notarized Secretary’s Certificate on the Resolution of the Board of Directors of the respective constituent cooperatives approving the Plan of Merger or Consolidation.
 - 3. Notarized Secretary’s Certificate attesting approval of at least three-fourths (3/4) of all members of the constituent cooperatives with voting rights on the Merger or Consolidation or the General/Representative Assembly resolutions of both constituent cooperatives approving the Plan of Merger or Consolidation duly certified by the Secretaries and attested by the respective Chairpersons.
 - 4. Proof of Posting/Publication of the Announcement of Merger or Consolidation in a newspaper of general circulation.
 - 5. Notarized Secretary’s Certificate attesting to the following facts: a) That creditors and investors are informed by mail of the merger or consolidation; and b) That no objection/opposition has been filed, or if any, the same has been resolved.
 - 6. Additional requirements
 - a. For Merger
 - i. Articles of Merger duly attested to by the incumbent Directors of the Surviving Cooperative
 - ii. Certification of Merger/Registration of the Surviving Cooperative

- b. For consolidation
 - i. Articles of Consolidation duly attested to by the Cooperating Directors
 - ii. New Certificate of Consolidated Cooperative

- B. For Purchase of Assets and Assumption of Liabilities
- 1. Sale and Purchase Agreement
 - 2. The General/Representative Assembly resolution approving the sale of all assets and assumption of all liabilities (P&A) of the Eligible CB by an Eligible STPI duly certified by the Secretaries and attested by the President/Chairperson of the Eligible CB. The P&A must be approved by at least 3/4 of all members with voting right, present and constituting a quorum of the Eligible CB at general/representative assembly.
 - 3. Proof of Notice to Creditors of the Eligible CB.
 - 4. Joint Certification from Eligible CB and Eligible STPI signed by their respective authorized signatories that all requirements under the Bulk Sales Law and all laws relevant have been complied with.

- C. For Acquisition of Control through Purchase of Shares of the Eligible CB subject to the applicable laws and rules
- 1. Stock Purchase Agreement duly signed by the authorized signatory of the Eligible STPI and Eligible CB and certified to by their respective board secretary.
 - 2. Notarized Secretary's Certificate on the Board Resolution of the Eligible STPI approving the acquisition of control/purchase of majority shares of the Eligible CB.

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- D. Financial Statements:
-Latest financial statements as of month immediately preceding the date of application and latest three (3)-year audited financial statements of the constituent institutons; and
-five (5)-year financial projections with valid assumptions of the surviving institution's balance sheet and income statement
- E. List of regulatory relief the constituent institutions will avail from Bangko Sentral;
- F. Letter to Bangko Sentral requesting restructuring of past due rediscounting/emergency loan;
- G. List of members/shareholders with their share capital/shareholdings of each of the constituent cooperatives/institutions duly certified by the respective Board Secretaries and attested to by the respective Board Chairpersons before and after the transaction;
- H. List of directors and officers of each of the constituent institutions;
- I. List of proposed officers and directors of the surviving bank and the summary of their qualifications;
- J. Organizational chart of the surviving bank incuding the number of officers and locations thereof;
- K. Inter-company transanctions relative to the submitted financial statement;
- L. Computation of Risk Based Capital Adequacy Ratio on the submitted financial statements;

- M. Schedule of unbooked valuation reserves based on latest Bangko Sentral-ROE;
- N. Viable Operational Plan with the following components:
-Marketing Strategies
-Proposed Target Market
-Proposed Loan Portfolio Diversification
-Deposit Generation
-Proposed Improvements in Accounting System
-Operations Control
-Computerization Plan
-Communication System
- O. The appraiser's report of reappraisal of bank premises, if any, done by an independent and licensed appraiser;
- P. Proposed Increase of Capital Stock of surviving bank;
- Q. Proposed Amendments in the Articles of Incorporation of surviving bank;
- R. Director's Certificate (surviving bank) on the proposed amendment of the Articles of Incorporation increasing the authorized capital stock;
- S. Any other reasonable requirement deemed material in the proper evaluation of the transaction as many subsequently be requested by the PDIC, BSP or LBP.
- FOR LBP FA**
1. Pre-approval Requirements
a. Board Resolution authorizing the surviving bank (SB) to apply for LANDBANK equity investment, submit documents and designating officers

authorized to sign all pertinent documents with specimen signatures.

- b. List of major stockholders of SB and their major stockholdings with bio-data;
- c. List of Director and Key Officers of the SB with bio-data;
- d. Participating weak CBs and STPI's latest interim financial statements (per entity and as consolidated);
- e. Three (3)-year business plan and capital build-up program;
- f. Other documents as may be required by LANDBANK.

2. Pre-release Requirements

- a. Latest consolidated financial statements;
- b. Memo-request from the servicing lending center (LC) addressed to the Treasury Operations Department (TOD) for the release of LBP equity investment to SB and certifying that the designated signatories to the documents submitted by the SB to LBP have been verified and authenticated;
- c. Letter-request from the SB for the release of the proceeds of equity investment indicating also the account number with LBP Branch where the proceeds shall be credited;
- d. Copy of the approved Investment Proposal/Credit Facilities Proposal (CFP) for the Equity Investment;
- e. Duly notarized Board Resolution or Secretary's Certificate for the following:
 - Designation of SB's authorized signatories in all documents relative the SB's approved equity investment with LBP and authorizing them to open a Trust Account for the SB with the LBP Trust Banking Group for the setting-up of sinking fund.
 - Authorization for LBP for the automatic application of the sinking fund maintained

with LBP Trust Banking Group upon maturity or retirement of the LBP's equity investment (subject to Bangko Sentral approval).

- f. Secretary's Certificate stating the SB's incumbent officers
- g. Certified true copy of the SB's Amended Articles of Incorporation to include, among others the a) features of LBP equity investments (i.e., non-cumulative, Dividend rates; full redemption upon maturity, etc.)
- h. Certified true copy of the SB's Amended By-Laws
- i. Duly notarized Memorandum of Agreement (MOA) on the equity investment between LBP and the SB, incorporating therein, among others, that:
 - The SB shall automatically declare dividends of at least fifty percent (50%) of its annual net income to be placed at the LBP Trust Department as sinking fund (SF) intended for the retirement of LBP preferred shares after 10 years;
 - The stockholders of the SB shall infuse fresh capital equivalent to the amount required to bring the CAR of the SB to at least fifteen percent (15%) after the capital infusion of BSP, PDIC, and LANDBANK and maintain the same for a period of at least ten (10) years; and bring the networth of the SB to at least P100 million.
- j. Duly notarized Escrow Agreement between the SB and the LBP Trust Banking Group, incorporating therein that in case the SF set aside is not sufficient to buy-out LANDBANK shares at the end of 10 years, the stockholders shall top up the required fund in order to fully redeem the said LBP preferred shares, and the corresponding dividends thereon.

(CL-2015-029 dated 06 May 2015)

**GUIDELINES ON OUTSOURCING OF
SERVICES BY ELECTRONIC MONEY ISSUERS (EMIs) TO
ELECTRONIC MONEY NETWORK SERVICE PROVIDERS (EMNSP)
(Appendix to Subsec. X780.11)**

I. *Statement of Policy.* It is the goal of the BSP to achieve a truly inclusive financial system. In line with achieving this goal, the BSP recognizes the potential of electronic money (E-Money) as an instrument to facilitate delivery of financial services affordably to the low-income, unbanked or underserved segments of the population, particularly in non-urbanized areas. The BSP likewise recognizes that efficient and effective delivery of financial services may necessitate Electronic Money Issuers (EMI) to develop business models that utilize outsourcing arrangements, considering the specialized operational and technological requirements in an E-money business. Outsourcing, however may introduce an EMI to certain operational and reputational risks that need to be properly managed. The BSP hereby issues the following guidelines to govern the outsourcing of E-Money related services.

II. *Definition.* An Electronic Money Network Service Provider (EMNSP) shall refer to a non-financial institution that provides automated systems, network infrastructure, including a network of accredited agents utilizing the systems, to enable clients of an EMI to perform any or all of the following:

- a. Convert cash to E-money and monetize e-money;
- b. Transfer funds from one electronic wallet to another;
- c. Use E-money as a means of payment for goods and services; and
- d. Conduct other similar and/or related e-money activities/transactions.

III. *Application to outsource.* An EMI intending to outsource the services

contemplated under Item “2” shall limit itself to an EMNSP as an outsource entity, and shall follow the procedures for outsourcing information technology systems/processes as provided under Subsec. X162.2. In addition to the documentary requirements under said Subsec., an EMI should also submit a certification signed by its President or any officer of equivalent rank and function certifying that a due diligence review had been conducted and that the selected EMNSP has met the minimum requirements provided under Item “V”.

IV. *Responsibilities of an EMI.* Relative to the outsourcing of services to an EMNSP, it shall be the responsibility of an EMI to:

- a. Conduct due diligence review on an EMNSP in accordance with Item “V”;
- b. Ensure that the relationship/arrangement with an EMNSP is supported by a written contract that should contain, at a minimum, the requirements prescribed under Subsec. X162.2. The contract should also stipulate that:

(1) the EMNSP shall allow the BSP to have access and to examine the E-money system, network infrastructure, operation of the network of accredited agents and all operations related to E-money services being outsourced by the EMI for the purpose of assessing the confidentiality, integrity, and reliability of the E-money system and determining compliance with BSP rules and regulations;

(2) that the EMNSP shall not further outsource or subcontract the activity being outsourced to the EMNSP; and

(3) that interconnection by the EMNSP with other networks shall be limited to networks of other EMNSPs and the BSP-recognized ATM consortia.

c. Ensure that the EMNSP employs a high degree of professional care in performing the outsourced activities as if these were conducted by the EMI itself. This would include, among others, making use of monitoring and control procedures to ensure compliance at all times with applicable BSP rules and regulations;

d. Ensure that the EMNSP has an accreditation process in the selection of agents participating in the retail network for the conversion of cash to E-money and its monetization and that the EMNSP has instituted mechanism to manage sufficient liquidity in the system/network.

e. Ensure that the EMNSP enforces a program that requires all cash-in and cash out agents under its network to undergo AML trainings and re-trainings every two (2) years; and

f. Comply with all laws and BSP rules and regulations covering the activities outsourced to the EMNSP, especially on compliance with anti-money laundering (AML) requirements.

V. *Due Diligence and Continuing Operational Review.* Prior to entering into an outsourcing arrangement with an EMNSP, an EMI should conduct appropriate due diligence review to assess the capability of an EMNSP in performing the service to be outsourced. The due diligence should take into consideration both qualitative and quantitative factors affecting the performance of the outsourced service, such as the financial condition and results of operation for the previous year/s, risk management practices, technical expertise which involve monitoring the velocity of e-money transactions and aggregation of monthly limits, among others, market share, reputation (both the company and its stockholders) and compliance with

anti-money laundering requirements and BSP rules and regulations.

An EMI should make sure that the EMNSP adheres to international standards on IT governance, information security, and business continuity in the performance of its outsourced activities. An EMI should endeavor to obtain independent reviews and market feedback on the EMNSP to supplement its own findings.

Operational review by an EMI of the EMNSP should be undertaken at least on an annual basis as part of risk management. This review should be documented as part of an EMI's monitoring and control process.

VI. *Delineation of Responsibilities.* The EMI and EMNSP shall identify, delineate and document the responsibilities and accountabilities of each party as regards the outsourcing arrangement, including planning for contingencies. Notwithstanding any contractual agreement between an EMI and an EMNSP on the sharing of responsibility, the EMI shall be responsible to its customers, without prejudice to further recourse, if any, by the EMI to the EMNSP.

VII. *Confidentiality and Security.* An EMI should review and monitor the security practices and control processes of the EMNSP on a regular basis, including commissioning or obtaining periodic expert reports on adequacy of security to maintain the confidentiality and integrity of data, and compliance with internationally-recognized standards in respect to the operations of the EMNSP. Considering that the EMNSP may service more than one EMI, the EMI should ensure that records pertaining to its transactions are segregated from those of other EMIs.

The EMI and EMNSP shall identify circumstances under which each party has

the right to change security requirements. An EMNSP should be required to report immediately any security breaches to the EMI.

In addition, the EMI should make sure the EMNSP have documented business continuity plans in place and that said plan periodically reviewed and tested with no significant test findings. An EMNSP shall provide the EMI with timely and adequate notification on any adverse development that may impact the former's performance and delivery of service to the EMI.

VIII. EMI-Others intending to be an EMNSP. An EMI-Others that intend to be an EMNSP because of its specialized technical expertise shall comply with the requirements for an EMNSP. In addition, an EMI-Others shall undertake risk-mitigating measures to ensure that liquid assets, corresponding to the outstanding balance of E-money issued by the EMI-

Others and maintained pursuant to Sec. X780 and Subsecs. X780.1 to X780.7, be insulated from risks arising from its liabilities as EMNSP. These measures may include ring fencing the liquid assets through an escrow or trust account in a financial institution acceptable to BSP.

IX. *Sanctions.* Violations committed by EMIs pertaining to outsourcing of activities to EMNSP shall be subject to monetary penalties as graduated under *Appendix 29* and/or other non-monetary sanctions under Section 37 of RA No. 7653.

X. *Transitory Provisions.* EMIs that were granted an authority to outsource their E-Money activities to an EMNSP may continue to exercise such authority provided that they have to conform to this guidelines within a six (6)-month period from date of its effectivity.

(Circular No. 704 dated 22 December 2010)

Deadline Within Five (5) banking days
from date of reclassification

CERTIFICATION ON COMPLIANCE WITH RULES AND REGULATIONS ON THE
RECLASSIFICATION OF REAL AND OTHER PROPERTIES ACQUIRED (ROPA) TO BANK
PREMISES, FURNITURE, FIXTURE AND EQUIPMENT

(Name of Bank)

I hereby certify that the reclassification of Real and Other Properties Acquired (ROPA) to Bank Premises, Furniture, Fixture and Equipment was made in accordance with the provisions of Subsec. X160.3 of the MORB, in particular, I certify that:

- 1. The reclassification, which involves the property(ies) described in Schedule 1 was duly authorized by (name of bank)’s board of directors, in a (specify whether regular/special meeting of the board) held on (specify date of board meeting) for the purpose stated therein;
- 2. The approval of said reclassification was manifested in a resolution passed by the board of directors of (name of bank) during the meeting, a certified true copy of which is attached as Annex A. Said resolution of the board of directors, along with the supporting records and documents involving the reclassified ROPA account, shall be made available for inspection by BSP examiners;
- 3. Only such acquired asset or a portion thereof, that will be (i) immediately used, or (ii) ready and available for use within a two (2)-year period from the date of reclassification (in case of ROPA earmarked for future use) was reclassified to Bank Premises, Furniture, Fixture and Equipment;
- 4. ROPA reclassified to Bank Premises, Furniture, Fixture and Equipment was recorded at its net carrying amount where the amounts booked as cost, accumulated depreciation and allowance for losses for bank premises, furniture, fixture and equipment corresponds to the balance of these accounts under ROPA at the time of reclassification. As such no gains/(losses) were recognized in our books from such reclassification; and
- 5. The reclassification did not cause the bank to exceed the prescribed ceiling on investment in real estate and improvements thereon, including bank equipment, under Subsection X160.2 of the MORB, as shown below.

Description	Before Reclassification	After Reclassification
Ratio of bank's investment in real estate andimprovements thereon, including bank equipment, to net worth		

Signature above Printed Name
President/Officer of Equivalent Rank

Date _____

SUBSCRIBED and SWORN to before me, this _____ day of _____, affiant
exhibiting his Community Tax Certificate as indicated below:

Name	Community Tax Certificate No.	Date/Place of Issue
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Notary Public

**GUIDELINES GOVERNING THE IMPLEMENTATION/EARLY ADOPTION OF
PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS 9) FINANCIAL
INSTRUMENTS AS OF 31 DECEMBER 2015
(Appendix to Subsec. X191.3)**

Section 1. Statement of Policy

It is the policy of the Bangko Sentral to promote fairness, transparency and accuracy in financial reporting. It is in this light that the Bangko Sentral aims to adopt all Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) to the greatest extent possible.

Section 2. Classification and Measurement of Financial Assets and Financial Liabilities under PFRS 9

PFRS 9 shall apply to financial assets and financial liabilities within the scope of PAS 39. FIs shall classify and measure financial assets and financial liabilities in accordance with the provisions of PFRS 9 upon its initial application. FIs shall likewise observe the following guidelines in the implementation of PFRS 9:

1. Classification of financial assets. Financial assets that are debt instruments shall be classified as subsequently measured at either amortized cost or fair value based on the (a) FI's business model for managing financial assets, and (b) the contractual cash flow characteristics of the financial asset. Financial assets that are equity securities shall be classified at either fair value through profit or loss (FVPL) or irrevocably designated at initial recognition at fair value through other comprehensive income (DFVOCI).

2. Business model for managing financial assets. An FI's business model pertains to the manner by which it actually manages its business or portfolio of financial instruments.

An FI's business model need not be assessed at the level of the FI. The business model criteria may be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the FI) but not on an instrument-by-instrument basis (i.e., not based on intention for each individual financial instrument). This may include, for instance, a portfolio of investments that an FI manages in order to collect contractual cash flows and another portfolio of investments that an FI manages in order to trade to realize fair value changes.

An FI's business model for managing financial assets shall be documented and approved by the FI's board of directors or its equivalent governing body. The documentation shall include, at a minimum, the following:

a. clearly documented policies and procedures on the specific business model for managing financial assets and for measuring/evaluating performance of those financial assets within a specific business model;

b. type and frequency of reports which shall be presented to management to measure/evaluate performance of financial instruments within a specific business model; and

c. accountable officers and their specific responsibilities with respect to the management, monitoring and evaluation of the performance of financial instruments within a specific business model.

3. Financial assets measured at fair value through profit or loss (FVPL). A financial asset shall be measured at fair value through profit or loss, except in the following cases:

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a. The financial asset is part of a hedging relationship, in which case the provisions of PAS 39 on hedge accounting shall apply;

b. The financial asset that is an equity security that is not held for trading and is irrevocably elected upon initial recognition to be measured at fair value through other comprehensive income as provided under Item No. “5”; or

c. The financial asset that is a debt instrument is measured at amortized cost as provided under Item No. “7”.

Financial assets measured at fair value through profit or loss shall consist of the following:

a. Financial assets held for trading (HFT) as defined in PFRS 9;

b. Financial assets designated at fair value through profit or loss (FA DFVPL) as defined in PFRS 9; and

c. Other financial assets mandatorily measured at fair value through profit or loss (FA MMFVPL) under PFRS 9.

Investments in hybrid securities, securities overlying securitization structures and other structured products shall be measured at FVPL, unless these meet the criteria for amortized cost measurement in accordance with PFRS 9.

Investments in credit-linked notes (CLNs) and similar structured products with embedded credit derivatives, as defined under Section 1628, including those that were reclassified from HFT to Available for Sale (AFS)/Held to Maturity (HTM)/Unquoted Debt Securities Classified as Loans (UDSCL) or from AFS to HTM/UDSCL in accordance with the reclassification rules under *Appendix 33*, shall be classified and measured at FVPL upon initial application of PFRS 9.

The accounting treatment for investments in CLNs and other structured products under *Appendix 66a* and the guidelines on the reclassification of CLNs and other similar instruments that are linked to the ROP under Bangko Sentral Memorandum No. M-2009-012 dated

16 April 2009 shall no longer apply to financial assets that are accounted for in accordance with PFRS 9.

4. Financial assets designated at fair value through profit or loss (DFVPL). An FI may, at initial recognition, designate financial assets that are debt instruments as measured at fair value through profit or loss in accordance with the conditions mentioned under PFRS 9, subject to the following requirements:

a. FIs shall have in place appropriate risk management systems (including related risk management policies, procedures and controls) prior to initial application of the fair value option for a particular activity or purpose and on an ongoing basis;

b. FIs shall apply the fair value option only to instruments for which fair values can be reliably estimated; and

c. FIs shall provide Bangko Sentral with supplemental information as may be necessary, to enable Bangko Sentral to assess the impact of the FI’s use of the DFVPL option.

5. Equity securities designated at fair value through other comprehensive income (DFVOCI). Financial assets that are equity securities that are not held for trading may be irrevocably elected at initial recognition by an FI to be accounted for as at fair value through other comprehensive income, subject to the conditions provided under PFRS 9.

Unrealized gains/(losses) arising from changes in fair value of investment in equity securities classified as DFVOCI, including any related foreign exchange gains/(losses), shall be credited/(charged) to Other Comprehensive Income (OCI) under the equity section of the balance sheet: *Provided*, That the realized gains/(losses) on sale or derecognition of equity securities booked under the DFVOCI account shall be credited/(charged) to the “Retained Earnings – Free” account on sale/ derecognition date.

6. Investments in unquoted equity securities. Investments in unquoted equity securities shall be recorded at fair value from the date of initial application of PFRS 9.

However, in limited circumstances, cost may be an appropriate measure of fair value. For this purpose, FIs shall be guided by the provisions of PFRS 9 in making its assessment.

7. Financial assets measured at amortized cost

a. Classification criteria

Financial assets that are debt instruments, other than those that are DFVPL, which meet all of the following conditions shall be measured at amortized cost:

i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b. Hold to collect contractual cash flows (HTC) business model

In addition to those provided under PFRS 9, the following instances are, likewise, deemed inconsistent with an HTC business model; hence, should not qualify for amortized cost measurement category:

i. a portfolio of debt instruments that is managed in order to benefit from actual or expected price movements/fair value changes (e.g., changes in credit spreads, yield curve, etc.) or to lock in arbitrage profits;

ii. a portfolio of debt instruments held for market-making by an FI who is a market maker in those instruments (e.g., government securities);

iii. positions in debt instruments which arise from the execution of trade orders from customers; or

iv. a portfolio of debt instruments that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy as evidenced by management reports provided to senior management.

A “more than infrequent sale” of financial assets in a portfolio of debt instruments measured at amortized cost shall be assessed as to whether such sales are consistent with an HTC business model.

The following sales/derecognition of financial assets shall not be considered inconsistent with an HTC business model:

(1) sales which no longer meet the FI’s investment policy (e.g., due to downgrade in credit rating below that required by the entity’s investment policy);

(2) sales of financial assets in order to fund capital expenditures;

(3) sales of financial assets to reflect the change in expected timing of payouts;

(4) sales which are so close to maturity (e.g., less than three (3) months) or the security’s call date that changes in the market rate of interest would not have a significant effect on the security’s fair value;

(5) sales that occur after the FI has substantially collected all of the security’s original principal through scheduled payments or prepayments.

(6) sales attributable to an isolated event that is beyond the FI’s control, is non-recurring and could not have been reasonably anticipated by the FI (e.g., a run on a bank);

(7) sales attributable to a change in tax law that eliminates or significantly reduces the tax exempt status of interest on the security under the amortized cost category;

(8) sales attributable to a major combination or major disposition that necessitates the sale of securities under the amortized cost category to maintain the FI’s interest rate risk position or credit risk policy;

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(9) sales attributable to a change in statutory or regulatory requirements significantly modifying either what constitutes a permissible investment or the maximum level of particular investments, thereby causing the FI to dispose a security under the amortized cost category;

(10) sales attributable to a significant increase in regulatory capital requirements that causes the FI to downsize by selling securities under the amortized cost category;

(11) sales attributable to a significant increase in the risk weights of securities under the amortized cost category used for regulatory risk-based capital purposes; and

(12) sales/derecognition attributable to the changes in the payment structure as initiated by the creditor (e.g., bond swap or exchange, options, changes in tenor and other related debt restructuring).

An FI shall clearly document in its policies and procedures the instances and the manner by which sales of financial assets under the amortized cost category would not be inconsistent with the HTC business model in accordance with PFRS 9 and the requirements of this *Appendix*.

Any sale/derecognition of financial assets under the amortized cost category shall be documented by the FI. The documentation shall include, at a minimum, the following information:

- i. details of the financial asset sold/derecognized;
- ii. gain or loss on sale/derecognition; and
- iii. the specific reason/s for derecognizing the financial asset and a justification on how such sale/derecognition is consistent with the HTC business model.

c. Amortized cost of financial assets at date of initial application. The amortized cost of financial assets that are reclassified from the fair value category (i.e., HFT, DFVPL, AFS) to the amortized cost category

at the date of initial application of PFRS 9 shall be determined retrospectively (i.e., using the original acquisition cost and the original effective interest rate at the date of acquisition) in accordance with the provisions of PFRS 9, except in cases when it is “impracticable” to do so, as defined in PAS 8, in which case the fair value of the financial asset at the date of initial application of PFRS 9 shall be treated as the new amortized cost of that financial asset at the date of initial application.

The retrospective determination of amortized cost at initial application of PFRS 9 under the preceding paragraph shall, likewise, apply to financial assets accounted for under the amortized cost category under PFRS 9 that were reclassified from the HFT and AFS categories to the HTM and the UDSCl categories in accordance with the reclassification guidelines under Annex A of *Appendix 33*.

In the case of financial assets reclassified from AFS to the HTM/UDSCl category under Annex A of *Appendix 33*, any remaining balance (i.e., unamortized amount) of previously recognized net unrealized gains/(losses) under the “Other Comprehensive Income - Net Unrealized Gains/(Losses) on AFS Financial Assets” account in the balance sheet that correspond to those reclassified AFS financial assets shall be closed to the appropriate accounts upon initial application of PFRS 9.

8. Classification of financial liabilities. Financial liabilities shall be classified as subsequently measured at amortized cost using the effective interest method, except for:

- a. Financial liabilities which are part of a hedging relationship, in which case the provisions of PAS 39 on hedge accounting shall apply;

- b. Financial liabilities measured at fair value through profit or loss; and

c. The following financial liabilities which shall be subsequently measured in accordance with the provisions of PFRS 9 :

i. Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;

ii. Financial guarantee contracts, as defined under Appendix A of PFRS 9 ; and

iii. Commitments to provide a loan at a below-market interest rate.

9. Financial liabilities measured at fair value through profit or loss. Financial liabilities measured at fair value through profit or loss shall consist of the following:

a. Financial liabilities HFT, including derivative liabilities that are not accounted for as hedging instruments, and

b. Financial liabilities designated at fair value through profit or loss.

10. Financial liabilities designated at fair value through profit or loss (DFVPL). An FI may, at initial recognition, irrevocably designate financial liabilities at fair value through profit or loss subject to the conditions mentioned under PFRS 9 and the regulatory requirements for financial assets DFVPL under Item No. "4" above.

Net unrealized gains/losses arising from changes in the fair value of financial liabilities DFVPL shall be recognized in profit or loss: *Provided*, That those net unrealized gains/losses that are attributable to changes in the liability's credit risk shall be recognized in "Other Comprehensive Income (OCI)", *Provided, however*, That if the recognition of net unrealized gains/losses in OCI would create or enlarge an accounting mismatch in the FI's profit or loss, the FI shall present all net unrealized gains/losses on that financial liability DFVPL in profit or loss.

11. Reclassification of financial assets and financial liabilities.

a. Financial assets shall be reclassified when, and only when, an FI changes its

business model for managing financial assets in accordance with the provisions of PFRS 9 and of this *Appendix*. Reclassifications other than due to change in business model are not permitted.

A change in an FI's business model is expected to be very infrequent and must be determined as a result of external and internal changes that are significant to the FI's operations and demonstrable to external parties. Hence, such change in business model must be approved by the FI's board of directors or its equivalent governing body, and such fact properly documented. The documentation, at a minimum, shall include the following information:

a. A certified true copy of the board resolution approving the change in the business model for managing financial assets;

b. The reasons for the change in the FI's business model and how it is aligned with the objectives and strategies of the FI;

c. A description of the new business model; and

d. A qualitative description of the new business model's implication on the FI's financial statements.

In addition to the foregoing items, the Bangko Sentral may require additional documents from FIs to support the reclassification of financial assets due to change in business model.

A change in the objective of the entity's business model must be effected before the reclassification date.

An FI shall not effect a reclassification within the period of change in the business model. Any reclassification of financial assets due to change in business model should take effect from the beginning of the next reporting period of the FI's financial statements: *Provided*, That the change in business model shall be disclosed in the financial statements in the period of change consistent with PFRS 7 *Financial Instruments*: Disclosures which require

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among others the disclosure of an entity's objectives, policies and processes for managing the risk from financial instruments and any changes to those objectives, policies, and procedures.

b. Financial liabilities shall not be reclassified.

12. Operations and Accounting Manual. An FI shall maintain an operations and accounting manual on the classification and measurement of financial assets and financial liabilities which shall be consistent with PFRS 9 and the provisions of this *Appendix*. The said manual shall cover processes and procedures that will capture the reconfiguration and/or modification of existing systems, interface and data requirements, changes to the chart of accounts and implementation of new accounting/information systems to ensure compliance with the PFRS/PAS and the reportorial requirements of the SEC and the Bangko Sentral, as applicable.

Section 3. Early Adoption of PFRS 9

The guidance provided in this Section shall apply to FIs that have early-adopted PFRS 9 as of 31 December 2015. The date of initial application of PFRS 9 is the date when the FI first applies the requirements of PFRS 9. If the date of initial application is prior to 01 January 2011, the date of initial application can be any date between 01 January 2010 up to 31 December 2010. If the date of early application is on or after 01 January 2011 up to 31 December 2015, the date of initial application must be the first day of the calendar year or fiscal year adopted by the FI (e.g., 01 January).

An FI that has early-adopted PFRS 9 (2009-2010) as of 31 December 2015 shall observe the requirements of PFRS 9 as provided in this *Appendix*.

FI's shall, likewise, observe the following guidelines:

1. Board/Senior management approval. FIs that early adopt PFRS 9 must assess the financial statement implications of early adoption of PFRS 9 and must ensure that it has the capability to comply with the requirements of that standard, including the required disclosures in the financial statements. The early adoption of PFRS 9 must be approved by the FI's board of directors.

2. Inapplicability of *Appendix 33*. The guidelines set forth under *Appendix 33*, including Annex A of *Appendix 33* on the classification and accounting of debt and equity securities shall no longer be applicable when an FI opts to adopt PFRS 9.

3. FRP reporting. Banks shall report financial assets and financial liabilities in accordance with the following guidelines on the mapping of financial assets and liabilities (Annexes A and A-1) using the existing FRP template issued under Circular No. 512 dated 03 February 2006, as amended:

a. Debt securities measured at amortized cost under PFRS 9 shall be booked under the HTM account, in the case of debt securities that are quoted in an active market, or the UDSCL account, in the case of debt securities that are not quoted in an active market.

The "tainting rule" for HTM securities shall no longer apply to early adopters of PFRS 9.

b. Financial assets measured at fair value through profit or loss under PFRS 9 shall be booked under the following accounts/sub-accounts.

(i) Held for Trading (HFT) Financial Assets

· The "HFT Securities" sub-account shall be used to record held for trading debt and equity securities.

· The "Derivatives with Positive Fair Value Held for Trading" account shall be used to record the positive fair value of

derivatives, other than those that are designated and effective hedging instruments.

- The sub-account “Derivatives with Positive Fair Value Held for Trading (stand-alone derivatives)” in the FRP shall be used to record the positive fair value of stand alone derivatives, other than those that are designated and effective hedging instruments.

- The sub-account “Derivatives with Positive Fair Value Held for Trading” (embedded derivatives)” in the FRP, shall be used to record the positive fair value of embedded derivatives where the host contract is a financial liability of the FI.

(ii) Financial Assets Designated at Fair Value through Profit or Loss (DFVPL). This account shall be used to record investments in FA DFVPL and FA MMFVPL, as follows:

- FA DFVPL refers to investments in debt instruments that are designated as at fair value through profit or loss in accordance with PFRS 9.

- FA MMFVPL refers to financial assets that are required to be measured at fair value through profit or loss under PFRS 9, other than those that are HFT and DFVPL.

c. The “Available for Sale (AFS)

Financial Asset – Equity Securities” account shall be used to record investments in equity securities (other than those that are held for trading) that are irrevocably designated at initial recognition to be accounted for as DFVOCI in accordance with PFRS 9. The “Other Comprehensive Income – Net Unrealized Gains/(Losses)” account under the equity section of the balance sheet shall be used to record unrealized gains/(losses) from changes in fair value, including any related foreign exchange gains/(losses), of those equity securities under the DFVOCI category.

d. Financial liabilities measured at fair value through profit or loss under PFRS 9

shall continue to be booked under the following accounts/sub-accounts:

i. The “Financial Liabilities Held for Trading” account shall be used to record financial liabilities HFT.

- The “Derivatives with Negative Fair Value Held for Trading” account shall be used to record the negative fair value of derivatives, other than those that are designated and effective hedging instruments.

- The sub-account “Derivatives with Negative Fair Value Held for Trading (standalone derivatives)” shall be used to record the negative fair value of stand-alone derivatives, other than those that are designated and effective hedging instruments.

- The sub-account “Derivatives with Negative Fair Value Held for Trading (embedded derivatives)” shall be used to record the negative fair value of embedded derivatives where the host contract is a financial liability of the FI.

- The “Liability for Short Position” account shall be used to record the (a) obligation of the purchaser/borrower of securities under Reverse Repurchase Agreements/Certificates of Assignment/Participation with Recourse/Securities Lending and Borrowing Agreements to return the securities purchased/ borrowed from the seller/lender which the former sold to third parties.

ii. The “Financial Liabilities designated at Fair Value Through Profit or Loss’ account shall be used to record financial liabilities that are designated as at fair value through profit or loss. The “Other Comprehensive Income – Others” account under the equity section of the balance sheet shall be used to record net unrealized gains/(losses) from changes in fair value attributable to own credit risk of financial liabilities DFVPL that are accounted for in accordance with PFRS 9.

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e. The following accounts/sub-accounts shall no longer be used upon initial application of PFRS 9.

(i) Financial assets HFT (c) Derivatives Carried at Cost,

(ii) AFS Financial Assets (i) Debt Securities, and

(iii) Investment in Non-Marketable Equity Securities (INMES).

f. All the required information in the main schedules, sub-schedules, and additional disclosures/information in the FRP shall be accomplished for completeness.

4. Consolidated Statement of Condition (CSOC). QBs and other NBFIs shall report financial assets and financial liabilities in accordance with the following guidelines on the mapping of financial assets and financial liabilities (Annexes B and B-1) using the existing CSOC template:

a. Debt securities measured at amortized cost under PFRS 9 shall be booked under the “Investments in Bonds and Other Debt Instruments” account.

The “tainting rule” for HTM securities shall no longer apply to early adopters of PFRS 9.

b. The use of the “Trading Account Securities – Loans” account shall be limited to the recording of the amortized cost of loans arising from repurchase agreements, certificates of assignment, participation with recourse transactions.

(i) The “Government Securities Purchased under Resale Agreements” sub-account shall be used to record the amortized cost of loans arising from repurchase agreements involving government securities.

(ii) The “Government Securities Purchased under Certificates of Assignment/ Participation with Recourse” sub-account shall be used to record the amortized cost of loans arising from certificates of assignment and participation with recourse

agreements involving government securities.

(iii) The “Government Securities Purchased under Reverse Repurchase Agreements with the Bangko Sentral” sub-account shall be used to record the amortized cost of loans arising from repurchase agreements with the Bangko Sentral.

(iv) The “Private Debt Securities/ Commercial Papers Purchased Under Resale Agreements” sub-account shall be used to record the amortized cost of loans arising from repurchase agreements involving private debt securities.

(v) The “Private Debt Securities/ Commercial Papers Purchased under Certificates of Assignment/Participation with Recourse” sub-account shall be used to record the amortized cost of loans arising from certificates of assignment and participation with recourse agreements involving private debt securities.

c. Financial assets measured at fair value through profit or loss under PFRS 9 shall be booked under the following accounts/sub-accounts.

(i) Trading Account Securities (TAS)

· The “TAS - Investments” account shall be used to record held for trading debt securities under PAS 39.

· The “TAS - Equity” account shall be used to record held for trading equity securities.

(ii) Underwriting Accounts – Debt/ Equity Securities. This account shall be used to record investments in FA DFBVPL and FA MMFBVPL, as follows:

· FA DFBVPL refers to investments in debt securities that are designated as at fair value through profit or loss in accordance with PFRS 9.

· FA MMFBVPL refers to financial assets that are required to be measured at fair value through profit or loss under PFRS 9, other than those that are HFT and DFBVPL.

d. The “Available for Sale (AFS) Securities” account shall be used to record investments in equity securities (other than those that are held for trading) that are irrevocably designated at initial recognition to be accounted for as DFVOCI in accordance with PFRS 9. The “Net Unrealized Gains/(Losses) on Securities Available for Sale” account under the equity section of the balance sheet shall be used to record unrealized gains/(losses) from changes in fair value, including any related foreign exchange gains/(losses), of those equity securities under the DFVOCI category.

e. The “Bills Payable–Others” account shall temporarily be used to record financial liabilities held for trading and financial liabilities DFVPL.

f. Changes in fair value of financial liabilities DFVPL attributable to own credit risk shall temporarily be recorded in the account “Net Unrealized Gains/Losses on Available for Sale Financial Asset”.

g. The following sub-accounts in the balance sheet of the CSOC shall no longer be used upon initial application of PFRS 9.

(i) Underwriting Accounts – Debt Securities

a. Underwritten Debt Sec. Purchased,
b. Accum. Market Gains/(Losses) UA,
c. Receivables – Underwritten Debt Securities Sold,

(ii) Trading Accounts Securities – Loans

d. Private Debt Sec./Commercial Papers (CPs) Purchased,

h. Private Debt Sec./Commercial Papers (CPs) Sold Under Repurchase Agreements,

(iii) Underwriting Accounts – Equity Securities

a. Underwritten Equity Securities Purchased,

b. Accumulated Market Gains/(Losses) UA,

c. Receivables – Underwritten Equity Securities Sold.

5. FRP for Trust Institutions (FRPTI) reporting. Trust institutions shall report financial assets in accordance with the following guidelines on the mapping of financial assets (Annexes C and C-1) using the existing FRPTI template issued under Circular No. 609 dated 26 May 2008, as amended:

a. Debt securities measured at amortized cost under PFRS 9 shall be booked under the HTM account, in the case of debt securities that are quoted in an active market, or the UDSCL account, in the case of debt securities that are not quoted in an active market.

The “tainting rule” for HTM securities shall no longer apply to early adopters of PFRS 9.

b. Financial assets measured at fair value through profit or loss under PFRS 9 shall be booked under the “Financial Assets at Fair Value Through Profit or Loss-Debt and Equity Securities” sub-account.

c. The “Derivatives with Positive Fair Value Held for Trading” account shall be used to record the positive fair value of derivatives, other than those that are designated and effective hedging instruments.

d. The “Available for Sale (AFS) Financial Assets” account shall be used to record investments in equity securities (other than those that are held for trading) that are irrevocably designated at initial recognition to be accounted for as DFVOCI in accordance with PFRS 9. The “Net Unrealized Gains/(Losses) on AFS Financial Assets” account under the equity section of the balance sheet shall be used to record the unrealized gains/(losses) arising from changes in fair value, including any related foreign exchange gains/(losses), of those equity securities under the DFVOCI category.

e. The following accounts/sub-accounts in the balance sheet of the FRPTI shall no

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longer be used upon initial application of PFRS 9.

(i) AFS Financial Assets (i) Debt Securities, and

(ii) INMES account.

f. All the required information in the main schedules, sub-schedules, and additional disclosures/information in the FRPTI shall be accomplished for completeness.

g. Trust institutions that early adopt PFRS 9 on or before 31 December 2010 need not submit revised FRPTI reports that conform with the guidelines under Section 2 of this Circular for periods prior to 31 December 2010.

6. Supplementary report. Early adopters shall submit a Supplementary Report on Early Adoption of PFRS 9 which shall be a *Category A-1* report to the SDC together with the prescribed monthly/quarterly FRP/CSOC reports, as follows:

a. Banks shall submit the solo and consolidated supplementary (Annex D) in accordance with the submission frequency and deadline of the prescribed FRP.

b. NBFIs, other than trust institutions, shall submit the solo supplementary report (Annex E) in accordance with the submission frequency and deadline of the Consolidated Statement of Condition report”.

7. Report on initial application of PFRS 9. A bank and each of its subsidiary banks, that opt to early adopt PFRS 9 shall submit a one-time solo Report on Initial Application of PFRS 9 to the Bangko Sentral through the SDC. The report which shall be considered a *Category A-1* report shall be submitted to the Bangko Sentral in accordance with the following timelines:

a. For FIs which initially apply PFRS 9 on or before 31 December 2010 - not later than 31 January 2011;

b. For FIs which initially apply PFRS 9 in 2011 – not later than fifteen (15) banking

days from the end of the month when such initial adoption is reflected in their books, and

c. For FIs which initially apply PFRS 9 01 January 2012 up to 31 December 2015 – not later than fifteen (15) banking days from the end of the calendar or fiscal year of initial application of PFRS 9.

The report shall disclose the cumulative impact of the FI’s adoption of PFRS 9 on selected balance sheet accounts, net income and capital position reckoned from the beginning of the FI’s calendar of fiscal year, as applicable.

Section 4. Transition Rules

FIs shall observe the transition rules provided under PFRS 9 as well as the following:

1. PFRS 9 shall not be applied to financial assets and financial liabilities that have already been derecognized at the date of initial application.

2. An FI shall assess whether a financial asset shall be classified under the amortized cost, FVPL, or DFVOCI category on the basis of the facts and circumstances that exist at the date of initial application of PFRS 9. However, the resulting classification shall be applied retrospectively, irrespective of the FI’s business model in prior reporting periods.

3. The tainting rule for HTM securities and the related holding period for HTM securities that are classified to the AFS category under *Appendix 33* shall no longer apply to FIs upon initial application of PFRS 9.

4. An FI may choose to adopt the provisions of PFRS 9 issued in 2009 or the provisions of PFRS 9 issued in 2010 on or before 31 December 2015.

5. An FI that has adopted PFRS 9 on financial assets in 2010 need not submit revised FRCP/CSOC reports that conform with Section 2 of this Appendix for periods prior to 31 December 2010. It may adopt

the provisions of PFRS 9 on financial liabilities on or before 31 December 2015: *Provided*, That it does not re-apply the transitional provisions of the said standard on its financial assets: *Provided, further*, That the FI complies with the submission guidelines set forth under Item Nos. “6”, “7” and “8” below, as applicable: *Provided, finally*, That the FI limits the information that it shall report in the one-time solo Report on Initial Application of PFRS 9 to that arising from its adoption of the provisions of PFRS 9 on financial liabilities.

6. An FI which intends to early adopt PFRS 9 in 2011 is given up to 31 December 2011 within which to reflect the requirements of PFRS 9 in its prudential reports: *Provided*, That it notifies the Bangko Sentral, through the SDC, of the details of its actual implementation of adoption of the said standard, including the month-end date when such initial adoption is reflected in

its books, in its one-time solo Report on initial Application of PFRS 9.

7. An FI that has early-adopted PFRS 9 on 01 January 2012 up to 31 December 2015 shall reflect the requirements of the said standard in its FRP/CSOC report as of the end of the calendar or fiscal year of initial application of PFRS 9.

8. An FI is expected to comply with the reportorial and disclosure requirements of the Securities and Exchange Commission on the adoption of PFRS 9.

Section 5. Sanction

The penalties and sanctions provided under Subsec. X388.5(c) shall be imposed on FIs and officers concerned found to have violated any of the provisions of this Appendix.

(Circular No. 708 dated 10 January 2011, as amended by Circular Nos. 912 dated 27 May 2016, 761 dated 20 July 2012, M-2011-048 dated 26 August 2011 and Circular No. 733 dated 05 August 2011)

Documentary Requirements to be Submitted to Bangko Sentral for the Election/Appointment of Directors/Officers of Banks^{1/}
(Appendix to Subsecs. X141.4, X180.4 and X406.10)

Requiring Bangko Sentral Confirmation ^{2/}		Not Requiring Bangko Sentral Confirmation nor Monetary Board Approval		Requiring Monetary Board Approval
Directors	Officers with rank of SVP and above (or equivalent ranks)	Officers below the rank of SVP requiring a different set of minimum qualifications ^{3/}	All other officers below the rank of SVP ^{4/}	Compliance Officer
<ul style="list-style-type: none">• Letter-request for Bangko Sentral confirmation signed by authorized officer^{5/} with an affirmative statement that the institution has conducted a fit and proper test on the director/s concerned• Secretary’s Certificate attesting to the resolution of the stockholders or board of directors approving the election• Bio-data with a photograph (2” x 2”) taken within the last six (6) months	<ul style="list-style-type: none">• Letter-request for Bangko Sentral confirmation signed by authorized officer with an affirmative statement that the institution has conducted a fit and proper test on the officer/s concerned• Secretary’s Certificate attesting to the resolution of the board of directors approving the appointment^{6/}	<ul style="list-style-type: none">• Bio-data with a photograph (2” x 2”) taken within the last six (6) months		<ul style="list-style-type: none">• Letter-request for Bangko Sentral approval signed by authorized officer^{5/} with an affirmative statement that the institution has conducted a fit and proper test on the officer/s concerned.• Secretary’s Certificate attesting to the resolution of the board of directors approving the appointment^{7/}• Bio-data with a photograph (2” x 2”) taken within the last six (6) months

^{1/} To be submitted within twenty (20) business days from date of election/re-election/appointment/promotion to the appropriate department of the SES. For interlocks requiring Monetary Board approval, the following shall be submitted:(a) Letter-request for Monetary Board approval with justification; and (b) Bio-data.

^{2/} Including those exempted from the required Bangko Sentral confirmation as provided in Subsecs. X141.4 and X406.10.

^{3/} E.g., Internal Auditor, Security Officer, Head/In-Charge of E/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs)

^{4/} No documentary requirements to be submitted to the Bangko Sentral

^{5/} Authorized signatory is the President of the institution, except for appointment of President, in which case the authorized signatory shall be the Chairman of the Corporate Governance Committee or of the Board of Directors, as may be applicable. For those exempted from the required Bangko Sentral confirmation as provided in Subsec. X141.4 submit letter-notice to the Bangko Sentral, in lieu of letter-request for Bangko Sentral confirmation, signed by the aforementioned authorized officer with an affirmative statement that the institution has conducted a fit and proper test on the director/officer concerned.

^{6/} In case of foreign bank branches, consularized letter of appointment of the officer concerned from the Head Office and/or Regional Office

^{7/} In case of foreign bank branches, letter of appointment from the Country Head

Requiring Bangko Sentral Confirmation ^{1/}		Not Requiring Bangko Sentral Confirmation nor Monetary Board Approval		Requiring Monetary Board Approval
Directors	Officers with rank of SVP and above (or equivalent ranks)	Officers below the rank of SVP requiring a different set of minimum qualifications ^{2/}	All other officers below the rank of SVP ^{3/}	Compliance Officer
<ul style="list-style-type: none">• Certification under oath of the director concerned that he/she possesses all the qualifications and none of the disqualifications to become a director• For directors who are holding concurrent positions in government/ government owned and controlled corporations (GOCC), written permission from the head of Department/GOCC, allowing him/her to become a director of the FI.• For first-time directors in a particular bank/ banking group as defined in Subsec. X141.4<ul style="list-style-type: none">a. Copy of certificate of attendance in Corporate Governance seminar	<ul style="list-style-type: none">• Certification under oath of the officer concerned that he/she possesses all the qualifications and none of the disqualifications to become an officer• For first-time officers to be subject to Bangko Sentral confirmation in a particular bank/banking group as defined in Subsec. X141.4 of the MORB:			<ul style="list-style-type: none">• Certification under oath of the officer concerned that he/she possesses all the qualifications and none of the disqualifications to become an officer

^{1/} Including those exempted from the required Bangko Sentral confirmation as provided in Subsec. X141.4 and X406.10.

^{2/} E.g., Internal Auditor, Security Officer, Head/In-Charge of E/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs)

^{3/} No documentary requirements to be submitted to the Bangko Sentral

Requiring Bangko Sentral Confirmation ^{1/}		Not Requiring Bangko Sentral Confirmation nor Monetary Board Approval		Requiring Monetary Board Approval
Directors	Officers with rank of SVP and above (or equivalent ranks)	Officers below the rank of SVP requiring a different set of minimum qualifications ^{2/}	All other officers below the rank of SVP ^{3/}	Compliance Officer
b. Certification under oath that the director has received copies of the general responsibility and specific duties and responsibilities of the board of directors and of a director and that he/she fully understands and accepts the same				
c. Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the director concerned	a. Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the officer concerned			• Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the officer concerned
• For independent directors, certification under oath that he/she is an independent director as defined in Bangko Sentral regulations				

^{1/} Including those exempted from the required Bangko Sentral confirmation as provided.
^{2/} E.g., Internal Auditor, Security Officer, Head/In-Charge of E/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs),
^{3/} No documentary requirements to be submitted to the Bangko Sentral

Requiring Bangko Sentral Confirmation ^{1/}		Not Requiring Bangko Sentral Confirmation nor Monetary Board Approval		Requiring Monetary Board Approval
Directors	Officers with rank of SVP and above (or equivalent ranks)	Officers below the rank of SVP requiring a different set of minimum qualifications ^{2/}	All other officers below the rank of SVP ^{3/}	Compliance Officer
<ul style="list-style-type: none">• For re-elected directors, Secretary's Certificate on the attendance by the director concerned to the board meetings held for the last twelve (12) months covering the term of service, indicating percentage of attendance to board meetings <p>(As amended by Circular Nos. 887 dated 07 October 2015 and 758 dated 11 May 2012)</p>	<ul style="list-style-type: none">• Brief description of his/her duties and responsibilities• Alien Employment Permit issued by the Department of Labor and Employment for foreigners appointed as officers	<ul style="list-style-type: none">• Brief description of his/her duties and responsibilities		<ul style="list-style-type: none">• Brief description of his/her duties and responsibilities• Alien Employment Permit issued by the Department of Labor and Employment for foreigners appointed as officers
<div>^{1/} Including those exempted from the required Bangko Sentral confirmation as provided. ^{2/} E.g., Internal Auditor, Security Officer, Head/In-Charge of E/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs), ^{3/} No documentary requirements to be submitted to the Bangko Sentral</div>				

LIST OF DOCUMENTARY REQUIREMENTS
APPROVAL OF THE APPOINTMENT OF TRUST AND COMPLIANCE OFFICERS OF BANKS
(Appendix to Subsecs. X180.2 and X406.10)

(Superseded by Circular Nos. 766 dated 17 August 2012 and 758 dated 11 May 2012 ; See Appendix 98)

[Appendix to Subsec. X144]

DEADLINE : 20 banking/business days from the annual election of the board of directors/trustees
SUBMISSION: Original copy to the appropriate department of the SES

(Name of Bank/QB/NBFI/with Trust Authority/Trust Corporation/NBFI/NSSLA)

List of Members of the Board of Directors and Officers

As of _____

Name	Position	Department (if applicable)
Directors:		
Officers with rank of senior vice president and above (or equivalent rank):		
Officers below the rank of senior vice president:		

REPUBLIC OF THE PHILIPPINES)
_____) S.S.

I solemnly swear that all matters set forth in this report are true and correct, to the best of my knowledge and belief.

(Signature of Authorized Signatory)

SUBSCRIBED AND SWORN TO BEFORE ME this ____ day of _____ 20____, affiant exhibiting to me his/her (valid identification document) No. _____ issued at _____ on _____ 20____.

Notary Public
Until December 31, 20 ____
PTR No. _____
Place _____

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

(Circular No. 758 dated 11 May 2012, As amended by Circular 887 dated 07 October 2015)

Deadline : Within ten (10) banking days from
approval of the board of directors
Submission: Appropriate Department of SES

CERTIFICATION ON REAL ESTATE/CHATTEL TRANSACTIONS
With Director(s), Officer(s), Stockholders(s)
(Appendix to Subsec. X148.1)

(Name of Bank)

We hereby certify that the real estate/chattel transaction(s) entered into by the (name of bank) with its DOSRI and employees as described in Schedule 1 was made in accordance with the provisions of Section X148 of the MORB and its corresponding Subsections. In particular, we certify that:

- 1. The transactions were approved by a majority of the (name of bank)'s board of directors, excluding the director(s) concerned [in case of transactions involving the director(s) or his related interest(s)], in a (specify whether regular/special) meeting held on (specify date of board meeting) for such purpose as stated therein;
- 2. A certified true copy of said approval as manifested in a resolution passed by the board of directors is attached as Annex A;
- 3. The reported transaction have been thoroughly reviewed and verified as having been entered into in the best interest of the bank; and
- 4. The records and underlying documents supporting such transactions are adequately maintained and shall be (a) made available for inspection by BSP examiners, and (b) submitted upon request of the appropriate department of the SES.

Signature above Printed Name
Director

Signature above Printed Name
Director

Signature above Printed Name
Director

Signature above Printed Name
Director

Signature above Printed Name
Director

(include additional signatories, if necessary)

Date

SUBSCRIBED and SWORN to before me, this day of , with affiant(s) exhibiting his/her valid identification as indicated below:

Names	Government ID/ Passport No.	Date/Place of Issue
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Doc. No. _____	Notary Public
Page No. _____	
Book No. _____	
Series of _____	

(Circular No. 737 dated 19 September 2011)

**DOCUMENTS REQUIRED UNDER THE
REVISED OUTSOURCING FRAMEWORK FOR BANKS
(Appendix to Sec. X162.5)**

1. A comprehensive policy on outsourcing duly approved by the board of directors of the bank.

2. Service level agreement of contract between the bank and the service provider, which shall, at a minimum, include all of the following:

a. Complete description of the work to be performed or services to be provided;

b. Fee structure;

c. Provisions governing amendment and pre-termination of contract;

d. Responsibility, fines, penalties and accountability of the service provider for errors, omissions and frauds;

e. Confidentiality clause covering all data and information; solidarity liability of service provider and bank for any violation of R.A. No. 1405, (the Bank Deposits Secrecy Law) actions that the bank may take against the service provider for breach of confidentiality or any form of disclosure of confidential information; and the applicable penalties;

f. Segregation of the data of the bank from that of the service provider and its other clients;

g. Disaster recovery/business continuity contingency plans and procedures;

h. Guarantee that the service provider will provide necessary levels of transition assistance if the bank decides to convert to other service providers or other arrangements;

i. Access to the financial information of the service provider;

j. Access of internal and external auditors to information regarding the outsourced activities/ services which they need to fulfill their respective responsibilities;

k. Access of Bangko Sentral to the operations of the service provider in order to review the same in relation to the outsourced activities/ services;

l. Provision which requires the service provider to immediately take the necessary corrective measures to satisfy the findings and

recommendations of Bangko Sentral examiners and those of the internal and/or external auditors of the bank and/or the service provider;

m. Remedies for the bank in the event of change of ownership, assignment, attachment of assets, insolvency, or receivership of the service provider; and

n. Provision allowing the bank to cancel the contract by contractual notice of dismissal or extraordinary notice of cancellation if so required by the Bangko Sentral.

Additional Requirements for IT outsourcing:

o. Provisions regarding on-line communication availability, transmission line security, and transaction authentication;

p. Responsibilities regarding hardware, software and infrastructure upgrades;

q. Mandatory notification by the service provider of all systems changes that will affect the bank;

r. Details of all security procedures and standards;

s. Adequate insurance for fidelity and fire liability; and

t. Ownership/maintenance of the computer hardware, software (program source code), user and system documentation, master and transaction data files.

3. Secretary's certificate on the minutes of meeting of the board of directors of the bank (or a local/regional management committee, in case of foreign banks), explicitly approving the activity to be outsourced, the determination of whether an outsourcing arrangement is considered material or non-material and the specific service provider with which the bank is entering into an outsourcing contract;

4. Profile of the selected service provider; and

5. A central record of all outsourcing arrangements which shall be periodically updated and shall form part of the corporate governance reviews undertaken by the bank.

(Circular No. 764 and 765 dated 03 August 2012)
- Manual of Regulations for Banks
- Appendix 100 - Page 1

**GUIDELINES FOR THE TREATMENT OF NON-DELIVERABLE FORWARDS
INVOLVING THE PHILIPPINE PESO**
(Appendix to Subsec. X625.7)

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

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

a) *Peso Non-Deliverable Forwards (Peso NDFs)* - refers to a forward foreign exchange (FX) contract involving the value of the Philippine peso against a foreign currency at a specified maturity date on an agreed notional amount. Only the net difference between the contracted forward exchange rate and the spot exchange rate between the Philippine peso and the foreign currency at the fixing date shall be settled. NDFs may be transacted by a bank with offshore or onshore counterparties.

b) *Peso NDF Purchase with Non-Residents* - refers to an NDF contract undertaken by the bank with a non-resident counterparty to receive foreign currency at an agreed forward exchange rate with the Philippine peso over a specified tenor.

c) *Peso NDF Sale with Non-Residents* - refers to an NDF contract undertaken by the bank with a non-resident counterparty to deliver foreign currency at an agreed forward exchange rate with the Philippine peso over a specified tenor.

d) *Onshore Non-Deliverable Forward* - refers to an NDF contract undertaken by

the bank with a resident counterparty. It may be an NDF purchase or an NDF sale. All NDF contracts with residents shall be settled in Philippine pesos.

e) *Fixing Date* - refers to the date at which the difference between the prevailing market exchange rate and the agreed upon exchange rate or the reference rate is calculated. NDF contracts shall not be pre-terminated before their fixing date.

f) *Settlement Date* - refers to the date by which the payment of the difference is due to the party receiving payment.

Licensing Requirement. A bank must secure a Type 2 derivatives license before it can act as a dealer and/or broker of any NDF contract. The bank must likewise continuously comply with the provisions in *Appendix 25* (Risk Management Guidelines for Derivatives) and *Appendix 26* (Sales and Marketing Guidelines for Derivatives).

A bank duly authorized to transact in and has outstanding exposures of NDF contracts but subsequently has been found to be in breach of:

a) the requirements of a Type 2 derivatives license;

b) the provisions of *Appendix 25* (Risk Management Guidelines for Derivatives);

c) the provisions of *Appendix 26* (Sales and Marketing Guidelines for Derivatives) is immediately prohibited from entering into further NDF transactions. Within 5 banking days, the bank shall present to the appropriate department of the SES a formal plan that will remedy the cited deficiencies and achieve the plan's objectives within a reasonable period. If the remedial plan is deemed unacceptable by the appropriate

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department of the SES, the bank shall be directed to close all of its outstanding positions within two months.

Bank Limits on Peso NDF Exposures. To mitigate any potential build-up of systemic risks, bank’s total gross exposures to all forms of Peso NDF transactions, *i.e., the sum of sales and purchases for both onshore and offshore transactions*, shall be limited to a fixed percentage of the bank’s capital base. Unless otherwise amended, the said limit is 20 percent of unimpaired capital for domestic banks. Foreign bank branches shall have a limit equal to 100 percent of their unimpaired capital as defined under Subsec. X105.4 (Capital Requirements).

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

Reportorial Requirements. All NDF transactions shall be covered by the appropriate reports prescribed by the SES.

Sanctions. Any violation of the foregoing provisions shall constitute grounds for the imposition on the bank 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.

Transitory Provisions. Banks which are in excess of the NDF exposure limits shall be given two (2) months from 26 March 2013 to comply with the prescribed limits.

However, banks with Peso NDF exposures as of 26 March 2013 but do not have at least a Type 2 derivatives license are not allowed to enter into further Peso NDF exposures except to close out said positions. Banks must demonstrate to the appropriate department of the SES that transactions under this situation are meant to directly square existing positions.

(Circular No. 790 dated 06 March 2013)

CERTIFICATE OF COMPLIANCE
ON THE PROVISIONS OF HOUSING MICROFINANCE LOAN
(Appendix to Subsec. X361.5)

(Name of Bank)

We, _____, President or officer of equivalent rank and _____, Compliance Officer, of (Name of Bank), hereby certify that the following requirements on the offering of housing microfinance loan, as prescribed under Subsection X361.5 are complied with:

- 1. At least two (2) years of implementing a sustainable microfinance program;
- 2. A housing microfinance product manual incorporating the prescribed product characteristics/features;
- 3. Appropriate risk management system for housing microfinance loan product;
- 4. Prudential requirements, to wit:
 - a. CAMELS Rating of at least “3” and Management rating of at least “3”;
 - b. Capital adequacy ratio (CAR) of not lower than 12.0 percent;
 - c. No major supervisory concern that may warrant initiation of Prompt Corrective Action (PCA) under existing regulations; and
 - d. No arrearages on microfinance borrowings.

(Name of President or officer of equivalent rank)

(Name of Compliance Officer)

SUBSCRIBED AND SWORN to before me, this ____ day of _____, affiants exhibiting to me their Community Tax Certificate as follows:

Name	Community Tax Cert. No	Date/Place Issued
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NOTARY PUBLIC

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Series of _____

(Circular 817 dated 06 November 2013)

**ACTS TANTAMOUNT TO THE ACT OF ISSUING
PRE-APPROVED CREDIT CARDS**
(Appendix to Subsections X320.1 and X320.3)

- i. Sending of credit cards to consumers with no prior application, written request and supporting documents required for prudent credit card evaluation;

ii. Sending of unsolicited supplementary cards and other cards with added features which are not in replacement or substitute to an existing cardholder's initial credit card;

iii. Unsolicited calls by credit card issuers requesting updated information from selected clients in order to be entitled to receive credit card as a reward for his/her continued patronage of the bank's other financial product;

iv. Unsolicited calls by the bank to its depositors informing them that they already have a credit card from the bank's Credit Card Department due to good standing as a depositor;
- v. Sending of mails with credit card enclosed which will be deemed accepted upon the receipt of such card by a receiver, whether authorized or not;

vi. Sending to a consumer an unsolicited credit card which is deemed accepted unless a request for termination is promptly instructed by the cardholder to the credit card issuer; and

vii. Sending of credit cards as free offers to consumers who availed themselves of the bank's other financial products.

The acts described above and other similar acts are deemed tantamount to the act of issuing pre-approved credit cards notwithstanding any contrary stipulations in the contract.

(Circular No. 845 dated 15 August 2014)

BSP ISSUANCES ON MINIMUM CAPITALIZATION OF BANKS
(Appendix to Subsection X111.1)

Bank Classification	Circular No. 156 19 March 1998 (end-1999) Minimum Capital for All Banks	Circular No. 257 15 August 2000 Minimum Capital for All Banks	Circular No. 696 29 October 2010 Minimum Capital for RBs	Circular No. 715 4 March 2011 Minimum Capital for TBs
Universal Banks	4.95 billion	4.95 billion	4.95 billion	4.95 billion
Commercial Banks	2.40 billion	2.40 billion	2.40 billion	2.40 billion
Rural Banks (Existing)				
Within Metro Manila	26.00 million	26.00 million	26.00 million	26.00 million
Cities of Cebu and Davao	13.00 million	13.00 million	13.00 million	13.00 million
1st/2nd/3rd class cities & 1st class municipalities	6.50 million	6.50 million	6.50 million	6.50 million
4th/5th/6th class cities & 2nd/3rd/4th class municipalities	3.90 million	3.90 million	3.90 million	3.90 million
5th and 6th class municipalities	2.60 million	2.60 million	2.60 million	2.60 million
Rural Banks (New Entrants and under certain conditions) 1/				
Within Metro Manila	32.00 million	26.00 million	100.00 million	100.00 million
Cities of Cebu and Davao	16.00 million	13.00 million	50.00 million	50.00 million
All Other Cities			25.00 million	25.00 million
1st/2nd/3rd class cities & 1st class municipalities	8.00 million	6.50 million		
1st to 4th class municipalities			10.00 million	10.00 million
4th/5th/6th class cities & 2nd/3rd/4th class municipalities	4.80 million	3.90 million		
5th and 6th class municipalities	3.20 million	2.60 million	5.00 million	5.00 million
Thrift Banks (Existing) with head office in:				
Metro Manila	325.00 million	325.00 million	325.00 million	325.00 million
Outside Metro Manila	52.00 million	52.00 million	52.00 million	52.00 million
Thrift Banks (New Entrants and Under Certain Conditions)1/				
Metro Manila	400.00 million	325.00 million	325.00 million	1.00 billion
Cities of Cebu and Davao				500.00 million
Outside Metro Manila	64.00 million	52.00 million	52.00 million	250.00 million
Cooperative Banks			10.00 million	10.00 million

(Circular No. 854 dated 29 October 2014)

1/ Circular No. 156 - Applicable to new bank entry
Circular No. 257 - Applicable to new bank entry
Circular Nos. 696 and 715 - Applicable (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 deposit liabilities are regularly accounted for by branches locates in areas of higher classification. The minimum capital shall also be required for the grant of the following special banking functions: (i) quasi-banking functions for TBs (ii) trust and other fiduciary business for U/KBs and TBs (iii) limited trust for Tbs and RBs/Coop Banks (iv) FCDU/EFCDU (v) issuance of foreign LCs for TBs (vi) acceptance of demand deposit and NOW accounts for TBs and RBs/Coop banks, and (vii) acting as third party securities custodian/registry.

GUIDELINES ON REPORTORIAL REQUIREMENTS FOR BANK INTEREST RATES
(Appendix to Subsec. X149.8)

1. For purposes of determining the benchmarks for deposit interest rates, banks shall be required to disclose the nominal interest rates which refers to the walk-in rate being offered to clients for the following peso deposit products:

a. *Peso time deposit account* shall refer to interest bearing peso account which requires a specific amount of funds to earn interest at a predetermined competitive rate for a fixed period of time/term and evidenced by certificate issued by the bank.

b. *Regular peso savings account* shall refer to interest bearing peso account which is withdrawable either upon presentation of a properly accomplished withdrawal slip together with the corresponding passbook or thru automated tellering machine.

c. *Kiddie savings account* shall refer to interest bearing savings account of children with an initial deposit of Php 100 and no maintaining balance requirement.

d. *Other peso savings account* shall refer to interest bearing special peso savings account which offers tiered interest rates depending on the size of deposit. It usually carries higher interest rate compared to the rate for regular savings account.

2. The bank shall report the number of accounts and amount of deposits for each of the deposit product in the template on a per branch basis as of the reporting period.

(Circular no. 848 dated 08 September 2014)

**GUIDELINES ON THE COMPLETION OF THE REPORT
ON CROSS-BORDER FINANCIAL POSITIONS¹**
(Appendix to Section X192.13)

UBs and KBs and their subsidiary TBs shall report their cross-border financial claims² from and financial liabilities³ to non-residents and multilateral agencies according to geographic region/country, sector and currency on a solo basis. Foreign offices or branches abroad shall classify their non-resident counterparties from the perspective of the foreign bank/branch or domestic bank.

Classification

1. Geographic Region/Country Classification - Report financial claims and liabilities according to geographic region/country of residence of the counterparty. Financial claims and liabilities which cannot be classified according to country shall be reported in the "Others" section of the geographic region.

Geographic regions consist of (a) Asia-Pacific, (b) Europe, (c) North America, (d) Offshore Centers⁴, (e) Africa and Middle East, and (f) Latin America and Caribbean.

Financial exposures to multilateral agencies shall be reported under a separate category and shall not be classified according to geographic region/country. For the Report on Cross-Border Financial Positions, multilateral agencies shall refer to international organizations

as defined under the Bank for International Settlements' (BIS') guidelines for reporting international banking statistics. An exhaustive list can be found at the BIS website on international banking statistics⁵.

2. Sectoral Classification – Report financial claims and financial liabilities according to sectoral classification of the non-resident counterparty which can either be a bank, an NBFIs or from a non-financial sector, as follows:

a. Banks – This refers to all banks as defined under existing laws and regulations in the countries in which the said entities are located. It also includes financial exposures to/from the following institutions:

i. Central Bank/Official Monetary Authority – This refers to the national financial institution that exercises control over key aspects of the financial system and carries out such activities as issuing currency, managing international reserves, and providing credit to other depository corporations.

ii. Related Entities – This refers to the reporting bank's related entities that are situated abroad, namely:

a. Branches, agencies and offices, including head office, in the case of foreign banks/branches;

¹ Based on Bank for International Settlements (BIS) (2013). *Guidelines for reporting the BIS international locational banking statistics*.

² Consistent with the definition of the BIS in its international banking statistics, cross-border claims consist of loans and deposits to banks and non-banks, holding of securities and other claims.

³ Consistent with the definition of the BIS, cross-border liabilities consists of loans and deposits from banks and non-banks, own issues of debt securities, and other liabilities.

⁴ As defined by the BIS, offshore centers refer to "countries with banking sectors dealing primarily with non-residents and/or in foreign currency on a scale out of proportion to the size of the host economy."

⁵ <http://www.bis.org/statistics/Bankstatsguide.pdf>

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b. Controlling parent institution of the reporting bank regardless of its sectoral classification; and

c. Subsidiaries that are directly or indirectly majority-owned by the domestic bank and/or head office, in the case of foreign banks.

iii. Foreign Offices – This refers to foreign branches/offices of domestic banks.

Amounts reported in the “Total” columns refer to positions vis-à-vis banks and the aforementioned entities.

b. Non-Bank Financial Institutions – This refers to public sector entities or private corporations that are engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation, but are not classified as banks. It also includes export credit agencies.

c. Non-Financial Sector – This refers to the central government, public sector entities that are non-financial in nature, non-financial private corporations, and individuals.

The covered banks shall report financial claims and liabilities vis-à-vis multilateral agencies according to sectoral classification as prescribed by the BIS’ guidelines for reporting international banking statistics.

Exposures that cannot be allocated by sector shall be reported in the Unallocated template.

3. Currency Classification – Report financial claims and liabilities to non-residents according to the currency in which they are denominated following the minimum recommended currency breakdown of the BIS for international locational banking statistics, namely, US dollar, Pound sterling, Swiss franc, Euro, Japanese yen and the Philippine peso. These positions shall be reported in US dollars at the exchange rate prevailing as of reporting

date using the Philippine Dealing System (PDS) Peso/US Dollar closing rate and the New York US Dollar/Third Currencies closing rate.

Relevant Financial Accounts

4. Report financial claims and liabilities in accordance with prudential reporting standards, gross of their related allowance for credit losses, if applicable. All amounts must be in absolute figures, including two decimal places.

5. The following financial claims and liabilities, as defined in the Financial Reporting Package (FRP) shall be reported in the data template:

a. Financial Assets

i. Foreign Currency Cash on Hand (FCOH) – Report FCOH as claims against the country of the issuing central bank/official monetary authority. Banks’ holdings of Euro notes and coins shall be reported as claims on the European Central Bank, which shall be reported under Germany for the country classification.

ii. Checks and Other Cash Items (COCI) – Report COCI according to the geographic region/country of the drawee institution.

iii. Due From Other Banks – Report the amount of Due From Other Banks according to counterparty bank.

iv. Debt and Equity Securities – Report debt and equity securities according to the issuer of the security.

1. Debt and Equity Securities Held for Trading (HFT) – Report the fair value of securities HFT.

2. Financial Assets Designated at Fair Value through Profit or Loss (FA DFVPL) – Report the fair value of FA DFVPL.

3. Available-for-Sale (AFS) Financial Assets – Report the carrying amount of debt and equity securities classified as AFS

financial assets, gross of allowance for credit losses.

4. Held-to-Maturity (HTM) Financial Assets – Report the amortized cost of debt securities classified as HTM financial assets.

5. Unquoted Debt Securities Classified as Loans (UDSCL) – Report the amortized cost of debt securities classified as UDSCL.

6. Investments in Non-Marketable Equity Securities (INMES) – Report the cost of INMES.

v. Derivatives with Positive Fair Value Held for Trading – Report the positive fair value of derivatives according to counterparty. Foreign exchange (FX) derivatives shall be reported in the currency in which the derivatives are to be redeemed or settled.

vi. Liability for Short Position – Report the obligation of the bank to return securities purchased/borrowed from the seller/lender under Reverse Repurchase Agreements/ Certificates of Assignment/Participation with Recourse/Securities Lending and Borrowing Agreements, which the former sold to third parties as a reduction in debt and equity securities classified according to seller/lender of security.

vii. Loan Portfolio – Report amortized cost of loans according to borrower:

1. Interbank Loans Receivable
2. Loans and Receivables-Others
3. Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions

viii. Derivatives with Positive Fair Value Held for Hedging - Report the positive fair value of derivatives according to counterparty. FX derivatives shall be reported in the currency in which the derivatives are to be redeemed or settled.

ix. Sales Contract Receivable (SCR) – Report the amortized cost of SCR arising

from the sale of assets acquired in settlement of loans through foreclosure or dation in payment on installment according to buyer of the property.

x. Accrued Interest Income from Financial Assets – Report the amount of accrued interest income from financial assets according to the counterparty of the related underlying financial asset.

xi. Equity Investment in Subsidiaries, Associates and Joint Ventures – Report the adjusted cost of equity investments according to the issuer of the security.

xii. Other Financial Assets – Report the amount of financial claims against non-residents, covering the following accounts, as applicable:

1. Servicing Assets
2. Accounts Receivable
3. Dividends Receivable
4. Deficiency Judgment Receivable
5. Sinking Fund
6. Shortages
7. Foreign Currency Notes and Coins on Hand not Acceptable as International Reserves – Report this account according to the geographic region/country of the issuing central bank/official monetary authority.
8. Foreign Currency Checks and Other Cash Items not Acceptable as International Reserves – Report this account according to the geographic region/country of the drawee institution.
9. Miscellaneous Checks and Other Cash Items
10. Petty Cash Fund – Report this account according to the geographic region/country of the branch/agency abroad where petty cash is situated.
11. Deposits with Closed Banks/Banks in Liquidation
12. Miscellaneous Financial Assets
- xiii. Inter-office Float Items (with Foreign Offices for Domestic Banks) – Report the

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debit balance difference between the Due to Head Office/Branches/Agencies and Due from Head Office/Branches/Agencies accounts of branches and agencies located abroad of domestic banks. Amounts shall be reported according to the geographic region/country of the branch/agency abroad as “Foreign Offices” under the “Bank” sector.

xiv. Due From Head Office/Branches/Agencies Abroad (Philippine branch of a foreign bank) – Report the amount of Due From Head Office/Branches/Agencies Abroad between foreign bank branches and their head office, branches, agencies abroad. Amounts shall be reported according to the geographic region/country of the branch/agency abroad as “Related Entities” under the “Bank” sector.

b. Financial Liabilities

i. Derivatives with Negative Fair Value Held for Trading – Report the negative fair value of derivatives according to counterparty. FX derivatives shall be reported in the currency in which the derivatives are to be redeemed or settled.

ii. Financial Liabilities Designated at Fair Value through Profit of Loss (DFVPL) – Report the fair value of financial liabilities DFVPL according to lender.

iii. Deposit Liabilities – Report the amortized cost of deposit liabilities according to depositor.

iv. Due to Other Banks – Report the amount of Due to Other Banks according to counterparty bank.

v. Bills Payable – Report the amortized cost of bills payable according to lender, broken down into the following accounts:

1. Interbank loans payable
2. Repurchase agreement
3. Securities lending/borrowing agreements
4. Other bills payable

vi. Bonds Payable – Report the amortized cost of bonds payable according to holder. Bonds payable with maturity of up to 12 months and those with maturity exceeding 12 months shall be separately reported.

vii. Unsecured Subordinated Debt (UnSD) – Report the amortized cost of UnSD according to holder. UnSD with maturity of up to 12 months and those with maturity exceeding 12 months shall be separately reported.

viii. Redeemable Preferred Shares – Report the amortized cost of redeemable preferred shares according to holder. Redeemable preferred shares with maturity of up to 12 months and those with maturity exceeding 12 months shall be separately reported.

ix. Derivatives with Negative Fair Value Held for Hedging – Report the negative fair value of derivatives according to counterparty. FX derivatives shall be reported in the currency in which the derivatives are to be redeemed or settled.

x. Accrued Interest Expense on Financial Liabilities – Report the amount of accrued interest expense on financial liabilities according to the counterparty of the related financial liability.

xi. Finance Lease Payment Payable – Report the amount of future lease payments payable under finance leases according to lessee.

xii. Treasurer/Cashier/Manager’s Checks – Report the amount of treasurer/cashier/manager’s checks payable according to designated beneficiaries.

xiii. Payment Orders Payable – Report the amount of payment orders payable according to designated beneficiaries.

xiv. Margin Deposits on Letters of Credit (LC) and Customers’ Liability on Bills/Drafts under LCs and/or Trust Receipt – Report the

amount of non-interest bearing deposits or margin deposits on commercial letters of credit arising from movement of goods or services according to depositor.

xv. Cash Letters of Credit – Report the amount of import letters of credit issued where the importer pays 100 percent in Philippine pesos.

xvi. Outstanding Acceptances Executed by or for Account of this Bank – Report the amount of liabilities according to correspondent bank arising from customer trade, which calls for time drafts payable within a specified number of days from the date of presentation of the beneficiary, for which the bank has given accommodations in the form of acceptance credit.

xvii. Unearned Income – Report the unearned portion of income received according to recipient. This includes rentals received in advance.

xviii. Other Financial Liabilities – Report the amount of financial liabilities to non-residents, covering the following accounts, as applicable:

- 1. Other Taxes and Licenses Payable – Report the amount of taxes and licenses payable to non-residents.
- 2. Servicing Liabilities
- 3. Dividends Payable
- 4. Accounts Payable
- 5. Deposit for Stock Subscription – Report according to the geographic region/country of the stockholder/subscriber
- 6. Miscellaneous Liabilities

xix. Inter-Office Float Items (with Foreign Offices for Domestic Banks) – Report the credit balance difference between the Due to Head Office/Branches/Agencies and Due from Head Office/Branches/Agencies accounts of branches and agencies located abroad. Amounts shall be reported according to the geographic region/country of the branch/agency abroad

as “Foreign Offices” under the “Bank” sector.

xx. Due To Head Office/Branches/Agencies Abroad (Philippine branch of a foreign bank) – Report the amount of Due To Head Office/Branches/Agencies Abroad between foreign bank branches and their head office, branches, agencies abroad. Amounts shall be reported according to the geographic region/country of the branch/agency abroad as “Related Entities” under the “Bank” sector.

c. Equity Issuance – Report the amount received as equity or paid-in capital from non-resident stockholders:

- i. Paid-In Capital Stock
- ii. Additional Paid-In Capital
- iii. Other Equity Instruments
 - 1. Hybrid Tier 1
 - 2. Equity Component of Compound Financial Instruments
- iv. Deposit for Stock Subscription
- v. Assigned Capital – Report the amount of capital permanently assigned by a foreign bank to its branches operating in the Philippines pursuant to Section 4 of R.A. No. 7721. This amount shall be reported according to the geographic region/country classification of the head office of the foreign bank branch as “Related Entities” under the “Bank” sector.

d. In the case of foreign bank subsidiaries, report amounts under the following accounts as a financial liability (if a positive amount), or a financial claim (if a negative amount), according to the geographic region/country classification of the controlling parent institution of the foreign bank subsidiary as “Related Entities” under the “Bank” sector:

- i. Undivided Profits
- ii. Retained Earnings (Retained Earnings - Reserve and Retained Earnings - Free account)

(Circular No. 850 dated 08 September 2014, as amended by Circular No. 890 dated 02 November 2015)

FRAMEWORK FOR DEALING WITH DOMESTIC
SYSTEMICALLY IMPORTANT BANKS
(Appendix to Subsec. X115.5)

Introduction

This document outlines the Bangko Sentral ng Pilipinas' implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the reform packages proposed by the Basel Committee on Banking Supervision (BCBS)¹ and introduced in Basel III: A global regulatory framework for more resilient banks and banking systems.

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), as amended by R.A. No. 10641.

Submission of data requirements for the identification of DSIBs shall take effect starting with 2014 data while compliance with the additional higher loss absorbency

requirement shall be phased-in from 01 January 2017 with full implementation by 01 January 2019.

Part I. Assessment Methodology

A. Indicator-Based Measurement Approach

1. The systemic importance of a bank is assessed in relation to the impact of its failure on the domestic economy using an indicator-based measurement approach.
2. 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 indicators related to these categories shall be used to identify DSIBs. These indicators reflect the factors or criteria which make a bank significant for the stability of the financial system and the economy.
3. The UBs and KBs operating in the Philippines shall be assessed based on the four (4) categories and on data that relate to the consolidated group (i.e., unit of analysis is the consolidated group). For foreign banks, the computation of systemic importance shall be done on the basis of data that relates to their local consolidated balance sheet. Each category is given an equal weight of twenty five percent (25%) in determining the final score (Table 1). In the case of categories with more than one (1) indicator, the weight of twenty five percent (25%) is equally divided across all indicators within the category.

¹ The Basel Committee on Banking Supervision consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. It usually meets at the Bank for International Settlements (BIS) in Basel, Switzerland, where its permanent Secretariat is located.

Table 1. Indicator-Based Measurement Approach

Category (and weighting)	Individual Indicator	Indicator Weighting
Size (25%)	Total exposures as defined for use in the Basel III leverage ratio	25.00%
Interconnect- edness (25%)	Intra-financial system assets	8.33%
	Intra-financial system liabilities	8.33%
	Securities outstanding	8.33%
Substitutability/ financial institution infrastructure (25%)	Assets under custody	8.33%
	Payments activity	8.33%
	Underwritten transactions in debt and equity markets	8.33%
Complexity (25%)	Notional amount of over-the-counter (OTC) derivatives	8.33%
	Unquoted debt securities classified as loans and Investments in non-marketable equity securities	8.33%
	Trading and available-for-sale securities, and financial assets designated at fair value through profit or loss	8.33%

4. For each bank, the score for a particular indicator is calculated by dividing the individual bank amount by the aggregate amount for the indicator summed across all banks in the sample. This amount is then

multiplied by 10,000 to express the indicator score in terms of basis points. The category score for each bank is determined by taking a simple average of the indicator scores in the category. The overall score for each bank is then calculated by taking a simple average of its four (4) category scores. The maximum total score, i.e., the score that a bank would have if it were the only bank in the sample, is 10,000 basis points (i.e., 100 percent).

5. The succeeding paragraphs briefly describe each of the four categories used in the assessment methodology. The specific definition of the indicators can be found in Annex I which sets out the data requirements for the identification of DSIBs. The guidelines and the line item instructions for the reporting template are set out in Annex II.

a. Size

A bank’s distress or failure is more likely to damage the local economy or financial markets if its activities comprise a large share of the domestic activity. The larger the bank, the more difficult it is for its activities to be quickly replaced by other banks and for it to be resolved, therefore, the greater the chance that its distress or failure will cause disruption to the financial markets. The distress or failure of a large bank is also more likely to damage confidence in the financial system as a whole. Size is therefore a key measure of systemic importance. One (1) indicator is used to measure size: the measure of total exposures used in the Basel III leverage ratio¹.

b. Interconnectedness

Financial distress at one (1) institution can materially increase the likelihood of distress at other institutions given the network of

¹ To be computed in accordance with the guidelines to be issued by the Bangko Sentral on leverage ratio.

contractual obligations in which they operate. A bank’s systemic impact is considered to be positively related to its interconnectedness vis-à-vis other financial institutions. Three (3) indicators are used to measure interconnectedness:

- (i) intra-financial system assets;
- (ii) intra-financial system liabilities; and
- (iii) securities outstanding.

c. Substitutability/Financial Institution Infrastructure

The systemic impact of a bank’s distress or failure is expected to be negatively related to its degree of substitutability as both a market participant and client service provider, i.e., it is expected to be positively related to the extent to which the bank provides financial institution infrastructure. At the same time, the cost to the failed bank’s customers in having to seek the same service from another institution is likely to be higher for a failed bank with relatively greater market share in providing that service. Three (3) indicators are used to measure substitutability/financial institution infrastructure:

- (i) assets under custody;
- (ii) payments activity; and
- (iii) underwritten transactions in debt

and equity markets.

d. Complexity

The systemic impact of a bank’s distress or failure is expected to be positively related to its overall complexity – that is, its business, structural and operational complexity. The more complex a bank is, the greater are the costs and time needed to resolve the bank. Three (3) indicators are used to measure complexity:

- (i) notional amount of over-the-counter (OTC) derivatives;
- (ii) assets booked under unquoted debt securities classified as loans and investments in non-marketable equity securities; and
- (iii) trading and available-for-sale securities and financial assets designated at fair value through profit or loss.

B. Bucketing Approach

6. Banks that have a score produced by the indicator-based measurement approach that exceeds a cut-off level determined using cluster analysis shall be classified as DSIBs. Supervisory judgment may also be used when warranted under certain circumstances to add banks to the list of DSIBs. This judgment shall be exercised according to the principles set out in Part I.C.

7. Bangko Sentral shall group DSIBs into different categories of systemic importance using cluster analysis based on the scores produced by the indicator-based measurement approach. DSIBs shall be initially allocated into two (2) buckets with different levels of additional loss absorbency requirements depending on the degree of systemic importance.

8. The thresholds for the buckets shall correspond to the gaps identified by a cluster analysis of the scores. The use of cluster analysis in grouping the DSIBs will ensure a meaningful and objective measurement and classification of the systemic importance of domestic banks.

9. Each year, Bangko Sentral shall run the assessment, and reallocate DSIBs into the categories of systemic importance based on their scores. It should be noted that the number of DSIBs, and their bucket allocations, will evolve over time as banks change their behavior in response to the incentives of the DSIBs framework as well as other aspects of Basel III and Bangko Sentral regulations.

10. An empty bucket shall be added on top of the highest-numbered populated bucket to provide incentives for banks to avoid becoming more systemically important. If the empty bucket becomes populated in the future, a new empty bucket shall be added with a required higher additional loss absorbency level. The size

of the empty bucket shall be determined by the average size of the preceding buckets.

C. Supervisory Judgment

11. As stated earlier, supervisory judgment may be used to add banks with scores below the cutoff to the list of DSIBs. It shall be used on exceptional cases and presumed to be rare. The judgment overlay shall comprise well-documented and verifiable quantitative and qualitative information.

12. Qualitative information is intended to capture information that cannot be easily translated or quantified in the form of an indicator. This may include but not limited to the following: major restructuring of a bank’s operation; merger; and niche market or other aspects which are unique to the concerned bank. Qualitative judgments shall also be thoroughly explained and supported by verifiable arguments.

D. Periodic Review and Refinement

13. The assessment methodology provides a framework for periodically reviewing the DSIBs status of a given bank. Thus, banks have incentives to change their risk profile and business models in ways that reduce their systemic spillover effect. The Bangko Sentral does not intend to develop a fixed list of DSIBs. Through the criteria discussed above, banks can migrate in and out of DSIB status, and between categories of systemic importance, over time.

14. The list of DSIBs shall be assessed/determined annually based on year-end data submitted by each bank and shall be subject to approval of the Monetary Board. The results shall be released every June. Banks identified as DSIBs shall be informed individually, including the bucket they belong to and the individual score for each indicator.

15. The assessment methodology shall be reviewed every three (3) years in order to capture developments in the banking sector and any progress in methods and approaches for measuring systemic importance.

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

16. 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.

17. The imposition of HLA shall be based on the degree of domestic systemic importance. This is to provide the appropriate incentives to banks which are subject to the HLA requirements to reduce (or at least not increase) their systemic importance over time.

18. The HLA requirement is to be met with CET 1 capital as defined by the Basel III framework and implemented under *Appendix 63b*. This is to ensure a maximum degree of consistency in terms of effective loss absorbing capacity.

19. The magnitude of additional loss absorbency for the higher populated bucket shall be two and a half percent (2.5 %) of risk-weighted assets at all times, with the initial empty bucket at three and a half percent (3.5%) of risk-weighted assets. The magnitude of additional loss absorbency for the lower bucket shall be one and a half percent (1.5%) of risk-weighted assets. Table 2 shows the additional loss absorbency requirement for each bucket.

Table 2. Bucketing Approach

Bucket	Score Range	Minimum additional loss absorbency (common equity as a percentage of risk-weighted assets)
3 (Empty)	B - C	3.5%
2	A - B	2.5%
1	Cut-off point - A	1.5%

20. Although the buckets thresholds are set initially such that bucket 3 is empty, if this bucket should become populated in the future, a new bucket shall be added to maintain incentives for banks to avoid becoming more systemically important. Minimum HLA requirement for the new buckets shall increase in increments of one percent (1%) of risk-weighted assets.

21. The HLA requirement shall be on top of the capital conservation buffer (CCB) requirement under *Appendix 63b*. Table 3 shows the total CET1 capital requirement for banks identified as DSIBs per bucket.

Table 3. Total CET 1 Capital Requirement

Bucket	3 (Empty)	2	1
Minimum CET 1 Requirement (a)	6.0%	6.0%	6.0%
Capital Conservation Buffer (b)	2.5%	2.5%	2.5%
DSIB HLA Requirement (c)	3.5%	2.5%	1.5%
Total Additional CET 1 Requirement (b+c)	6%	5%	4%
Total Required CET 1 (a+b+c)	12.0%	11.0%	10.0%

To help ensure that the banking sector can meet the higher capital requirements through

reasonable earnings retention and capital raising activities, while still supporting lending to the economy, transitional arrangements to implement the HLA requirement shall be implemented. Thus, in the case of banks included in the first list of DSIBs (to be released in June 2015 based on December 2014 data), compliance with the HLA requirement shall be phased-in starting 01 January 2017, with full compliance on 01 January 2019 (See Table 4 for the timeline to comply with the HLA requirement). After the phased-in period, banks identified as DSIBs shall be allowed a period of 18 months to comply with the required HLA.

Table 4. Timeline of Release of List of DSIBs and Compliance with the HLA Requirement

Date Cut-Off	Release of DSIBs List	Compliance Period
Dec-14	Jun-15	Phased-in implementation starting 01 January 2017 until 01 January 2019
Dec-15	Jun-16	Phased-in implementation starting 01 January 2018 until 01 January 2019
Dec-16	Jun-17	01 January 2019 to 31 December 2019
Dec-17	Jun-18	01 January 2020 to 31 December 2020
Dec-18	Jun-19	01 January 2020 to 31 December 2021

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

23. Foreign bank branches operating in the Philippines with head office/consolidated group declared as global systemically important bank (GSIB) but not declared as DSIB will not be required to put up in the Philippine branch the required HLA for GSIB. However, if identified as DSIB in the Philippines, the required HLA for DSIBs shall be complied with locally by the Philippine branch.

24. Capital distribution constraints shall be imposed when capital levels fall within certain range as illustrated in Table 5 below. Conversely, a DSIB shall not be subject to any restriction on distribution if the following conditions are met:

- a. Has positive retained earnings as of the preceding quarter and has complied with the requirements on declaration of dividends under Subsec. X136.2;
- b. Has CET1 of more than the total required (minimum CET1 ratio of six percent (6.0%) plus CCB of two and a half percent (2.5%) and DSIBs HLA requirement) before the distribution; and
- c. Has complied with the minimum capital ratios (CET1 ratio of six percent (6%), Tier 1 ratio of seven and a half (7.5%) and ten percent (10%) CAR) after the distribution.

Table 5. Restriction on Distributions

Restriction on Distributions	Level of CET1 Capital	
	Bucket 1	Bucket 2
No distribution (until the minimum CET 1, CCB and more than 50% of DSIB HLA requirements are met; and conditions a and c above are complied with)	< = 9.25%	< = 9.75%
50% of earnings may be distributed (if the minimum CET1, CCB and more than 50% of the DSIB HLA requirements are met; and conditions a and c above are complied with)	> = 9.25%-10.00%	> = 9.75%-11.00%

During the phased-in implementation period from 2017 to 2019, the general principle above on restriction on distribution shall likewise be applied. Annex III shows the restriction on distributions by year for each bucket during the phased-in implementation from 2017 to 2019, assuming there is no change in the HLA requirement. In case of change in the HLA requirement during the phased-in period, the required HLA shall be distributed equally over the remaining period until the full implementation in 2019.

25. Elements subject to the restriction on distributions include dividends, share buybacks, discretionary payments on other Tier 1 capital instruments and discretionary bonus payments to directors, officers and staff. Payments which do not result in the depletion of CET1 are not considered capital distributions.

26. *Earnings* refer to distributable profits calculated prior to the deduction of elements subject to the restriction on distributions. The earnings is computed after the tax, which would have been reported had none of the distributable items been paid.

Part III. Intensive Supervisory Approach

27. 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.

28. Moreover, the banks designated as DSIBs shall be subject to more intensive supervision, which may include but not limited to, greater intensity of offsite supervision and monitoring, more structured interaction with board and

senior management, and higher supervisory expectation on controls for significant businesses/operations, data aggregation capabilities and corporate governance.

(Circular No. 856 dated 29 October 2014, as amended by Circular Nos. 904 dated 10 March 2016 and 890 dated 02 November 2015)

DATA REQUIREMENTS FOR THE IDENTIFICATION OF
DOMESTIC SYSTEMICALLY IMPORTANT BANKS (DSIBs)
(Appendix to Subsec. X115.5)

Annex I

I. Introduction

Under the indicator-based measurement approach, the 10 indicators that relate to the four categories set out under Principle 5 of the Domestic Systemically Important Banks (DSIBs) Framework shall be used to measure a bank’s systemic importance. These quantitative indicators are discussed in detail in the succeeding sections; particularly the data gathering process and the specific definition of factors.

II. Data Sources

The data of all UBs and KBs (universal and commercial banks), including branches of foreign banks established under R.A. No. 7721¹, as amended by R.A. 10641 (collectively referred to as the “covered banks”) shall be gathered from different sources, as follows:

1. Financial Reporting Package (FRP)

For covered banks with financial allied subsidiaries, excluding insurance subsidiaries, the data shall be obtained from the FRP prepared on a consolidated basis. Otherwise, the data shall be sourced from the FRP prepared on a solo basis.

2. Report on Selected Accounts and Activities for the Identification of DSIBs Report.

This report shall be submitted electronically by the covered banks on a consolidated basis² to the Bangko Sentral’s Supervisory Data Center on a semi-annual

basis, within thirty (30) banking days after the end of the reference period. It shall be submitted starting with the reporting period ending 31 December 2014.

Accuracy of the report shall be subject to verification during on-site examination. Late and/or erroneous reporting of the said report shall be subject to penalties prescribed under Subsec. X192.2 for Category A-1 reports, without prejudice to sanctions provided under Sections 36 and 37 of R.A. No. 7653 or The New Central Bank Act.

The guidelines and the line item instructions for the reporting template are set out in Annex II.

3. Other Reports and Disclosures

Data on other transactions such as payment activities and market capitalization shall be obtained from entities other than the covered banks, such as but not limited to the Philippine Stock Exchange, the Philippine Clearing House Corporation, and other department/s of the Bangko Sentral.

III. Reporting Period/Date

The following reporting cut-off/coverage shall be used for the DSIBs Report

Reporting Cut-off/Coverage	
As of/at the reporting date	As of 30 June 20XX As of 31 December 20XX
During the reporting period	For the six (6) month ended 30 June 20XX For the year ended 31 December 20XX

¹ An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for Other Purposes

² Consolidated basis shall refer to the combined financial statements of parent bank and subsidiaries consolidated on a line by line basis. Only banks with financial allied subsidiaries, excluding insurance subsidiaries, shall submit the report on consolidated basis.

IV. Summary of Data Requirements for the Identification of DSIBs

Category	Individual Indicator	Data Source
Size	Total Exposures as Defined for Use in the Basel III Leverage Ratio ¹	Report on Leverage Ratio
Interconnectedness	Intra-Financial System Assets	FRP Schedule 1- Outstanding Credit Facilities (DSIBs Report)
	Intra-Financial System Liabilities	FRP Schedule 1 - Outstanding Credit Facilities (DSIBs Report)
	Securities Outstanding	FRP Philippine Stock Exchange Website
Substitutability/ Financial Institution Infrastructure	Assets Under Custody	FRP
	Payments Activity	Report from BSP's Payments and Settlements Office Report from Philippine Clearing House Corp. (PCHC) Schedule 2 - Payments Coursed through Foreign Currency Settlement Banks (DSIBs Report)
	Values of Underwritten Transactions in Debt and Equity Markets	Schedule - 3 Underwritten Transactions in Debt and Equity Makets (DSIBs Report)
Complecity	Notional Amount of Over-the-Counter Derivatives	FRP
	Unquoted debt securitie classified as loans and Investments in non-marketable equity securities	FRP
	Trading and available-for-sale securities, financial assets designated at fair value through profit or loss	FRP

V. The Indicators

1. Size Indicator

The size indicator pertains to the total exposures as defined for use in the Basel III leverage ratio¹.

2. Interconnectedness Indicators

2.1 Intra-Financial System Assets

This includes funds deposited with or lent to, outstanding credit facilities extended to, holdings of securities issued by, securities lending transactions with, and over-the-counter (OTC) derivatives (positive fair value) with, resident banks and other financial institutions as of the reporting date. This indicator is computed as the sum of the following accounts with resident banks and other financial institutions²:

Data Source		Account
Report	Schedule	
FRP	1	Checks and Other Cash Items
	2	Due from Other Banks
	3	Financial Assets Held for Trading
	4a	Derivatives Held for Trading (Positive Fair Value)
	5	Financial Assets Designated at Fair Value Through Profit or Loss
	6	Available-for-Sale Financial Assets
	7	Held to Maturity Financial Assets
	8	Unquoted Debt Securities Classsified as Loans
	9	Investment in Non-Marketable Equity Securities
	10	Interbank Loans Receivables
	11	Loans and Receivables- Others
	12	Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions

¹ Based on guidelines to be issued by the BSP on leverage ratio

² For the purpose of this guidelines, FI shall include those as defined in the Bangko Sentral's Manual of Account

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Data Source		Account
Report	Schedule	
	14	Accrued Interest-Due from other banks
	15	Equity Investment in Subsidiaries, Associates and Joint Ventures
DSIBs Report	1	Outstanding Credit Facilities Extended to Banks and Other Financial Institutions

2.2 Intra-Financial System Liabilities

This includes deposits by, outstanding credit facilities obtained from, securities issued to, securities borrowing transactions with and OTC derivatives (negative fair value) with, resident banks and other financial institutions as of the reporting date. This indicator is computed as the sum of the following accounts with resident banks and other financial institutions:

Data Source		Account
Report	Schedule	
FRP	4a	Derivatives Held for Trading (Negative Fair Value)
	22	Deposit Liabilities
	23	Due to Other Banks
	24	Interbank Loans Payable
	24	Other Deposit Substitutes
	25	Bonds Payable
	25	Unsecured Subordinated Debt
	25	Redeemable Preferred Shares
DSIBs Report	1	Outstanding Credit Facilities Obtained from Banks and Other Financial Institutions

2.3 Securities Outstanding

This pertains to the outstanding securities issued by the covered bank as of the reporting date. This indicator is computed as the sum of the following accounts:

Data Source		Account
FRP- Balance Sheet		Long-Term Negotiable Certificate of Deposit
		Unsecured Subordinated Debt (net)
		Bills Payable (Other Deposit Substitutes and Others)
		Bonds Payable (net)
		Redeemable Preferred Shares
Philippine Stock Exchange/ FRP-Balance Sheet		Equity Market Capitalization/ Net worth (if equity market capitalization is not available)

3. Substitutability/Financial Institution Infrastructure Indicators

3.1 Assets under Custody

This pertains to the value of assets held by the covered bank as custodian on behalf of resident customers, including banks and other financial institutions, as of the reporting date. It includes assets held under custodianship agreement by the bank proper and its trust department or subsidiary trust corporation. This indicator is computed as the sum of the following accounts with resident counterparties:

Data Source		Account
Report	Schedule	
FRP	38	Securities Held under Custodianship by Bank Proper or Trust Department/ Subsidiary-Trust Corporation

3.2 Payments Activity

This pertains to the total gross value of all cash payments made by the covered bank via large value funds transfer systems during the reporting period. It is composed of peso- and foreign currency-denominated outgoing payments sent (excluding payments received) by the covered bank as a participant in the

payment systems. This indicator is computed as the sum of the following payments activities:

Data Source		Peso-Denominated Payment Activity
BSP's Payments and Settlements Office (PSO)		Philippine Payments and Settlements System (PhilPaSS) Transactions
PCHC		Outgoing Checks

Data Source		Foreign Currency-Denominated Payments Activity
BSP's PSO		Payment vs. Payment transactions (Peso vs. USD)
PCHC		USD transactions subjected to end-of-day net clearing
Report	Schedule	Payments Coursed through Foreign Currency Settlement Banks
DSIBs Report	2	

3.3 Values of Underwritten Transactions in Debt and Equity Markets

This pertains to all underwritten transactions during the reporting period, whether or not the covered bank was obligated to purchase unsold securities. This indicator includes all types of underwritten/distributed equity and debt instruments/securities.

Data Source		Activity
Report	Schedule	Underwritten Transactions in Debt and Equity Markets
DSIBs Report	3	

4. Complexity Indicators

4. 1 Notional Amount of OTC Derivatives

Nominal or notional amounts outstanding pertain to the gross nominal or notional value of all deals concluded and not yet settled at the reporting date. This indicator is designed to measure the scope of the covered bank’s engagement in OTC derivatives transactions. The total

notional value of the following derivatives transactions will be used for the purpose of computing this indicator:

Data Source		Account
Report	Schedule	FRP
FRP	4	Derivatives Held for Trading
	13a	Derivatives Held for Fair Value Hedge
	13b	Derivatives Held for Cash Flow Hedge
	13c	Derivatives Held for Hedges of Net Investment in Foreign Operations
	13d	Derivatives Held for Portfolio Hedge of Interest Rate Risk (Marked to Market Amount)
		(i) Fair Value Hedge
		(ii) Cash Flow Hedge

4.2 Investments in Non-Marketable Equity Securities and Unquoted Debt Securities Classified as Loans

This pertains to financial assets that are not quoted in an active market or whose fair value cannot be reliably measured and shall include those booked as INMES and UDSCl in the FRP submitted by banks.

Data Source	Account
FRP- Balance Sheet	Unquoted Debt Securities Classified as Loans (net)
	Investment in Non-Marketable Equity Securities (net)

4.3 Trading and Available-for-Sale Securities and Financial Assets Designated at Fair Value through Profit or Loss

This pertains to the total market value of all debt and equity securities classified as held for trading, available for sale as well as financial assets designated at fair value through profit or loss less the securities eligible for classification as high quality liquid assets (HQLA)¹ as of the reporting date. This indicator is computed as the sum

¹ In accordance with the guidelines on Liquidity Coverage Ratio to be issued by Bangko Sentral.

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of the following accounts less HQLA based on the new liquidity report to be issued by the Bangko Sentral:

Data Source	Account
FRP- Balance Sheet	Held-for-Trading Securities Available for Sale Securities (net)

Data Source	Account
FRP- Balance Sheet	Financial Assets Designated at Fair Value through Profit or Loss
Less:	
New Liquidity Report ¹	HQLA

¹ In accordance with the guidelines on Liquidity Coverage Ratio to be issued by the Bangko Sentral.

I. Introduction

The Report on Selected Accounts and Activities for the Identification of Domestic Systemically Important Banks (DSIBs Report) is one of the sources of data for the quantitative indicators that shall be used to measure a bank’s systemic importance.

Structure of the DSIBs Report

The DSIBs Report is composed of the following schedules, which shall be accomplished independently of each other:

- a. Schedule 1 – Outstanding credit facilities;
- b. Schedule 2 – Payments coursed through foreign currency settlement banks; and
- c. Schedule 3 – Underwritten transactions in debt and equity markets.

The succeeding sections provide the guidelines and the line item instructions to accomplish the schedules of the DSIBs Report.

II. Guidelines on the Preparation of the DSIBs Report

- 1. Who must report
All covered banks, with or without subsidiary banks or other financial allied subsidiaries, excluding insurance subsidiaries, are required to submit the DSIBs Report.
- 2. On what form
Covered banks with subsidiary banks and other financial allied subsidiaries, excluding insurance subsidiaries, shall prepare DSIBs Report on a consolidated basis, while covered banks that have no

subsidiary bank or other financial allied subsidiary shall prepare the report on a solo basis.

- 3. Amounts reported
All amounts reported shall be in Philippine Peso, unless otherwise specified, and in absolute figures, including two (2) decimal places.

III. Line Item Instructions

Schedule 1 – Outstanding credit facilities

Heading/Line Item	Instruction
Unused credit facilities extended to	Report all unused credit facilities extended to resident banks and other financial institutions, regardless of contractual arrangements, as of the reporting date

The data on unused credit facilities obtained from banks shall be derived from the counterparty data reported by each covered bank in Schedule 1.

- For the purpose of this schedule:
- 1. Credit facilities shall refer to credit lines extended by the different business lines of a bank such as lending and treasury units.
 - 2. Banks shall refer to UBs, KBs, TBs, RBs and Coop banks, whether privately- or government-owned, including branches of foreign banks licensed as UBs or KBs operating in the Philippines.
 - 3. Other financial institutions shall refer to financial institutions other than banks.

This shall include government owned and controlled corporations (GOCCs) and private corporations engaged in financial intermediation or in auxiliary financial activities that are closely related to financial intermediation; and GOCCs engaged in social security activities.

4. In case of foreign currency-denominated credit facilities extended or obtained, convert the outstanding balance into Philippine Peso using the closing exchange rate at the reporting date.

Schedule 2 – Payments coursed through foreign currency settlement banks

Report in this schedule the gross amount of outgoing foreign currency payments/transfers sent by the covered participant bank/s (consolidated basis¹) through foreign currency settlement banks (such as Citibank N.A. (Phils.) for US dollar [USD] transactions via the Philippine Domestic Dollar Transfer System (PDDTS); and Bank of China for Renminbi [RMB] transactions via the RMB Transfer Service during the reporting period.

For PDDTS participant banks, the transactions to be reported are the gross amount of USD transfers to another domestic bank and/or to a correspondent bank abroad coursed through the settlement bank. The following USD transactions settled via the PDDTS shall be gathered from other sources, hence, should not be included in the report:

a. Payment vs. Payment (Peso vs. USD) transactions, where the dollar leg is settled at the PDDTS and the peso leg is settled via the Bangko Sentral’s own payment system, PhilPaSS; and

b. USD transactions subjected to end-of-day net clearing by PCHC and transmitted to the PDDTS system for posting into the bank’s PDDTS account.

¹ Including the payments/transfers of the subsidiary and affiliate participant banks.

Heading/Line Item	Instruction
Gross value of payments - in USD - in RMB	Report the gross amount of outgoing payments in USD and in RMB, respectively, sent by the covered/participant bank/s during the reporting period

Schedule 3 – Underwritten transactions in debt and equity markets

Table 1 - Underwriting of securities on a firm basis	
Report all securities, excluding government securities, distributed and sold on a firm basis during the reporting period, consistent with the definition of "underwriting of securities" under the Securities and Exchange Commission's Omnibus Rules and Regulations for Investment House and Universal Banks Registered as Underwriters of Securities	
Heading/Line Item	Instruction
Issuer	Report the complete names of the issuer of equity and debt securities
Equity securities	Report under the appropriate column the required amount of equity securities underwritten on a firm basis, as defined below
Debt securities	Report under the appropriate column the required amount of debt securities underwritten on a firm basis, as defined below
Total securities	Report under the appropriate column the required amount of the total securities (sum of equity and debt securities) underwritten on a firm basis, as defined below

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Heading/Line Item	Instruction
Amount of commitment	Report the amount of guaranteed selling value of equity and debt securities under the appropriate heading. For the 'total securities', add the amounts reported under the 'equity securities', and the 'debt securities' headings.
Actual securities sold	Report the amount of equity and debt securities actually sold under the appropriate heading. This amount may be higher or lower than the amount of commitment. For the 'total securities', add the amounts reported under the 'equity securities' and the 'debt securities' headings.
Amount of underwritten transaction	Report the higher between the amount of commitment and the actual securities sold. For the 'total securities', add the amounts reported under the 'equity securities' and the 'debt securities' headings.
Total	Report the sum of the 'amount of underwritten transaction' column for 'equity securities', 'debt securities', and 'total securities'.

Table II. Distribution/sale of securities on a best-effort basis
Report all securities, excluding government securities, distributed and sold on a best-effort basis during the reporting period. This includes securities transactions wherein the reporting bank is not obligated to purchase the remaining unsold securities, regardless of the role or designation of the reporting bank in the issuance or offering (e.g., arranger, issue manager, and other similar arrangements).

Heading/Line Item	Instruction
Issuer	Report the complete names of the issuer of equity and debt securities.
Amount of underwritten transaction	For lead arranger or lead issue manager, report the entire amount of equity and debt securities arranged/managed/issued (best effort) under the appropriate column. Otherwise, report only the amount of securities actually sold. For the total, add the amounts reported under the 'equity securities' and the 'debt securities' columns.
Total	Report the sum of the columns under the 'amount of underwritten transaction' heading.

Table III- Participation in the origination/sale of government securities in the primary market
Report all government securities (GS) sold in the primary market during the reporting period, where the reporting bank participated in the public offering as underwriter, arranger, issue manager, selling agent and other similar role. Report both participations under a firm commitment and a best-effort basis. Exclude GS sold/traded after the public offering period (secondary sale). Exclude treasury bonds, treasury bills, and other GS offering where no underwriting or issue management is involved.

Heading/Line Item	Instruction
Name of issue	Indicate the complete name of the issue. Avoid acronyms.
ISIN/Series code Public offering period Issue date	Indicate the details of the issue.

Heading/Line Item	Instruction
Amount of public offering	Report the result of the public offering, i.e., the total amount raised by the government from the sale of the securities during the public offering period.
Amount of participation	Report the amount of securities allocated or awarded to the reporting bank.

For the purpose of this schedule:

1. Total underwritten transactions in equity and debt markets is referred to in the schedule as the 'total underwriting activity', which is computed as the sum of the equity underwriting activity and the debt underwriting activity, where:

- a. *Equity underwriting activity* is the sum of amounts reported under the following headings:
 - Amount of underwritten transaction (A) under Table I; and
 - Amount of underwritten transaction (C) under Table II.
- b. *Debt underwriting activity* is the sum of the amounts reported under the following headings;
 - Amount of underwritten transaction (B) under Table I;
 - Amount of underwritten transaction (D) under Table II; and
 - Amount of participation (E) under Table III.

2. Convert foreign currency-denominated securities into Philippine Peso using the average exchange rate for the reporting period.

(Circular No. 856 dated 29 October 2014)

Schedule of Restriction on Distribution During the Phased-in Implementation
Period of the Higher Loss Absorbency Requirement*

Level of CET 1 Capital						
Restriction on Distribution	Bucket 1			Bucket 2		
	01-Jan-2017 to 31-Dec-2017	01-Jan-2018 to 31-Dec-2018	01-Jan-2019 to 31-Dec-2019	01-Jan-2017 to 31-Dec-2017	01-Jan-2018 to 31-Dec-2018	01-Jan-2019 to 31-Dec-2010
No distribution (until the minimum CET 1, CCB and more than fifty percent (50%) of DSIB HLA are met; and conditions a and c of Paragraph 24 of Appendix 107 are complied with)	< = 8.75%	< = 9.0%	< = 9.25%	< = 8.9167%	< = 9.3333%	< = 9.75%
fifty percent (50%) of earnings may be distributed (if the minimum CET1, CCB and more than 50% of the DSIB HLA requirements are met; and conditions a and c of Appendix 107 are complied with)	< = 8.75%-9.0%	< = 9.0%-9.5%	< = 9.25%-10.00%	< = 8.9167%-9.3333%	< = 9.3333%-10.1667%	< = 9.75%-11.00%

* Assuming there is no change in the bucket/required HLA during the phased-in implementation period.
In case of change in the HLA requirement during the phased-in period, the required HLA shall be distributed equally over the remaining period until the full implementation in 2019.

**GUIDELINES ON RECOVERY PLAN OF A
DOMESTIC SYSTEMICALLY IMPORTANT BANK (DSIB)**
(Appendix to Subsec. X 115.5)

1. Introduction

1.1. Given the severity of the impact of a DSIB's distress or disorderly failure on the domestic financial system and economy, the supervisory policies and process for DSIBs seek to reduce the probability of a DSIB's failure, not only to minimize the impact thereof.

1.2. Among the supervisory measures aiming to reduce the probability of a DSIB's failure is the requirement for a DSIB to come up with a concrete and reasonable recovery plan that sets out the actions that it will take to restore its viability in cases of significant deterioration of its financial condition in different scenarios.

1.3. This document sets out the guidelines that DSIBs should follow in drawing up and maintaining a recovery plan that prepares them for future destabilizing events and/or crises.

1.4. The recovery plan shall be applied on a group-wide basis¹, covering all institutions in the banking group, as well as affiliates assessed by the DSIB as essential to restore, or will have an impact on, the banking group's viability and financial position. If covered institutions have their respective recovery plan, the DSIB shall ensure that each of the covered institutions' recovery plans is consistent with the group recovery plan.

2. Definition of Terms

For purposes of these guidelines, the following definitions shall apply:

2.1. *Institutions in the banking group* means the DSIB and the entities that directly

or indirectly control or are directly or indirectly controlled by such DSIB.

2.2. *Control* of an enterprise exists when there is:

- a. Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
- b. Power to govern the financial and operating policies of the enterprise under the statute or an agreement; or
- c. Power to appoint or remove the majority of the membres of the board of directors or equivalent governing body; or
- d. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- e. Any other arrangement similar to any of the above.

Control is presumed to exist if there is ownership or holding, whether direct or indirect, of 20 percent or more of a class of voting shares of a company. The DSIB, for itself, or on behalf of any entity within the banking group, may disclaim or rebut the presumption of control by providing sufficient information or documents to show that:

- a. The shares are owned or held exclusively for investment purposes;
- b. It will not serve on the board of directors and will not nominate any candidate to serve on the board or otherwise seek board representation;
- c. It will have only limited contacts with the entity's management that are customary for interested shareholders; and
- d. It will engage only in normal and customary transactions with the entity.

¹ For Philippine branches of foreign banks identified as DSIB, the group recovery plan under these guidelines shall apply only to entities directly or indirectly controlled by the DSIB.

2.3.*Point of non-viability* is as defined under Item 3, *Annex F of Appendix 63b* and other relevant regulations.

2.4.*Financial market infrastructure* is a multilateral system among participating financial institutions, including the operator of the system, used for purposes of recording, clearing, or settling payments, securities, derivatives, or other financial transactions. It includes payment systems, central securities depositories, securities settlement systems and central counterparties.

3. Guiding Principles

3.1. The recovery plan shall serve as a guide to the recovery of a DSIB in distress. It should be capable of being carried out during the recovery stage when the DSIB has not yet reached the point of non-viability and the prospect of recovery is reasonable if appropriate recovery measures are taken.

3.2. The recovery plan shall, at the latest, be activated when the DSIB breaches the total required Common Equity Tier 1 (CET1)¹ capital and/or the minimum liquidity ratios as may be prescribed by the Bangko Sentral. To ensure timely implementation of appropriate recovery measures and continuous operation of essential and systemically important functions and services, the recovery plan should utilize early warning indicators with specific levels (i.e., quantitative indicators which may be supplemented with qualitative indicators) that will trigger activation of the recovery plan even before the above-said breaches happen. Breach of an internally-set trigger level need not automatically initiate a particular recovery action. Instead, it shall prompt senior management to evaluate the situation and decide whether to take action under the

recovery plan or refrain from taking such action. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process, should be clearly defined in the recovery plan.

However, launch of the recovery plan earlier than planned may be required by the Bangko Sentral when warranted, as approved by the Deputy Governor of the Supervision and Examination Sector, depending on the circumstances at the time.

3.3 *Governance and Oversight of the Recovery Plan.* The board of directors shall put in place a robust governance structure and sufficient resources to support the recovery planning process, which include the following:

a. Clearly defining the responsibilities, both in normal times and during a crisis, of the business units, the senior management and the board of directors, as well as identifying a senior level executive primarily responsible for ensuring continuous compliance with the Bangko Sental guidelines and internal policies on recovery plan;

b. Integrating the recovery planning process into the DSIB's business-as-usual risk management framework to ensure that the recovery plan shall:

-Be designed as an extension of existing capital, liquidity and contingency funding plans, but shall have an end view of DSIB recovering from more severe stress situations; and

-Cover the contingency arrangements² established to allow the DSIB to continue to operate and maintain essential and systemically important functions and services as it implements the recovery measures; and

¹ 6 percent CET1 capital + 2.5 percent Capital Conservation Buffer + 1.5 or 2.5 percent Higher Loss Absorbency requirement

² For continuous functioning of internal processes, IT systems, clearing and settlements facilities, supplier and employee contracts, etc.

c. Maintaining adequate Management Information Systems (MIS) which can generate necessary information on a timely basis to enable the board of directors and the senior management to effectively discharge their respective responsibilities.

3.4. The recovery plan is a detailed list of options or courses of action that will be taken by the DSIB to address a range of severe stress scenarios to restore its financial strength and viability. It shall reflect the DSIB's nature, size, interconnectedness, level of substitutability, and complexity. It shall have the following components to ensure effective and rapid execution:

a. *Strategic analysis.* In devising the recovery plan, the DSIB is expected to conduct and document strategic analysis, which identifies the DSIB's essential and systemically important functions and services (i.e., mapped to the companies/legal entities that perform such functions or provide such services) and sets out the actions necessary to operate and maintain them in a recovery scenario. The strategic analysis shall also include the following:

- information on linkages¹ between and/or among the parent bank and covered institutions, and operational data such as the extent of asset encumbrance, amount of liquid assets, off-balance sheet activities, etc.;

- underlying assumptions (exogenous and DSIB-specific) for each recovery option, stress scenario, and other aspect of the recovery plan;

- assessment of the viability of any business lines and covered institutions, which may be subject to separation in a recovery scenario as well as the impact of such separation on the remaining group structure and its viability;

- process for determining the value and marketability of the material business lines, operations, and assets; and

- any additional requirements that the DSIB may potentially be subjected to during crisis situations in order to maintain its membership in financial market infrastructures, for example, as regards pre-funding or collateralizing of positions, and identify options for addressing the additional requirements.

b. *Stress scenarios.* The DSIB is required to identify scenarios that are severe enough to activate the recovery plan. It could make use of its existing stress testing program as foundation for building scenarios.

The recovery plan shall include DSIB-specific (idiosyncratic), market-wide, and combined (both DSIB-specific and market-wide) stress scenarios. Each stress scenario shall be comprehensively described and assessed as to its impact on capital and/or liquidity.

c. *Recovery options.* Along with more evident and straightforward recovery options that reduce the risk profile, raise or conserve capital and address liquidity pressures, the DSIB is expected to seriously consider including specific drastic measures that could modify its structure and/or business model. Range of possible recovery measures may include the following:

- recapitalizations, capital conservation measures such as suspension of dividends and discretionary payments of remunerations;

- sale of subsidiaries and spin-off of business units;

- voluntary restructuring of liabilities through debt-to-equity conversion; and

- measures to secure adequate funding while ensuring sufficient diversification of

¹ Core business operations and interconnectedness by reference to business lines, legal entities and jurisdictions, intra-group exposures through intra-group guarantees and loans, and trades booked on a back-to-back basis; dependencies for liquidity, capital or operational support, etc.

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funding sources and adequate availability of collateral.

Each recovery option should be comprehensively described, including the time needed to implement such option, and assessed as to probability of success or effectiveness to address the stress scenario. For each recovery option, the following should be laid down and discussed:

- estimated benefits¹ or outcome that would be derived from the recovery option, any assumptions made to quantify the benefits, and the time frame within which the benefits would be achieved;
- negative effect, if any, on the financial condition, franchise, credit ratings, as well as relevant stakeholders;
- preparatory actions to ensure that recovery option shall be effectively and timely implemented;
- process to implement or carry out the recovery option, including the escalation and decision-making process, indicating the owner/s of the process to instill responsibility and establish accountability, which is crucial in times of stress; and
- circumstances or factors that could render the recovery option unavailable/ infeasible or could hinder the effectiveness of the recovery option, as well the remedial measures to be undertaken to overcome these impediments including the time frame to accomplish the remedial measures. These remedial measures when timely and effectively implemented improve the credibility and the probability of success of the recovery option.

Considering that several key steps may be involved to execute a recovery option and a combination of a number of recovery options may be required to address a stress scenario, the recovery plan should include estimates of the sequencing of actions and time needed to implement each.

d. *Communication strategy*. The recovery plan shall contain communication strategy with supervisory authorities/ regulators, public, financial markets, employees and other stakeholders.

3.5. The recovery plan shall not include assumption for any access to or receipt of government/public financial support/aid provided by the Philippine National Government and its offices, agencies and instrumentalities to preserve or restore viability, solvency or liquidity of banks (or any of the covered financial institutions), which may include, among others, financial assistance in the form of loans and advances extended by the Bangko Sentral, pursuant to Sections 83 and 84 of Republic Act No. 7653 (The New Central Bank Act).

3.6. The recovery plan and updates thereon shall be approved by the board of directors, and in the case of branches of foreign banks, it shall be approved by the Head Office or the designated Regional Office. On the other hand, the senior management shall be responsible for developing, maintaining and updating, and where necessary, executing the recovery plan.

The recovery plan shall be updated at least annually, and upon occurrence of events that materially alter the DSIB's structure, business model or operations, strategy or risk exposure. Updating of the recovery plan shall involve:

- review of the exogenous and DSIB-specific assumptions the recovery plan is based upon; and
- assessment of the relevance and applicability of the recovery plan.

4. Reporting Requirement and Review by the Bangko Sentral

4.1. The recovery plan shall form an integral part of the Internal Capital Adequacy

¹ Impact or effect on DSIB's financial condition if the recovery option becomes successful, which may be on capital, risk-weighted assets/risk profile, liquidity, leverage and other measures of financial strength, as well as impact on customers, counterparties and market confidence.

Assessment Process (ICAAP) document to be submitted every 31 March of each year. Thus, the ICAAP document shall also contain discussions on the governance and oversight of the recovery plan as discussed in paragraph 3.3, as well as a summary of any material changes on the recovery plan as provided for under paragraph 3.6, including the reason/s therefor. The first recovery plan shall be submitted on 30 June 2016 as supplement to the 2016 ICAAP document, which is required to be submitted on or before 31 March 2016.

The Bangko Sentral shall review the recovery plan as part of the overall

supervisory process for DSIB, focusing on assessing the recovery plan's robustness, credibility and ability to be effectively implemented.

4.2. Relative to paragraph 3.2 on breach of an internally-set trigger level, the senior management shall submit, within three (3) banking days, to the appropriate Central Point of Contact Department (CPCD) sufficient information about the DSIB's decision whether or not to implement recovery measures under its recovery plan. The three (3) banking days shall be reckoned from the date of decision by the designated authority, as defined in the recovery plan.

(Circular No. 904 dated 10 March 2016)

GUIDELINES ON EUROPAY, MASTERCARD AND VISA (EMV)
IMPLEMENTATION
(Appendix to Subsection X177.7)

A. *Background.* In response to the increasing sophistication of frauds perpetrated through magnetic stripe (magstripe), international payment networks have orchestrated the shift towards EMV chip-enabled card. The EMV is an interoperability standard for chip-bearing smart card technology defined by EMVCo in 1994, adoption of which has resulted to significant reduction in card frauds due to skimming¹ and counterfeiting.

To outpace and manage fraudsters' shift towards jurisdictions that are still using magstripe, Bangko Sentral supervised institutions (BSIs) via Subsec. X177.7 were required to migrate their entire payment network to the more secure EMV chip-enabled cards.

B. *Statement of Policy.* It is the policy of the Bangko Sentral to foster the development of safe, secure, efficient, and reliable retail payment systems, protect the integrity and confidentiality of customer accounts and information and uphold consumer protection.

C. *Scope.* These guidelines shall govern the migration to and implementation of EMV of all BSIs with debit card issuing and acquiring functions. For credit card, only cash advance transaction at Automated Teller Machines (ATMs) shall be covered since other credit card transactions are governed by the rules of the international payment networks.

It is incumbent upon all affected BSIs to ensure that other key players in the domestic payment network comply with these guidelines.

For purposes of the subject guidelines, payment transactions covered are limited

to card present and contact transactions in ATMs, POS terminals and other similar devices. Guidelines governing card-not-present as well as contactless transactions shall be issued separately.

D. *Definition of terms.*

1. *EMV*, which stands for Europay, MasterCard and Visa, 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 magstripe payment cards.

Implementing EMV shall address the deficiencies inherent in magstripe by reducing fraud arising from counterfeit, lost and stolen card information through the following features:

- a. Authentication of the chip card to ensure that the card is genuine so as to protect against counterfeit fraud for online-authorized transactions;
- b. Digitally signing payment data for transaction integrity; and
- c. More robust cardholder verification to protect against lost and stolen card fraud for EMV transactions in all acceptance environments.

2. *Acquiring institution (acquirer)* is a bank or financial institution that process credit or debit card transactions via ATM or POS terminals.

3. *Bangko Sentral Supervised Institutions (BSIs)* include banks, non-banks with quasi-

¹ *Skimming* is the illegal copying of information from the magnetic stripe of a payment card to gain access to accounts.

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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.

4. *Co-branded cards* are Philippine-issued cards affiliated with international payment networks.

5. *Debit cards* are payment cards linked to bank deposit or prepaid/electronic money (e-money) accounts.

6. *Domestic payment network* includes BSIs as well as other key players such as merchants, providers of ATMs, point-of-sale (POS) terminals and similar devices, card vendors, card personalization bureaus and domestic switches responsible for processing and handling domestic transactions.

7. *Domestic switches* refer to Bancnet and Megalink.

8. *EMV chip liability shift* means that the liability and responsibility for counterfeit or fraudulent transactions shall shift to the BSI which is not EMV-compliant.

9. *EMVCo* is the governing body that manages the EMV specification.

10. *Hybrid cards* are payment cards that have both EMV chip and magstripe.

11. *International payment networks* refer to the payment networks that have global establishment. For purposes of subject guidelines, recognized international networks shall refer to Visa, Mastercard, UnionPay, Diners/Discover, American Express, Japan Credit Bureau (JCB).

12. *Interoperability* refers to the ability of Philippine cardholders to transact at Philippine ATM and POS terminals, regardless of network affiliation or branding of the card.

13. *Issuing institution (issuer)* is a bank or non-bank financial institution that issues payment cards, whether proprietary or co-branded, to consumers.

14. *Payment cards* are cards that can be used by cardholders and accepted by terminals to withdraw cash and/or make payment for purchase of goods or services, fund transfer and other financial transactions. Typically, payment cards are electronically-linked deposit, prepaid or loan/credit accounts.

15. *Philippine domestic EMV specification* refers to the specification or standards based on EMV that shall be adopted in the Philippine financial market for the proprietary or non-co-branded cards.

16. *Proprietary cards* are Philippine-issued cards without international payment network affiliation.

17. *Technical fallback* is a state in which a chip cannot be used and another type of entry, such as magstripe, is used to complete a transaction.

E. General rules.

In line with the declaration of policy, BSIs, in migrating to EMV, shall consider the following:

1. BSIs shall maintain interoperability of the domestic payment network;

2. The Philippine EMV Implementation shall use established EMV specification as follows:

a. Issuers of proprietary cards shall use the Philippine domestic EMV specification; and

b. Issuers of co-branded cards shall use the EMV specification of their affiliated international payment network.

3. At a minimum, all debit accepting devices shall acquire/accept Philippine issued proprietary cards using the Philippine domestic EMV specification of members/participants of the domestic switches;

4. The domestic payment network shall ensure continued interoperability and acceptance of Philippine EMV issued cards using the Philippine domestic EMV specification on Philippine EMV deployed acceptance devices¹; and

¹ Include EMV-compliant ATMs, POS terminals and other similar devices.

5. BSIs shall strengthen consumer protection by adequately handling and containing consumer concerns and complaints arising from fraudulent schemes done electronically.

F. The Philippine Domestic EMV Specification.

With the main objectives of maintaining interoperability and reducing card fraud, BSIs shall adopt a Philippine domestic EMV specification for proprietary cards. The domestic EMV specification should:

- a. Adopt the EMV specification according to EMVCo;
- b. Apply to ATM and domestic debit POS transactions;
- c. Support contact transactions;
- d. Support online card authentication to ensure that transactions are made using a valid card;
- e. Support online authorization to enable issuer to manage fraud and credit risk at the transaction level;
- f. Support online PIN cardholder verification method; and
- g. Support technical fallback to magstripe in the interim, without prejudice to the issuer's decision to process/approve fallback transactions.

G. Minimum operational requirements.

- 1. Issuing institutions shall:
 - a. Ensure that they have the technical systems and network necessary to process and handle EMV transactions;
 - b. Support EMV data elements in authorization messages;
 - c. Define chip cards feature, functionality and interface capability;
 - d. Enhance risk management systems to leverage chip;
 - e. Determine the card migration strategy;
 - f. Update customer support and operational systems to support chip cards;

g. Be certified for network interfaces and card personalization by a certification body organized by BSIs pursuant to this Guidelines;

- h. Replace card base; and
- i. Educate the consumers.
- 2. Acquiring institutions shall:
 - a. Ensure that card-accepting devices are EMV-certified to support the acquiring and routing of Philippine-issued debit cards using the Philippine domestic EMV specification;
 - b. Ensure that PIN-entry devices are Payment Card Industry PIN Transaction Security (PCI-PTS¹) compliant; and
 - c. Enable a debit POS environment that supports online PIN for Philippine-issued debit cards.

- 3. Domestic switches shall:
 - a. Establish infrastructure and systems that are EMV-compliant and able to support switched EMV transactions from domestic interconnected networks;
 - b. Ensure continued support to existing transaction sets and functions provided to consumers;
 - c. Enhance efforts to educate their members on EMV collaboration and seek effective alignment of strategy and design principles; and
 - d. Ensure continued ability to support, in the interim, transactions in magstripe format subject to liability shift policies acceptable to Bangko Sentral, the standards of which shall be covered in subsequent guidelines.

H. Detailed guidelines, policies and processes.

BSIs shall agree on and implement detailed technical and operational requirements, policies and procedures that are acceptable to the Bangko Sentral, the standards of which shall be covered in subsequent guidelines, and aligned with subject EMV Implementation Guidelines, covering but not limited to the following:

¹ A security requirement of the Payment Card Industry (PCI) regarding testing of PIN-entry devices using pre-defined standards to get certification.

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- 1. Philippine Application Identifier (AID);
- 2. Single Common AID, Single Common Card Personalization Profile and Single Common Technical Configuration for domestic transactions;
- 3. Transaction routing;
- 4. Testing and certification;
- 5. Dispute and fraud risk management; and
- 6. Other processes affected by the EMV migration.
 - 1. Updated EMV migration plan

Any changes arising from the aforementioned guidelines shall be incorporated in the EMV Migration Plan and all affected BSIs shall resubmit their updated plan to Bangko Sentral's Core Information Technology Specialist Group (CITSG) within sixty (60) days from 24 November 2014.

All BSIs shall support migration to EMV standards. Consequently, all cards issued and card-accepting devices should be EMV-compliant.¹

(Circular No. 859 dated 24 November 2014, as amended by Circular Nos. 936 dated 28 December 2016 and 890 dated 02 November 2015)

¹ This paragraph shall take effect on 01 January 2017.

EMV CARD FRAUD LIABILITY SHIFT FRAMEWORK (ECFLSF)
(Appendix to Subsection X177.7)

I. Introduction

This document outlines the Bangko Sentral’s guidelines implementing the EMV Card Fraud Liability Shift Framework (ECFLSF). Pursuant to Subsec. X177.7 and *Appendix 108*, Bangko Sentral Supervised Financial Institutions (BSFIs) should shift from the magnetic stripe (magstripe) technology to EMV-compliant cards, point-of-sale (POS) terminals and automated teller machines (ATMs). The immediate impact and benefit on the adoption of EMV technology is the reduction in card fraud resulting from counterfeit or skimming attacks.

While migration efforts to shift to EMV technology are ongoing, the use of magstripe in payment cards and/or card-accepting devices shall be allowed subject to card fraud liability shift. This means that the BSFIs which have not yet or have partially adopted the EMV technology shall be held responsible for losses associated with the use of a counterfeit card in a card-present environment.

II. Statement of Policy

It is the policy of the Bangko Sentral to foster the development of safe, secure, efficient and reliable retail payment systems, protect the integrity and confidentiality of customer accounts and information and uphold consumer protection.

Towards this end, the Bangko Sentral requires all concerned BSFIs to migrate to a more secure payment technology and sets forth subject principles for allocation of card fraud liability with the aim of ensuring compliance of the different retail payment system participants with the Bangko Sentral’s EMV migration requirement. Pending full migration to the EMV technology, the ECFLSF shall likewise

accelerate the dispute resolution and restitution process for customers who have valid claims arising from counterfeit fraud or skimming attacks.

III. Applicability and Scope

These guidelines shall apply to all BSFIs with debit and credit card issuing and acquiring functions and shall govern the allocation of liability associated with fraudulent transactions arising from counterfeit cards beginning 01 January 2017, subject to the conduct of proper investigation by the concerned participant/s of the payment card network. The coverage shall be limited to **card-present** and **contact transactions** of Philippine-issued payment cards used domestically in ATMs, POS terminals, and other similar devices routed to either domestic or international payment networks.

Consequently, the ECFLSF shall not apply to card-not-present and contactless transactions. Furthermore, foreign-issued payment cards used domestically and Philippine-issued payment cards used abroad shall not be covered as these are already subject to the existing liability shift and chargeback rules of the international payment networks.

IV. Definition of Terms

For purposes of these guidelines, the following definitions shall apply:

- a. *Acquiring institution (Acquirer)*, is a bank or non-financial institution that processes credit or debit card transactions via ATMs, POS terminals, and other similar devices.
- b. *EMV compliant device or terminal* is a device or terminal that has, or is connected to, a contact chip card reader, has an EMV application, certified, and is able to process EMV transactions.

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c. *Co-branded cards* are Philippine-issued cards affiliated with international payment networks.

d. *Counterfeit card* is an imitation or falsification of a genuine magstripe card or EMV chip card with track data copied from a hybrid EMV card.

e. *Debit cards* are payment cards linked to bank deposit or prepaid/electronic money (e-money) accounts.

f. *Fallback to magstripe transaction* occurs when the chip on the card is not being read by a terminal. This is similar to *technical fallback*, which is defined in *Appendix 108* as a state in which the chip cannot be used and another type of entry, such as magstripe, is used to complete a transaction.

g. *Hybrid cards* are payment cards that have both EMV chip and magstripe.

h. *International payment networks* refer to the payment networks that have global establishment. For purposes of subject guidelines, recognized international networks shall refer to Visa, Mastercard, UnionPay, Diners/Discover, American Express, Japan Credit Bureau (JCB).

i. *Issuing institution (Issuer)* is a bank or non-bank financial institution that issues payment cards, whether proprietary or co-branded, to consumers.

j. *Payment cards* are cards that can be used by cardholders and accepted by terminals to withdraw cash and/or make payment for purchase of goods or services, fund transfer and other financial transactions. Typically, payment cards are electronically-linked to deposit, prepaid or loan/credit accounts.

V. Guiding Principles

a. The adoption of EMV technology is designed to reduce and mitigate risks arising from counterfeit card fraud. While it remains virtually impossible to create a counterfeit EMV card that can be used to conduct an EMV payment transaction successfully, the presence of magstripe in a hybrid EMV card makes it still vulnerable to counterfeit attacks.

b. A BSFI that has enabled the most secure EMV options shall be protected from financial liability arising from losses on counterfeit card fraud. The liability for this type of fraud shall shift to the BSFI which is not or is partially compliant with the EMV migration requirement.

c. To resolve the issue on the allocation of card fraud liability using the guidelines described herein, the involved parties (such as issuer, acquirer, and payment network) should, first, characterize the fraud committed, and then, assess the technology being employed, in light of the applicable payment network rules. The party supporting EMV technology will prevail and in case of a technology-tie (neither or both parties are EMV compliant), the liability for fraudulent transactions generally remains with the Issuer.

VI. Allocation of Card Fraud Liability

The allocation of liability for counterfeit card fraud is summarized in the following table:

	Card Capabilities	Acceptance Device Support	Scenario	Liability
1	Magnetic stripe only	Magnetic stripe only	Magnetic card transaction was completed	Issuer
2	Magnetic stripe only	EMV compliant	Magnetic card transaction was completed	Issuer
3	EMV compliant hybrid card	Magnetic stripe only	Magnetic card transaction was completed	Acquirer ¹
4	EMV compliant hybrid card	EMV compliant	Fallback transaction; Magnetic card transaction was completed	Issuer

The information provided above shall be considered as a general guide as each fraudulent transaction shall be separately

¹ When an Acquirer accepts a magstripe card that was counterfeited with track data copied from an EMV compliant hybrid card and the counterfeit card is used at a device/terminal that is not EMV-compliant, resulting in a transaction to be successfully processed, the Acquirer is liable for any chargeback resulting from such fraud.

investigated on. Likewise, the domestic and international payment networks may come up with other scenarios and probable conditions that illustrate how liability is assigned on counterfeit card fraud using different combinations of card and acceptance device capabilities. However, the resolution of such scenarios/conditions should follow the principles espoused in these guidelines.

VII. Consumer Protection and Complaints Handling and Resolution

a. The participants in the domestic payment network (such as issuer, acquirer, and payment network) should collaborate and devise detailed rules and procedures including arbitration mechanisms to operationalize the ECFLSF. Accordingly, a body responsible for strictly implementing

the above-mentioned detailed rules and procedures on ECFLSF should be constituted.

b. Cardholders' complaints and/or requests for chargeback as a result of counterfeit card shall be considered as complex complaint/request defined in *Appendix 110* and hence, shall follow the standards provided in such regulations, except for the processing and resolution timeline which should be within ten (10) days instead of forty five (45) days.

c. Issuers and Acquirers should ensure that affiliated international payment networks align their existing liability and chargeback rules with the ECFLSF insofar as Philippine-issued payment cards used in the domestic payment environment are concerned.

(Circular No. 936 dated 28 December 2016)

**OPERATIONAL GUIDELINES ON THE ADMINISTRATION OF THE
PERSONAL EQUITY AND RETIREMENT ACCOUNT (PERA)**
(Appendix to Subsection X960)

Pursuant to R.A. No. 9505 also known as the Personal Equity and Retirement Account (PERA) Act of 2008 (PERA Act) and its Implementing Rules and Regulations (PERA Rules), the following operational guidelines on the administration of PERA are hereby issued. Certain capitalized terms herein used shall have the definitions ascribed to them in the PERA Rules unless the context otherwise requires.

I. ACCOUNT OPENING

A. Eligibility Review and Pre-acceptance Disclosure

- 1) Only a natural person who has the capacity to contract and has a Tax Identification Number (TIN) can be a contributor.
- 2) The administrator shall –
 - (a) Determine the exclusivity of PERA administration through an on-line validation in the PERA contributors’ database (PERA System).
 - (b) Observe the following rules prior to any account opening:
 - i. A contributor shall designate and maintain only one (1) administrator for all his PERA;
 - ii. A contributor may create and maintain a maximum of five (5) PERA at any one time; and
 - iii. Each PERA shall be confined to only one category of investment products. For this purpose, the categories of PERA investment products are as follows:
 - a. unit investment trust fund;
 - b. mutual fund;
 - c. annuity contract;
 - d. insurance pension product;
 - e. pre-need pension plan;
 - f. government securities;
 - g. stock or other security listed and traded in a local exchange;
 - h. exchange-traded bond; or

- i. any other category of investment product or outlet which the concerned Regulatory Authority may allow for PERA purposes, provided that the product must be non-speculative, readily marketable, and with a track record of regular income payments to investors.

- (c) Ensure that the minimum documentary requirements (Annex A) for the proper identification of the Contributor are properly complied with and in adherence with the Anti-Money Laundering (AML) regulations and the PERA Act; and

- (d) Fully disclose to the potential contributor the following, using the Pre-Acceptance and General Risk Disclosure Statement (PGRDS):

- i. Nature of a PERA, privileges and conditions of its establishment; emphasis must be placed on the long-term nature of PERA, the conditions for tax exemption and penalties for early withdrawal unless the early withdrawal is allowed under the PERA Act;
 - ii. Category and investor-risk profile classification of PERA investment products available to a Contributor;
 - iii. Risks associated with each category of PERA investment products which shall form part of the General Risk Disclosure Statement;
 - iv. Specific obligations and responsibilities of an administrator, investment manager (Advisor) and custodian; and
 - v. Prerequisite to appoint a cash custodian and an option to elect an investment manager (Advisor).

B. Account Opening Process

- 1) The administrator shall –
 - (a) Require the contributor to accomplish a PERA Client Suitability Assessment (PCSA) prior to account opening;

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(b) Formulate an Investment Policy Statement (IPS) which shall serve as a frame of reference for investment decisions of the contributor. The administrator shall inform the contributor of the full range of PERA investment products with emphasis on the specific category of products corresponding to the contributor's risk profile classification as borne by the results of PCSA. The administrator, however, shall provide a process for allowing contributor to invest in PERA investment products not falling within his risk profile classification; provided that any such investment may be allowed only upon the prior written instruction of the contributor;

(c) Execute the PERA Administration Agreement (PAA) and furnish the contributor copies of the PAA along with the PGRDS, PCSA and IPS; and

(d) Ensure that the contributor's account opening details are lodged in the PERA System.

2) In addition, the administrator shall facilitate the contributor's appointment of a cash custodian and as necessary, a securities custodian.

3) In the case of a contributor who opts to engage the services of or has engaged an investment manager (Advisor), he shall provide the administrator with a copy of the PERA investment management (Advisory) Agreement. The said agreement shall set forth at its minimum, the overall investment philosophy, standards, and practices of the investment manager (Advisor) and the validation by the investment manager (Advisor) of the contributor's PCSA and IPS. The investment decisions made by the investment manager (Advisor) for and on behalf of the contributor shall be in accordance with the authority granted by the contributor in their agreement.

4) An entity who is offering a PERA investment product hereinafter referred to as the PERA product provider shall furnish

the administrator and/or contributor all relevant documents necessary to facilitate the investment of a contributor in the PERA investment product. Appropriateness of the PERA investment product based on PCSA and IPS of contributor shall be validated by administrator.

II. ACCOUNT ADMINISTRATION

A. Contributions

1) The administrator shall –

(a) Secure proof of income when a contribution is made and ensure that the maximum aggregate contribution per calendar year as follows has not been exceeded. If in case proof of income is already obtained for a contribution made during the calendar year, the same shall no longer be required for subsequent contributions made during the year:

i. P100 thousand or its equivalent in any convertible foreign currency at the prevailing rate for non-Overseas Filipino (non-OF); or

ii. P200 thousand or its equivalent in any convertible foreign currency at the prevailing rate for OF;

For this purpose, prior to contribution, the status of an OF shall be validated by securing from the OF a sworn certification on his continuing status as an OF for the calendar year;

(b) Receive and acknowledge all contributions, initial and subsequent, through the PERA contribution and investment instruction Form (PCIIF) which shall also contain the investment directives of the contributor or his designated investment manager (Advisor);

i. The administrator shall facilitate and assist the contributor in completing the necessary documents for the chosen PERA investment product/s; and

ii. The contributor shall be provided with the copies of the PERA investment

product documents such as, but not limited to, specific risk disclosure statement if not yet provided by the product provider to the contributor;

(c) Ensure that all contributions are directly remitted to the cash custodian;

(d) Maintain a record of all contributions made to the PERA on per account and aggregate basis;

(e) Ensure that the PCSA and IPS are periodically updated or as often as may be necessary, upon notice to the administrator, on account of change in the contributor's personal/financial circumstances or preferences;

(f) Apply for certificate of entitlements or tax credit certificate on behalf of the contributor and likewise receive the same from the BIR.

In the case of employer's contribution:

(g) Accept the contributions of an employer only if:

i. Its employees have already opened a PERA;

ii. Each employee has accomplished a PCIIF; and

iii. The maximum aggregate yearly contribution of the contributor has not been exceeded.

(h) Issue to the employer a certificate of the actual amount of qualified employer's contributions which shall serve as its basis for deduction on its gross income; and

(i) Secure from the employer a certification on the amount of tax not withheld on compensation/fringe benefits as a result of contributing to the PERA of its employees.

2) The cash custodian shall –

(a) Open a PERA cash account for the contributor which shall be governed by a PERA cash custody agreement;

(b) Receive and acknowledge all contributions directly remitted by the administrator; and

(c) Custodize all funds of the PERA.

3) In the case of a contributor who has an investment manager (Advisor), the

investment manager (Advisor) shall accomplish the investment instructions portion of the PCIIF for and on behalf of the Contributor.

B. Choice of PERA Investment Product

1) The administrator shall –

(a) Execute the contributor's or his investment manager (Advisor)'s instruction as indicated in the PCIIF;

(b) Based on the PCIIF, instruct the cash custodian to remit the funds to the chosen PERA product provider;

(c) Instruct the PERA product provider to transfer the securities or evidence of investments to the securities custodian and provide details of the PERA cash account of the contributor for the credit of investment proceeds;

(d) Maintain a record of all investments including earnings and expenses relative to the PERA.

2) The cash custodian shall execute the administrator's instruction as to disposition of the funds.

3) The PERA product provider shall –

(a) Transfer the securities, evidence of deposits or other evidence of investments to the securities custodian chosen by the contributor. In case of self-custody arrangement for securities that are non-transferable, non-negotiable and non-withdrawable, the evidence of investments shall be given to and kept by the contributor;

(b) Credit to the contributor's PERA cash account all cash due to the contributor relative to his PERA investment product.

4) The securities custodian shall –

(a) Open a PERA securities account for the contributor which shall be governed by a PERA Securities Custody Agreement;

(b) Receive and acknowledge all evidence of investments; and

(c) Custodize all non-cash assets of the PERA except those under self-custody arrangement.

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C. Change of PERA Investment Product

1) PERA investment product/s may be changed provided that the entire PERA assets arising from the sale shall be transferred to another PERA Investment Product/s within two (2) working days from withdrawal thereof.

2) The contributor or his investment manager (Advisor) shall accomplish the PCIIF and submit the same to the administrator.

3) The administrator shall –

(a) Execute the investment instructions of the contributor or his investment manager (Advisor) as indicated in the PCIIF; and

(b) Coordinate with PERA Product provider, cash custodian and securities custodian as to disposition of the PERA assets.

D. Suspension or Revocation of Qualification/Accreditation

Common provisions in the event of suspension or revocation of qualification/accreditation:

1) The administrator, investment manager (Advisor) or custodian, as the case may be, shall –

(a) Notify the contributors by direct written notice to each contributor and through posting of notices in its head office and branches, within three (3) working days from receipt of notice of suspension or revocation from the Bangko Sentral; and

(b) Institute a mechanism to monitor and ensure that all contributors have received the notice of suspension or revocation.

2) The contributor shall advise the administrator, investment manager (Advisor), or custodian of his choice of a new administrator, investment manager (Advisor), or custodian, as the case may be, within three (3) working days from receipt of the notice of suspension or revocation.

Failure of the contributor within the prescribed period to designate a new administrator or custodian shall authorize his current administrator or custodian to appoint its successor that shall assume all its duties and responsibilities to the contributor.

In the event of suspension or revocation of their qualification/accreditation:

1) The former administrator shall –

a) Effect the transfer of PERA assets to the new administrator chosen by the contributor within two (2) working days from receipt of contributor's advice; otherwise, the former administrator shall be personally liable for the early withdrawal penalties which may be imposed by the BIR; and

b) Turn-over to the new administrator the complete and updated files and records (in soft and hard copies) of the contributor's PERA.

While the new administrator shall –

a) Ensure the completeness of PERA files and records turned-over by the former Administrator that will enable proper performance of its functions; and

b) Follow all the procedures enumerated in *item II* (account administration) that are necessary to ensure continuity of the PERA.

2) The former investment manager (Advisor) shall advise the contributor and his administrator within the above prescribed period; however, in the absence of any advice from the contributor on his choice for a new investment manager (Advisor), the former investment manager (Advisor) shall turn over to the administrator all the contributor's PERA records and documents.

3) The former custodian shall advise the contributor and his administrator within the above prescribed period and shall –

(a) Turn over to the new custodian all PERA assets in its custody within two (2)

working days from receipt of Contributor’s advice; and

(b) Submit to the administrator a report on all financial transactions and documents in its custody relative to the transferred PERA assets within the same period.

While the new custodian shall –

(a) Receive and acknowledge the PERA assets turned over by the former custodian; and

(b) Follow all the procedures enumerated in *item II* (account administration) that are necessary to ensure continuity of the PERA.

E. PERA Records and Reports

- 1) The administrator shall –
- (a) Possess adequate systems and technological capabilities to ensure proper recording and tracking of contributor’s PERA;
- (b) Maintain separate set of books of accounts for all contributions, investments, earnings, expenses, withdrawals and terminations of the PERA;
- (c) Retain documentary proof of contribution/income/withdrawal/termination subject to validation of the BIR whenever requested;
- (d) Monitor and keep track of the contributor’s tax credits, privileges and other entitlements; and
- (e) Consolidate and reconcile all transactions/documents with the cash and securities custodians.
- 2) In addition, the administrator shall submit the following reports:

Recipient	Frequency	Particulars
Contributor	As applicable	Sale and purchase of PERA assets
	Quarterly	Summary of the following information: i. Total contributions and withdrawals for each PERA, indicating therein the total amount of contributions entitled to tax incentives;

Recipient	Frequency	Particulars
		ii. Total income earned on the contributions, indicating those entitled to income tax exemption; iii.Total fees and charges assessed and paid by the contributor to administrator, investment manager (Advisor), if any, cash and/or securities custodians; iv.Purchase and sale transactions of PERA assets implemented and those pending execution; and v. Valuation of the PERA assets and investments.
Employer of a contributor	Annually	Certification on the actual amount of the qualified employer's contribution in case when the employer made contributions to the PERA of its employees
BSP	Quarterly	Reports on all PERA assets under its administration which shall form part of the financial reporting package (FRP) of banks and trust entities
BIR	As provided	PERA reports as may be required by the BIR

Furthermore, the administrator shall perform periodic uploading of transactions details to the PERA System.

1) The cash and securities custodians shall submit the following reports to –

(a) The contributor and the administrator – a quarterly securities and cash activity report of all financial transactions and documents under their custody within ten (10) days after the end of each quarter; and

(b) The Bangko Sentral – quarterly reports on all PERA assets and documents under their custody which shall form part of the financial reporting package of banks and trust entities.

4) The investment manager (Advisor) shall provide periodic reports to the contributor as stipulated in the PERA investment management (Advisory) agreement.

F. Valuation of PERA Investment Product

Each PERA investment product shall be valued in accordance with the valuation methodology, standards and reporting requirements as prescribed by the concerned regulatory authority of that PERA investment product; *Provided, That* such valuation methods and standards are in accordance with internationally accepted accounting and valuation standards.

G. Accounts Review

1) The administrator shall conduct a periodic administrative review of all PERA under its administration to ensure that –

(a) Transactions involving PERA comply with the contributor's or his investment manager (Advisor)'s instructions, contracts, and applicable laws, rules and regulations;

(b) Investments of the contributor are aligned with his risk profile and/or IPS, and are authorized by the contributor or his investment manager (Advisor);

(c) Books of accounts are correct and updated, and appropriate taxes/penalties are properly accounted and/or paid to the government, when applicable; and

(d) PERA assets are kept separate from other assets of the administrator for the purposes of insolvency.

2) The administrator or the contributor's investment manager (Advisor), if any, shall conduct at least quarterly an investment performance review of all PERA investment products and/or all PERA assets of the contributor. The results of such review shall be reported to the contributor through his quarterly financial statements, or as frequent as necessary.

C. Collection of Fees

1) The administrator, investment manager (Advisor) and cash/securities custodian may charge against the PERA appropriate fees that are commensurate to the services rendered in relation to the contributor's PERA.

2) The investment manager (Advisor) and cash/securities custodian shall provide the contributor's administrator with their respective bills for their investment management services and custodial services.

3) The administrator may –

(a) Correspondingly charge against the PERA of a contributor the appropriate fees such as administration, investment management and custodial fees and report the same to the contributor; and

(b) Instruct the cash custodian to pay the administrator, cash/securities custodian and investment manager (Advisor), if any.

III. ACCOUNT WITHDRAWALS, DISTRIBUTIONS AND TERMINATION

A. Early Withdrawal

1) The following shall not be subject to early withdrawal penalties:

(a) When the contributor had an accident or illness-related hospitalization in excess of thirty (30) days: *Provided, That* there is a notarized doctor's certificate attesting to said event;

(b) When the contributor becomes permanently totally disabled as defined under the Employees Compensation Law, Social Security Law or Government Service Insurance System Law, provided that he has a certification from the pertinent government agency; or

(c) Immediate transfer of assets to another eligible PERA investment product and/or another administrator, who have been discredited either by the BIR or the Bangko Sentral, within two (2) working days from withdrawal thereof.

2) All other early withdrawals not mentioned above shall be imposed early withdrawal penalties.

3) The early withdrawal penalties to be imposed shall be those set forth in BIR Revenue Regulations No. 17-2011 and subsequent BIR issuances.

B. Qualified PERA Distributions

The following are considered qualified PERA distributions and shall be exempt from the payment of income taxes or estate tax, if applicable:

1) When the contributor reaches the age of fifty-five (55) years and has made contributions for at least five (5) years:

(a) The contributor has the option to receive his PERA assets in lump-sum, pension for a definite period or lifetime pension;

(b) Notwithstanding this condition, the contributor may opt to continue his PERA and its tax-privileges; or

2) Upon the death of the contributor, provided that a death certificate was presented:

(a) The administrator shall terminate the PERA and release the assets to the contributor's designated beneficiary/ies;

(b) In case when there is/are no designated beneficiary/ies, the administrator shall release the PERA assets to the contributor's estate in accordance with the laws on succession and rules of court.

C. Release of PERA Assets

1) The administrator shall –

(a) Secure from the contributor or his designated beneficiary/ies, when

applicable, the duly accomplished PERA Notice of Withdrawal/ Termination Form (PNWTF) and other necessary documents;

(b) Execute the divestment instructions of the contributor or his designated beneficiary/ies;

(c) Instruct the securities custodian to release the evidence of investments to the appropriate parties and remit the divestment proceeds to the cash custodian;

(d) Compute the early withdrawal penalties, if any, in accordance with the rules set forth by the BIR which shall be deducted from the divestment proceeds and instruct the cash custodian to remit the early withdrawal penalties to the BIR;

(e) Report the withdrawal/termination transactions and submit the necessary documents to the BIR; and

(f) Account for the unwithdrawn portion of the PERA, if any.

2) The cash custodian shall –

(a) Release the divestment proceeds, net of early withdrawal penalties if any, to the contributor or his designated beneficiary/ies; and

(b) Remit the early withdrawal penalties to the BIR as instructed by the administrator.

(Circular No. 860 dated 28 November 2014 and M-2014-045 dated 02 December 2014, as amended by Circular No. 890 dated 02 November 2015)

PERSONAL EQUITY AND RETIREMENT ACCOUNT (PERA)
Minimum Documentary Requirements for Account Opening

- 1) Customer information sheet and identification cards as provided under the rules and regulations on anti-money laundering

2) Signature cards

3) Proof of income earnings for the calendar year or to be earned during the calendar year

(a) For Overseas Filipino (OF) who is working or deriving income from abroad:

i. Overseas Employment Certificate or its equivalent document issued by the Philippine Overseas Employment Authority; and

ii. Any official document showing that he will earn or has earned income in a foreign country in the year of PERA contribution

(b) For an individual who has retained or re-acquired his Philippine citizenship under R.A. 9225 otherwise known as the “Citizenship Retention and Reacquisition Retention Act of 2003”:

i. Identification certificate issued by the Bureau of Immigration, to prove his reacquisition of Philippine citizenship; and

ii. Any official document showing that he will earn or has earned income in a foreign country in the year of PERA contribution

4) If the PERA will be opened by spouse or child of the Overseas Filipino (OF) in the name of the OF:
- (a) Authorization to open a PERA account issued by the OF;

(b) For the spouse of an OF, Marriage Contract (MC) in security paper issued by the National Statistics Office (NSO) or Certified True Copy of MC issued by the Local Civil Registrar (LCR) and duly authenticated by NSO or Report of Marriage duly authenticated by NSO if married abroad;

(c) For the child of an OF, Birth Certificate (BC) in security paper issued by the National Statistics Office or Certified True Copy of BC issued by the LCR and duly authenticated by NSO or Report of Birth duly authenticated by NSO if born abroad showing that he/she is a child of and is at least eighteen (18) years old; and

(d) Sworn certificate that he is opening account on behalf of his spouse or his parent who has not availed of PERA
- 5) In case when the contributor appoints an investment manager (Advisor):
- (a) PERA investment management (Advisory) agreement;

(b) Details/contact information of investment manager (Advisor);

(c) Board resolution appointing authorized signatories of investment manager (Advisor) (if institutional investment manager (Advisor); and

(d) Signature cards of authorized signatories.
- (M-2014-045 dated 02 December 2014, as amended by Circular No. 890 dated 02 November 2015)

**GUIDELINES AND PROCEDURES GOVERNING THE
CONSUMER ASSISTANCE MANAGEMENT SYSTEM (CAMS)
OF BSP-SUPERVISED FINANCIAL INSTITUTIONS**
[Appendix to Subsec. X1002.4]

I. Statement of Policy

The Bangko Sentral acknowledges the indispensable role of financial consumers in bringing about a strong and stable financial system, their right to be protected in all stages of their transactions with Bangko Sentral- Supervised Financial Institutions (BSFIs), and be given an avenue to air out their grievances in the products and services of BSFIs. Consumer protection is regarded as a core function complementary to Bangko Sentral's prudential regulation and supervision, financial stability, financial inclusion, and financial education agenda. Towards this end, the Bangko Sentral hereby issues the following minimum guidelines institutionalizing consumer assistance mechanism of BSFIs.

II. Applicability and Scope

The CAMS requirements and minimum guidelines on receiving, recording, evaluating, resolving, monitoring, reporting, and giving feedback to consumers shall apply to a BSFI and its branches/other offices. The provisions of these guidelines shall, as far as practicable, also apply to inquiries and requests received from clients and potential clients.

III. Definition of Terms

- a. *Complaint*- is an expression of dissatisfaction relative to a financial product or service in which a response or resolution is expected.
- b. *Simple complaint/request*- complaint/request where frontline staff solution or immediate explanation or action can be rendered. A resolution is immediate if it can

be resolved without the need of third-party intervention, such as outsource service providers, external auditors, or other banks. Resolution thereof must be achieved within a 7-day period.

c. *Complex complaint/request*-complaint/request which needs assessment, verification, or investigation with third-party intervention. Resolution thereof may ideally be achieved within a 45-day period.

d. *BSFIs*- include banks, quasi-banks, pawnshops, foreign exchange dealers, money changers, remittance agents, electronic money issuers, non-stock savings and loan associations and other Bangko Sentral-Supervised Financial Institutions.

e. *Consumer*- refers to a natural or juridical person who has a complaint, inquiry or request relative to the BSFI's products and services.

IV. Role of the Board and Senior Management

The board of BSFIs shall be responsible for the delivery of effective recourse to its consumers. Pursuant thereto, the board shall:

- a. Approve the consumer assistance policies and procedures;
- b. Approve risk assessment strategies relating to effective recourse by the consumer;
- c. Ensure compliance with consumer assistance policies and procedures;
- d. Provide adequate resources devoted to consumer assistance; and
- e. Review the consumer assistance policies at least annually.

The BSFI's senior management shall be responsible for the implementation of the consumer assistance policies and procedures.

V. Minimum Requirements

A. Manual of Consumer Assistance Policies and Procedures

A BSFI must have a manual of policies and procedures (Manual) in handling consumer complaints, inquiries, and requests from financial consumers. The Manual, as a minimum, provide for the following:

- (1) Corporate structure of the group on consumer assistance with specified roles and responsibilities/tasks;
- (2) Capability building for customer assistance team;
- (3) Consumer assistance process and timeline;
- (4) Complaint recording/data management system;
- (5) Risk assessment strategies;
- (6) Reporting of complaints data to BSFI's board and senior management and Bangko Sentral;
- (7) System for evaluating effectiveness of the CAMS; and
- (8) Glossary of technical components in the Manual.

B. Corporate Structure

A BSFI shall have a consumer assistance officer/independent business unit or group with defined roles and responsibilities in handling consumer concerns. The corporate structure shall depend on the BSFI's asset size, as follows:

Consumer Assistance Group	BSFIs with total assets of at least P1.0 billion
Dedicated Head Consumer Assitance Officer	BSFIs with total assets of less than P1.0 billion but more than 100 million
Head Consumer Assistance Officer	BSFIs with total assets of less than 100 million

At least one (1) consumer assistance officer per branch, extension office or banking office must be designated to handle consumer concerns.

(1) Consumer assistance officer. The consumer assistance officer shall have the following responsibilities:

- (a) Receive and acknowledge consumer concerns;
- (b) Record concerns in a Register/ Database;
- (c) Make an initial review and investigation of concerns;
- (d) Process concerns;
- (e) Provide official reply to consumer;
- (f) Request client feedback; and
- (g) Prepare and submit report to the head consumer assistance officer or consumer assistance group.

(2) Consumer assistance group/head consumer assistance officer. The consumer assistance group/head consumer assistance officer shall, as a minimum, perform the following:

- (a) Monitor consumer assistance process;
- (b) Keep track, identify, and analyze the nature of complaints and recommend solutions to avoid recurrence;
- (c) Report to senior management the complaints received on a monthly basis including reasons for such complaints, the recommended solutions to avoid recurrence, and the suggestions for process or personnel competency needing improvement; and
- (d) Ensure immediate escalation of any significant complaint to concerned unit of the BSFI.

C. Capacity building

All consumer assistance personnel must be equipped with knowledge on the structure and implementation of the BSFI's consumer assistance mechanism. As a minimum, they shall be provided with periodic trainings on the following:

- (1) Solid interpersonal skills/customer service;
- (2) Basic and advanced listening skills;

- (3) Written and verbal communication skills;
- (4) Handling financial consumer feedback;
- (5) Dealing with difficult people;
- (6) Problem solving and conflict resolution; and
- (7) BSFI's corporate structure and products and services.

D. *Publication of Consumer Assistance Management System*

- (1) BSFI's shall publish details of their CAMS in a clear and plain language.
- (2) Publication shall be made through any two of the following means:
 - (a) Posting of summary details of the CAMS in conspicuous places within the premises of BSFIs and their branches/other offices;
 - (b) A leaflet or primer given to all consumers who sign up for new banking service.
 - (c) Terms and Conditions of a BSFI's product or service;
 - (d) Posting in the BSFI's website; and
 - (e) Any analogous manner.

E. *Consumer Assistance Channels*

- (1) Consumers may lodge their concerns through any reasonable means, such as, a centralized web-portal, walk-in or personal visit, letter, e-mail, telephone, and facsimile.
- (2) A BSFI must maintain a consumer assistance helpdesk or hotline dedicated for customer concerns and service and manned by a consumer assistance group.
- (3) A BSFI shall ensure that consumers know how and where to lodge their concerns.
- (4) A BSFI is encouraged to provide alternative modes of resolution, such as conciliation, mediation and arbitration, in order to achieve settlement of the issues at the BSFI level.

F. *Consumer Assistance Process and Timelines*

(1) *Complaint/Request*

	SIMPLE ¹	COMPLEX ¹
Acknowledgment	Within 2 days	Within 2 days
Processing and resolution (assess, investigate, and resolve)	Within 7 days	Within 45 days
Communication of Resolution	Within 9 days	Within 47 days

- (a) Receiving and acknowledging complaints/requests
 - (i) A BSFI shall obtain and record the following data from the consumer: (1) full name and contact details, (2) nature of complaint or request and its details; (3) resolution requested; (4) signature of the complainant/requester; and (5) name of BSFI personnel directly handling/in-charge of the complaint.
 - (ii) The consumer assistance officer must be able to explain the consumer assistance process and timelines.
 - (iii) The acknowledgment shall provide an assurance that the BSFI is dealing with the complaint, request additional documents, if necessary, and that the complainant shall be kept informed of the progress of the measures being taken for the complaint's resolution
- (b) Investigating and resolving complaints
 - (i) A BSFI must establish an institutional approach in assessing and investigating complaints/requests and options in resolving them, considering the peculiarities of the complaints/requests and the desired remedies of the party.
 - (ii) If assessment and investigation on complex complaints/requests cannot be completed within the timeframe stated above, complainants shall be informed of the: (aa) reason thereof; (bb) need for

¹all periods are reckoned from receipt of complaint.

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extended timeframe; and (cc) date on which the complainant may expect the outcome of the BSFI assessment and/or investigation; Provided, however, that the additional period shall not exceed forty-five (45) days. This will afford the complainants opportunity to seek other means to resolve their complaints.

(iii) Result of assessment, investigation, and BSFI’s final response shall be communicated to the complainant in writing in simple and clear language. The BSFI shall likewise inform the complainant of the possible remedies available to the party, including resort to Bangko Sentral consumer assistance mechanism and the courts.

(2) Inquiries

A BFSI must respond to inquiries received, at the latest, by the next business day.

G. Confidentiality

A BSFI shall not disclose to a third party information acquired from the consumer in all stages of the complaint, except as may be required by the conduct of the BSFI’s investigation.

H. Conflict of interest

A BSFI shall ensure that complaints are investigated by a consumer assistance officer who is neither directly nor indirectly involved in the matter which is the subject of the complaint.

I. Consumer Feedback

(1) Subject to the willingness of the consumer, BSFIs shall ask for feedback on the following matters:

- (a) Overall satisfaction (whether satisfied, somewhat satisfied, or dissatisfied);
- (b) Processes needing improvement;
- (c) Personnel needing improvement; and
- (d) Any suggestions for improvement.

(2) Consumer feedback may be obtained through a feedback form/ customer satisfaction survey available for walk-in complainants, in the website, or through a voice logger system.

(3) Customer feedbacks shall be recorded and analyzed to improve the system and to enhance personnel capabilities in handling complaints.

J. Complaints Recording/Data Management

(1) A BSFI and its branches/other offices shall maintain copies of the complaints/requests received, including supporting and other relevant documents thereto, within a period of two (2) years from date of resolution.

Microfilms/digital copies of original documents may be maintained by a BSFI in accordance with its management information systems for record keeping.

(2) A BSFI and its branches/other offices shall maintain complaints/requests register which contains the following information:

- (a) Name of the complainant;
 - (b) Subject/nature of the complaint;
The subject/nature of complain may be indicated by classification, such as those related to credit cards, deposits, administrative, foreign exchange, remittances, investments, others;
 - (c) Name of the personnel directly handling/in-charge of the complaint and officer supervising the resolution of the complaint;
 - (d) Date of receipt of complaint by the BSFI;
 - (e) Actions taken on the complaint or request;
 - (f) Resolution provided;
 - (g) Date of resolution¹; and
 - (h) Other information such as, log and details of phone calls made or received.
- (3) The Consumer assistance group/head consumer assistance officer shall maintain:

¹ The complaint register must reveal the reason in case the date of resolution falls outside the regulatory deadline.

- (a) A master register of all complaints received by the BSFIs and its branches/ other offices; and
- (b) A complaint database to identify the trend of complaints received, potential problems, and risks.

K. Risk Assessment Strategies

Pursuant to the BSFI’s consumer protection risk management system, the BSFI shall put in place appropriate management controls and take reasonable steps to ensure that in handling complaints/requests, it:

- (i) identifies and remedies any recurring or systemic problems; and
- (ii) identifies weaknesses in the BSFI’s internal control procedure or process. This may be done by:

- (a) Analyzing complaints/requests data;
- (b) Analyzing causes for complaints/ requests;
- (c) Considering whether such identified weaknesses may also affect other processes or products, including those not directly complained of/requested; and
- (d) Correcting, whether reasonable to do so, such causes taking into consideration the concomitant costs and other resources.

L. Complaint Reporting

(1) Internal Reporting

(a) The consumer assistance officers in the branches, extensions office and other offices of the BSFI shall submit a complaints report to the consumer assistance group / head consumer assistance officer on a monthly basis.

(b) Complaints report shall be submitted on a monthly basis by the consumer assistance group/head consumer assistance officer to the board and senior management.

(c) The report shall include, as a minimum:

- (i) General category of complaints received;
- (ii) Statistics/frequency of said complaints;
- (iii) Aging of complaints or requests;

(iv) Explanations on deviations, if any, from required resolution period; and

(v) General description of resolutions and actions taken to resolve complaints/ requests;

(d) The report shall include recommendation on how to avoid recurring complaints and suggestions for process/ personnel competency improvement, as needed.

(e) The report of the BSFI’s compliance and internal audit departments concerning the independent review conducted on the complaints report, policy recommendations, and consumer protection compliance, shall be elevated to board every quarter.

(f) The BSFI shall include complaints/ requests statistics in its Annual Report.

(2) Reporting to the Bangko Sentral

A BSFI shall submit a consolidated Complaints Report to the Supervisory Data Center (SDC) of the Supervision and Examination Sector on a quarterly basis. Such report shall be submitted in the format required by Bangko Sentral. Submission of the report to the SDC shall not be later than one (1) month after the end of every quarter. A Complaints Report is a *Category B* Report for purposes of applying the appropriate monetary penalty.

M. Interface with Bangko Sentral

(1) Pursuant to Bangko Sentral’s Consumer Protection Framework, a BSFI shall exhaust all internal remedies available to address the issues raised by the consumers in their complaints/ requests.

(2) Consumers dissatisfied with BSFI’s response or action may seek assistance with BSP-FCPD in accordance with Bangko Sentral Consumer Assistance Mechanism.

(3) Allegations of consumers that the BSFI has not properly and efficiently handled, processed, and responded to their concerns shall be validated, and where appropriate, considered in FCPD’s assessment of the BSFI’s compliance with

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Bangko Sentral Consumer Protection regulations. This is without prejudice to the imposition of appropriate enforcement actions. It is presumed that the higher number of complaints received by the Bangko Sentral reflects the non-effectiveness of the BSFI's CAMS.

N. Outsourcing of Handling Consumer Concerns

In outsourcing handling of consumer concerns, a BSFI shall:

- (1) Conduct due diligence in the selection of the outsourced entity/person;
- (2) Be responsible for the performance thereof in the same manner and to the same extent as if performed by itself;
- (3) Comply with all laws and regulations governing the consumer assistance activities/services performed by the outsource entity/person in its behalf; and
- (4) Manage, monitor, and review on an ongoing basis the performance by the outsource entity/person of the outsourced consumer assistance activities/services.

O. Accountability and Rewards

In order to ensure fair treatment and responsible business conduct of personnel engaged in consumer relations, a performance appraisal system which considers the performance of the personnel assigned to manage/handle complaints shall be put in place. The performance appraisal of the personnel shall be linked to their efficiency in handling consumer complaints. This could be done through rewards/remuneration for excellent behavior.

P. Consumer Assistance to Persons with Disabilities (PWDs) and non-English Speakers

As far as practicable, a BSFI shall take into account the needs of PWDs, such as, but not limited to those with learning difficulties, people who are deaf or hard of hearing, the visually impaired, and the non-English speakers, in ensuring that they understand the CAMS.

(Circular No. 857 dated 21 November 2014, as amended by Circular No. 890 dated 02 November 2015)

GUIDELINES ON THE IMPLEMENTATION OF THE
BASEL III LEVERAGE RATIO FRAMEWORK
(Appendix to Subsec. X115.6)

The Bangko Sentral will adopt a leverage ratio framework that is designed to act as a credible supplementary measure to the risk-based capital requirements. The leverage ratio intends to:

- Restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy; and
- Reinforce the risk-based requirements with a simple, non-risk based “backstop” measure.

This framework is largely based on the document issued by the Basel Committee on Banking Supervision (“Basel Committee” or “BCBS”) released in January 2014 entitled “Basel III Leverage Ratio Framework and Disclosure Requirements”.

A. Definition, Minimum Requirement and Scope of Application

Leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), expressed as a percentage:

$$\text{Basel III Leverage Ratio (\%)} = \frac{\text{Tier I Capital}}{\text{Exposure Measure}}$$

The leverage ratio shall not be less than 5.0 percent and will be applied to all universal and commercial banks (U/KBs) and their subsidiary banks/quasi-banks (QBs) computed on both solo¹ and

consolidated² bases, similar with the capital adequacy framework, i.e., computed on a daily basis and reported on a quarterly basis.

1. Capital Measure

The capital measure for the leverage ratio is Tier 1 capital calculated in accordance with *Appendix 63b*.

Tier 1 capital should be net of regulatory deductions³ applicable to Tier 1 capital. Items that are deducted completely from capital do not contribute to leverage, hence, should also be deducted from the exposure measure.

2. Exposure Measure

a. General Measurement Principles in respect of the Exposure Measure

U/KBs and their subsidiary banks/QBs should generally follow the accounting value of exposure for the purpose of calculating the Exposure Measure for the leverage ratio, except that:

- On-balance sheet, non-derivative exposures are to be included in the Exposure Measure net of specific provisions; and
- Netting of loans and deposits is not allowed.

U/KBs and their subsidiary banks/QBs must not take account of physical or financial collateral, guarantees or other credit mitigation techniques to reduce the Exposure Measure.

b. Total Exposure Measure

The total Exposure Measure is computed as follows:

¹ Pertains to the reporting entity's head office and branches

² Pertains to the reporting entity and its financial allied subsidiaries except insurance companies that are required to be consolidated on a line-by-line basis for the purpose of preparing consolidated financial statements

³ Refers to Regulatory Adjustments to CET1 Capital (Items A.2.1 to A.2.24) and Regulatory Adjustments to Additional Tier 1 (AT1) Capital (Items A.5.1 to A.5.8) of Part II (Qualifying Capital) of the BASEL III CAR Template (Version 3)

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On-balance sheet exposures

+

Derivative exposures

+

Securities Financing Transactions (SFT) exposures

+

Off-balance sheet (OBS) Items

Exposure Measure =

The methods for calculating the Exposure Measure in respect of the above four main exposure categories are described in greater detail below.

1. On-balance sheet

For the purpose of calculating the Exposure Measure, the on-balance sheet exposure must include all on-balance sheet assets, gross of General Loan Loss Provisions (GLLP).

On-balance sheet derivatives and SFT assets are not to be included under On-Balance sheet exposures as they are subject to different treatment.

2. Derivatives

The Exposure Measure for derivative contracts¹ consists of an exposure arising from the underlying of the derivative contract and a counterparty credit risk (CCR) exposure. In general, the Exposure Measure for derivatives is calculated as follows:

Replacement Cost (RC)

+

Potential Future Exposure (PFE)

±

Adjustments for Written Credit Derivatives

Exposure Measure =
for Derivatives

Where:
RC = Positive mark-to-market value of the contract (or zero if the mark-to-market value is zero or negative);

PFE² = This represents an add-on arising from the potential exposure over the remaining life of the contract calculated by multiplying the notional principal amount of the contract to the appropriate potential future credit conversion factor; and

Adjustments for Written Credit Derivatives = effective notional amount³ referenced by the written credit derivative

In the computation of the PFE, the following add-on factors shall apply to financial derivatives, based on residual maturity:

Residual Maturity	Interest Rate Contract	Exchange Rate Contract	Equity Contract
One (1) year or less	0.0 percent	1.0 percent	6.0 percent
Over 1 year to five (5) years	0.5 percent	5.0 percent	8.0 percent
Over 5 years	1.5 percent	7.5 percent	10.0 percent

For contracts with multiple exchanges of principal, the factors are to be multiplied by the number of remaining payments in the contract. For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these

¹ This approach makes reference to the Current Exposure Method (CEM) which is used under the Basel II framework to calculate the CCR exposure amounts associated with derivative exposures. The Basel Committee is considering alternatives to the CEM. If an alternative approach is adopted as a replacement for the CEM, Basel Committee will consider whether that alternative approach is appropriate in the context of the need to capture both types of exposures created by derivatives.

² No potential future credit exposure shall be calculated for single currency floating/floating interest rate swaps, the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market valuation.

³ For credit derivative contracts where the stated notional amount differs from the effective notional amount, banks/non-banks must use the greater of the effective notional amount and the notional amount. The effective notional amount is obtained by adjusting the notional amount to reflect the true exposure of contracts that are leveraged or otherwise enhanced by the structure of the transaction.

specified dates, the residual maturity would be set equal to the time until the next reset date, and in the case of interest rate contracts with remaining maturities of more than one (1) year that meet these criteria, the potential future CCF is subject to a floor of 0.5 percent.

For credit derivatives, which refer to credit default swaps (CDS), total return swaps (TRS) and credit-linked notes (CLN), two approaches shall be applied, as follows:

a) For single-name credit derivatives, a 5.0 percent add-on factor for the computation of the potential future credit exposure shall be used by both protection buyers and protection sellers if the reference obligation is rated as investment grade by at least two credit rating agencies i.e. rated Baa or higher by Moody's and BBB or higher by Standard & Poor's. A 10.0 percent add-on factor applies to all other reference obligations. However, a protection seller in a CDS shall only be subject to the add-on factor if it is subject to closeout upon the insolvency of the protection buyer while the underlying is still solvent. The add-on in this case should be capped to the amount of unpaid premiums.

b) With regard to multiple name derivatives, where the credit derivative is a first to default transaction, the add-on will be determined by the lowest credit quality underlying in the basket (i.e., if there are any non-investment grade or unrated items in the basket), the 10.0 percent add-on should be used. For second and subsequent nth-to-default transactions, underlying assets should continue to be allocated according to the credit quality (i.e., the second lowest credit quality will determine the add-on for a second or nth-to-default transaction respectively). On the other hand, where the

credit derivative is referenced proportionately to multiple obligations, the add-on factor will follow the add-on factor applicable to the obligation with the biggest share. If the protection is equally proportioned, the highest add-on factor should be used.

Written Credit Derivatives

In addition to the CCR exposure arising from the fair value of the contracts, written credit derivatives¹ create a notional credit exposure arising from the creditworthiness of the reference entity. As such, written credit derivatives shall be treated consistently with cash instruments (i.e., loans, bonds) for the purpose of the exposure measure.

In order to capture the credit exposure to the underlying reference entity, the effective notional amount² referenced by a written credit derivative is incorporated into the Exposure Measure. However, the effective notional amount of a written credit derivative may be reduced by any negative change in fair value amount that has been incorporated into the calculation of Tier 1 capital with respect to the written credit derivative. The resulting amount may be further reduced by the effective notional amount of a purchased credit derivative on the same reference name³, *Provided*; That

- The credit protection purchased on a reference obligation which ranks *pari passu* with or is junior to the underlying reference obligation of the written credit derivative in the case of single name credit derivatives; and

- The remaining maturity of the credit protection purchased is equal to or greater than the remaining maturity of the written

¹ *Written credit derivatives* refer to credit default swaps, total return swaps and credit-link notes where banks act as guarantor.

² For credit derivative contracts where the stated notional amount differs from the effective notional amount, banks/non-banks must use the greater of the effective notional amount from the notional amount. The effective notional amount is obtained by adjusting the notional amount to reflect the true exposure of contracts that are leveraged or otherwise enhanced by the structure of the transaction.

³ Two reference names are considered identical only if they refer to the same legal entity.

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credit derivative.

The Exposure Measure of a written credit derivative may be overstated by the inclusion in the Exposure Measure of both (1) PFE representing counterparty credit exposure and (2) effective notional amount representing reference entity exposure. To avoid double counting, a PFE of zero is assigned to a written credit derivative whose effective notional amount is already included in the Exposure Measure. Hence, the total exposure measure for written credit derivatives equals RC and its corresponding effective notional amount.

3. Securities Financing Transactions (SFTs)

SFTs are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing and margin lending transactions, where the value of the transactions depends on market valuation and the transactions are often subject to margin agreements.

a. For bank/non-bank acting as principal, the Exposure Measure calculations for SFTs shall be computed as follows:

$$\text{Exposure Measure for SFTs} = \text{Adjusted SFT Assets} + \text{Counterparty Credit Risk Exposure (E)}$$

Where:

Adjusted SFT Assets = the gross SFT assets¹ recognized for accounting purposes (i.e., with no recognition of accounting netting) will be adjusted to exclude the value of any securities received under an SFT, where the bank has recognized the securities as an asset on its balance sheet².

Counterparty Credit Risk Exposure (E) = the measure of CCR is calculated as the current exposure (i.e., without PFE) with respect of the SFT.

¹ For SFT assets subject to novation, “gross SFT assets recognized for accounting purposes” are replaced by the final contractual exposure, given that pre-existing contracts have been replaced by new legal obligations through the novation process.

² Gross SFT assets recognized for accounting purposes must not recognize any accounting netting of cash payables against cash receivables (e.g., under the Philippine Accounting Standards).

The current exposure for transactions with a counterparty must be calculated on a transaction by transaction basis: that is, each individual SFT is treated as its own netting set, computed as the difference between the fair value of securities and cash *lent* to a counterparty for a transaction and the fair value of securities and cash *received* to a counterparty for a transaction. In other words, it shall follow the formula:

$$E = \max, \{0, [E_i - C_i]\}$$

Where:

E_i = cash and the fair value of securities lent to a counterparty for a transaction, and

C_i = cash and the fair value of securities received from a counterparty for a transaction.

b. If a bank/non-bank acting as an agent in an SFT provides an indemnity or guarantee to a customer or counterparty for any difference between the value of the security or cash the customer has lent and the value of the collateral the borrower has provided, the bank/non-bank should include in its Exposure Measure only the measure for Counterparty Credit Risk Exposure (E). Otherwise, the treatment when the bank is acting as a principal shall be applied.

4. Off-balance sheet (OBS) Items

The leverage ratio exposure measure for Off-balance sheet (OBS) items is generally calculated by multiplying the notional amount of the OBS item by a credit conversion factor (CCF), as follows:

a. 100 percent CCF - this shall apply to OBS securitization exposures except an eligible liquidity facility or an eligible servicer cash advance facility, direct credit substitutes, e.g., general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances

(including endorsements with the character of acceptances) as follows:

- Guarantees issued other than shipside bonds/airway bills; and
- Financial standby letters of credit.

b. 50 percent CCF - this shall apply to OBS securitization exposures that qualify as eligible liquidity facilities¹ and certain transaction-related contingent items, e.g., performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions) as follows:

- Performance standby letters of credit (net of margin deposits), established as a guarantee that a business transaction will be performed;
- Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs); and
- Other commitments, e.g., formal standby facilities, commitments with an original maturity over one year and Underwritten Accounts Unsold.

c. 20 percent CCF - this shall apply to short-term self-liquidating trade letters of credit arising from the movement of goods², e.g., documentary credits collateralized by the underlying shipments, such as:

- Trade-related guarantees:
 - Shipperside bonds/airway bills
 - Letters of credit - confirmed
- Sight letters of credit outstanding (net of margin deposit);
- Usance letters of credit outstanding (net of margin deposit);
- Deferred letters of credit (net of margin deposit);
- Revolving letters of credit (net of margin deposit) arising from movements of goods and/or services; and
- Commitments with an original maturity up to one year.

d. 10 percent CCF - this shall apply to commitments that are unconditionally cancellable at any time by the bank without prior notice (i.e., Credit Card Lines), undrawn servicer cash advances or facility³ or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.

This shall also apply to those not involving credit risk, as follows:

- Spot foreign exchange contracts (bought and sold);
- Late deposits / payments received;
- Inward bills for collection;
- Outward bills for collection;
- Travelers' checks unsold;
- Deficiency claims receivable; and
- Others.

B. Reporting and Disclosure Requirements

Starting 31 December 2014 and every quarter thereafter until 31 December 2016, banks/QBs concerned shall submit the Basel III Leverage Ratio reporting template on both solo and consolidated bases for monitoring. The report shall use the prescribed forms and shall be submitted to the appropriate department of the SES. For the periods ended 31 December 2014, 31 March 2015 and 30 June 2015, the reports shall be submitted within 30 banking days from 30 June 2015 on both solo and consolidated bases. For the succeeding quarters, the report shall be submitted semi-annually, each submission covering two quarters on both solo and consolidated bases. Report submission shall be 15 banking days and 30 banking days on solo and consolidated bases, respectively, from the end of the most recent reference quarter. The report submission is summarized below:

¹ These OBS securitization exposures must meet the definition and minimum requirements under X115.

² Applied to both issuing and confirming banks

³ Issued under Memorandum M-2014-044 dated 24 November 2014

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Report Date	Reference Date	Deadline of Submission
31 December 2014 31 March 2015 30 June 2015	30 June 2015	30 banking days on both solo and consolidated bases from end of reference date
30 September 2015 31 December 2015	31 December 2015	15 banking days on solo basis from end of reference date and
31 March 2016 30 June 2016	30 June 2016	30 banking days on consolidated basis from end of reference date
30 September 2016 31 December 2016	31 December 2016	

Upon migration to a Pillar 1 requirement, the Basel III Leverage Ratio report shall be submitted along with the Basel III CAR report (Version 3)¹.

The Basel III Leverage Ratio reporting template shall be composed of four parts:

- Part I - Calculation of Basel III Leverage Ratio
- Part II - Derivative Exposures
- Part III - Securities and Financing Transactions
- Part IV - Off-Balance Sheet Items

In addition to the reporting template to be submitted to the Bangko Sentral, banks will be required to publicly disclose their Basel III leverage ratio on both solo and consolidated bases. The public disclosure requirements include:

- a summary comparison table that provides a banks’ total accounting assets amounts and leverage ratio exposures;
- a common disclosure template that provides a breakdown of the main leverage ratio regulatory elements;

- a reconciliation requirement that details the source(s) of material differences between banks’ total balance sheet assets in their financial statements and on-balance sheet exposures in the common disclosure template; and

- other disclosures (i.e., material period changes in the leverage ratio from the end of the previous reporting period to the end of the current reporting period).

The public disclosure requirements could be made either through inclusion of the requirements in the bank’s published financial statements or, at a minimum, provide a link to the complete disclosures on the banks’ websites or publicly available regulatory reports. An ongoing archive of all the reconciliation templates, disclosure templates and explanatory tables relating to prior periods must be made available by banks in their website or through publicly available regulatory reports. Irrespective of the location of the disclosure (bank websites or publicly available regulatory reports), all disclosures must be made according to the defined templates.

At a minimum, three items must be publicly disclosed in the quarterly published balance sheet: (i) the numerator (Tier 1 capital); (ii) the denominator (exposure measure); and (iii) the Basel III Leverage Ratio.

(Circular No. 881 dated 09 June 2015)

¹ Issued under Memorandum M-2014-044 dated 24 November 2014

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EXAMPLES OF MINIMUM INTERNAL CONTROL MEASURES
(Appendix to Subsection X185.3)

1. Independent balancing

- a. 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, or the person directly connected with processing the transactions;
- b. Irregular and unannounced count of teller's/cashier's cash and checks and other cash items and vault cash including Automated Telling Machine's (ATM) cash dispensers by the auditor/control officer or by an officer not connected with cash department or its equivalent;
- c. 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;
- d. Periodic verification of securities and collaterals by someone other than their custodian; and
- e. Periodic verification of the accuracy of the interest credits to deposit liabilities accounts.

2. Physical handling of transactions

- a. 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/investor's/creditor's subsidiary ledgers;
- b. A lending officer shall never be allowed to disburse proceeds of loans, accept payment on loans nor post loan ledgers;
- c. The functions of issuing, recording and signing of drafts/checks shall be separated;

- d. 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;
- e. 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 or checks;
- f. Custodians of securities shall not be allowed to handle security transactions;
- g. Collateral appraisal shall be done by an employee/officer who does not approve loans;
- h. 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;
- i. Credit reports shall be obtained by someone other than lending officers;
- j. 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
- k. Dispatching and delivery of current account statements shall be done by someone who is not involved in current account operations.
- l. For QBs, paid checks/drafts should be controlled and maintained by an officer/employee other than the authorized signatory or the cashier.

3. Joint custody

- The following shall be under joint custody:
- a. Cash on hand or in vault and in ATM cash dispensers;

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- b. All accountable forms;
- c. Collaterals;
- d. Securities;
- e. Documents of title and/or ownership of properties or fixed assets;
- f. Dormant deposit ledgers/EDP print-outs and corresponding signature cards including on-line posting of dormant accounts;
- g. Import documents;
- h. Trust receipts;
- i. Collection items;
- j. Duplicate keys, safe deposit spare locks and keys, and keys to unrented safe deposit boxes;
- k. Safekeeping items;
- l. Vault door and safe combinations;
- m. Unissued specimen signature books;
- n. Correspondent's and bank's own telegraphic and/or electronic fund transfer system or cable test keys currently in use;
- o. Test key fixed numbers unissued;
- p. Unissued and captured ATM cards and similar devices;
- q. Access locks and keys to on-line EDP terminals and similar devices; and
- r. Access locks and keys to EDP mainframes and peripherals.

4. Dual Control

The following accounts/transactions shall be under dual control:

- a. Checks, 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.
- b. 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). The internal control measures for the issuance of CTDs include, at a minimum, the following activities:

- (1) Joint custody of unissued CTD forms;
- (2) Accounting for all issued/ cancelled CTDs;
- (3) Signature requirement for the issuance of CTDs;
- (4) Counterchecking of issued CTDs against the tellers' proof sheets/validated slips; and
- (5) Recording of CTDs transactions.
- c. Bank Drafts – The signature of two (2) authorized officers should be required in the issuance of bank draft.
- d. Borrowings – The signature of the least two (2) authorized officers should be required.
- e. 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.

5. Number Control

The following are the forms, instruments and accounts that shall be number-controlled:

- a. Bank drafts;
- b. Checks, manager's and cashier's checks;
- c. Promissory notes and other commercial papers;
- d. Savings deposit accounts;
- e. Demand deposit accounts;
- f. CTDs;
- g. Letters of credit;
- h. Collection items;
- i. Official and provisional receipts;
- j. Certificates of stocks;
- k. Loan accounts;
- l. Expense vouchers;
- m. Payment orders (incoming and outgoing) of TTs and EFTS;
- n. Transfer requests through EFT involving bank's accounts abroad;

- o. EDP batch transmittal slips of documents; and
- p. Due to/from head office/branches tickets.

6. 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, dormant accounts and closed accounts;
- c. Outstanding balances of borrowings and other liabilities; and
- d. Outstanding balances of receivables/ payables.
- e. For QBs, collaterals securing said accounts.

7. Internal control procedures for dormant accounts¹

- a. Definition of dormant accounts
 - (1) Current or checking accounts showing no deposit or withdrawals for a period of one (1) year.
 - (2) Savings account showing no deposit or withdrawal for a period of two (2) years.
- b. Internal control measures
 - (1) As a matter of policy, banks shall exert all efforts to prevent deposit accounts from becoming dormant.
 - (2) When an account is about to become dormant, the depositor shall be notified of its potential dormancy at least sixty (60) days prior to the commencement of the dormancy period.

The notification shall contain the following information:

 - (a) The effect of dormancy to transfer the account from active to dormant status, and advice on how to reactivate the account; and

(b) Reminder that the dormant account will be included in the list of unclaimed balances to be submitted to the Treasurer of the Philippines (Treasurer) for escheat in accordance with the Unclaimed Balances Act, if said account has no activity for ten (10) years.

(3) The bank shall adopt appropriate internal control measures to ensure that all transactions affecting dormant deposit accounts are legitimate.

(4) When an account is about to be subject to dormancy fee, the depositor shall be notified at least sixty (60) days prior to such imposition.

(5) For unclaimed dormant deposit accounts considered for escheat, the depositor of such account shall be notified at least sixty (60) days prior to the filing by the bank of the sworn statement to the Treasurer pursuant to the Unclaimed Balances Act.

(6) Banks shall permanently retain records of escheated deposits, together with proof of all the relevant notices. For the purpose of this item, records of escheat shall refer to the sworn statement of the bank to the Treasurer regarding the unclaimed balances, and the court order declaring that said unclaimed balances have been escheated to the Government of the Republic of the Philippines and commanding the bank to forthwith deposit the same with the Treasurer. Relevant notices to be retained shall include copies of the notices referred to in Items "(2)", "(4)" and "(5)" of Item "7.b".

(7) Individual notifications shall be sent to the client's last known postal address/e-mail address/contact number either through postal or registered mail, courier delivery, electronic mail, text messages, telephone calls or other alternative modes of communication, as may be elected by the client.

¹ The requirement for additional notification prior to escheat under Item "7.b.(6)" took effect on 11 November 2016.
All other provisions shall take effect on 25 April 2017.

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(8) The provisions of Items "2", "4", "5" and "6" of Item "7.b" shall apply, notwithstanding any contrary provisions in the terms and conditions.

8. Other Internal Control Measures

a. Deposit accounts

(1) All new current accounts shall be approved by a designated officer.

(2) Signature cards and deposit ledger sheets shall be authenticated by some form of validation. Subsequent changes shall also be validated.

(3) Signature cards and deposit ledger sheets shall be accessible only to authorized persons.

(4) Deposit tickets shall be occasionally examined at irregular intervals to determine that postings are made on the actual date deposits are received.

(5) Checks shall be cancelled as soon as they have been paid and posted.

(6) Reports on closed accounts and returned checks shall be prepared daily.

(7) 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 Bangko Sentral-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.

(8) An officer shall be designated to attend to customers who report differences on their statements.

(9) Checkbooks shall be issued only against requisition forms signed by an authorized signatory to the account.

(10) Banks shall adopt a system to establish the identity of their depositors.

b. For QBs: Investments

(1) Investment limits and a list of accredited companies as approved by the board of directors or by its Credit Committee should be established as a guide for investing in any FI engaged in money market trading.

(2) Investments should be secured by assets approved by the board of directors or by its Credit Committee.

(3) Checks representing placements of investments should be released only upon receipt of either the deposit substitute instrument or the underlying securities or documents of title.

c. Miscellaneous

(1) Loan applications and related documents shall be verified to ensure their authenticity particularly the name, residence, employment and current reputation of the borrowers.

(2) Tellers/cashiers 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/cashiers 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.

All QBs shall secure adequate insurance coverages, fidelity and other indemnity protection.

(Circular No. 871 dated 05 March 2015, as amended by Circular Nos. 928 dated 24 October 2016 and 903 dated 29 February 2016)

Framework on the Consolidation Program for Rural Banks (CPRB)
(Appendix to Sec. X109)

LEGAL BASIS

Sec. 1 of R.A. No. 9576, amending R.A. No. 3591 (PDIC Charter) mandates PDIC to maintain faith and confidence in the country’s banking system and to promote and safeguard the interests of the depositing public by way of helping develop a sound and stable banking system.

The Consolidation Program for Rural Banks (CPRB) is in recognition of the need to strengthen and enhance the viability of RBs given their importance in providing financial services to the community and promoting financial inclusion particularly in their specialized or niche markets, and thereby help maintain financial stability in the economy.

Further, pursuant to Section 5 of R.A. 8791 (The General Banking Law of 2000), the Monetary Board may exempt particular categories of transactions from prescribed ratios, ceilings and limitations for banks merging or consolidating.

OBJECTIVES

The CPRB is intended to encourage mergers and consolidation of RBs to bring about a less fragmented banking system by enabling rural banks to:

- 1. Improve financial strength, enhance viability and generate better return to shareholders;
- 2. Strengthen management and governance;
- 3. Generate synergies and economies of scale thru common infrastructure, systems and resources; and
- 4. Expand market reach.

PROGRAM PERIOD

The CPRB shall be available for a period of two (2) years from 25 August 2015.

ELIGIBILITY

Proponents should be at least five (5) RBs, the head offices or majority of the branches of which, shall preferably be located in the same region or area. RBs whose head office is located in a nearby region may be included, if the program objectives shall be met.

The resulting bank should meet all of the following:

- 1. Risk-based capital adequacy ratio (RBCAR) of at least twelve percent (12%); and
- 2. Combined unimpaired capital of at least P100Mn.

PROGRAM SUPPORT

1. Financial advisory services at minimal cost to the proponents. [Countryside Financial Institutions Enhancement Program (CFIEP) will fund eighty percent (80%) of the cost]

- a. Advisory on the general conduct of the merger/consolidation process in relation to the program requirements
- b. Engagement of financial and legal advisers on the optimal merger/consolidation structure
- c. Due diligence and valuation activities and presentation of the results thereof to the board of directors and the shareholders of the proponent banks
- d. Documentation of transaction and submissions to regulatory agencies

2. Business process improvement services at a cost of twenty percent (20%) to the proponents for the first year and fifty percent (50%) during the second year [CFIEP will fund the balance of eighty percent (80%) and fifty percent (50%), respectively]

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- a. Integration process (data and records integration, consolidation of backroom activities, financial reporting)
- b. Development and updating of Manuals
- c. Guidance on automation/new system requirement as a result of integration
- 3. Capacity building support services at no cost to the proponents (to be funded by CFIEP, Bangko Sentral, LBP and PDIC)
 - a. Training - credit evaluation and administration, audit and internal control, personnel management, accounting/record keeping, treasury, information technology
 - b. Governance
- 4. Possible equity participation by the LBP
- 5. Bangko Sentral to observe full flexibility in the grant of incentives allowable under existing banking laws and regulations including Bangko Sentral Circular No. 237 as amended by Circular Nos. 771 dated 11 October 2012 ad 494 dated 20 September 2005
- 6. Other incentives as may be approved by the PDIC, LBP, and CFIEP

PROGRAM REQUIREMENTS

- 1. Letter of intent from the proponent banks, together with board resolutions manifesting their interest to consolidate with the other proponent banks and authorizing their representative for the program;
- 2. Memorandum of Agreement (MOA) from the proponent banks to include the following, among others:
 - a. Firm commitment of each proponent bank to enter into a consolidation or merger transaction with the other identified banks and to undertake to comply with all program requirements (to be supported by a board resolution);
 - b. Commitment to allow the financial adviser and appraisers to conduct due diligence on their respective banks, provide all information relating to their respective banks’ financial condition, and promptly

- make available all records and disclose all information required by the financial adviser;
- c. Agreement to abide by the valuation process and results to be conducted by reputable Bangko Sentral-accredited external auditors/valuation experts;
- d. Infusion of additional fresh capital (from existing shareholders/new investors) if the resulting adjusted capital and RBCAR of the consolidated bank shall fall below the minimum capital requirements;
- e. Installation of a professional management team for the consolidated bank;
- f. Nomination of directors committed to adhere to sound governance principles and work to attain the objectives of the program;
- g. Capacity-building measures;
- h. Submission of valuation reports of the engaged financial advisers and such other information as may be required by PDIC and Bangko Sentral;
- i. Submission of business plan including human resource (HR) strategy and composition of management team and board of directors;
- j. Reimbursement of their proportionate share to program expenses;
- k. In the event of withdrawal from the program, reimbursement of their proportionate share to costs already incurred.

FLOW OF ACTIVITIES

- 1. Financial advisory activities
 - a. From among the list of Bangko Sentral-accredited/selected financial advisers, the proponent banks, as a group, selects the financial adviser which will undertake the program’s financial advisory activities;
 - b. Engagement of the services of the selected financial adviser;
 - c. Signing of confidentiality agreement by the engaged financial adviser;
 - d. Conduct of due diligence/valuation by the financial adviser;

- e. Preparation of reports by the financial adviser to be presented to the proponent banks and regulators;
- f. Approval by the proponent banks and their shareholders of the results of the valuation which will contain the basis of ownership/share distribution in the consolidated bank;
- g. Preparation of necessary documents (Plan of Consolidation, Articles of Consolidation, New Articles of Incorporation and By-Laws) to be submitted to SEC;
- h. Submission to PDIC of the necessary documents and the request for PDIC consent of the consolidation transaction under Sec. 21(c) of the PDIC Charter, as amended;
- i. Submission to Bangko Sentral of the necessary documents for approval of the consolidation transaction and for the issuance of certificate to register with the SEC;

- j. Submission to SEC of the registration documents; and
 - k. Issuance by the Bangko Sentral of the certificate of authority to operate (as new bank).
- 2. Conduct of business integration and process review;
 - 3. Conduct of capacity building activities.

MOA AMONG COOPERATING INSTITUTIONS

PDIC, LBP and Bangko Sentral will execute a MOA in support of CPRB to include provision for the allocation of P25 million to fund the implementation of the program which will be sourced from Module III of CFIEP, the related deed of undertaking signed by the members of the Task Force thereof will be appended for the purpose¹. The cooperation of SEC shall likewise be sought through the Financial Sector Forum (FSF).
(CL-2015-050 dated 18 August 2015, as amended by Circular No. 903 dated 29 February 2016)

¹ Alternatively, a copy of the memorandum of the Technical Committee, recommending the allocation of the amount for the implementation of the CPRB, as approved by the Task Force, may also be appended.

CONSOLIDATION PROGRAM FOR RURAL BANKS (CPRB)
IMPLEMENTING GUIDELINES
(Appendix to Sec. X109)

Following the approval by the PDIC, Bangko Sentral, LBP and CFIEP of their respective participations in the CPRB, these implementing program guidelines (“Guidelines”) are hereby issued¹.

Section 1.0 Rationale of the Program

The CPRB was established in recognition of the need to further strengthen and enhance the viability of RBs given their importance in providing essential financial services to the community, particularly in their specialized or niche markets, and in promoting financial inclusion and financial stability in the economy.

The Program seeks to encourage consolidations and mergers among RBs to bring about a less fragmented banking system by enabling RBs to: (i) improve their financial strength; (ii) enhance their viability; (iii) strengthen the management and governance; (iv) generate synergies and economies of scale through common infrastructure, systems and resources; and (v) expand their market reach.

Section 2.0 Definition of Terms

For purposes of these Guidelines, the following acronyms, words and phrases shall mean as follows:

2.1. *Agencies* collectively refer to the PDIC, the Bangko Sentral and the LBP as authors and advocates of the Program.

2.2. *CFIEP* refers to the Countryside Financial Institution Enhancement Program

which shall provide funding support to the Program, consistent with its objectives of improving the long term viability of countryside financial institutions.

2.3. *Consolidation*, involves the combination of at least five (5) rural banks (RBs), resulting in their dissolution and the creation of a new entity, subject to the provisions of existing applicable and relevant laws.

2.4. *Day (or days)* refers to the business day or day other than a Saturday, Sunday or day on which commercial banks in Metro Manila are generally closed for business.

2.5. *Financial Adviser* refers to the adviser engaged by the Proponent Banks from among the top five financial advisers based on the CFIEP Guidelines on the Funding Support for the Program, which shall provide financial, legal and property appraisal services to the Proponent Banks as set forth under Section 8.7 and the Terms of Reference for the Financial Adviser approved by the CFIEP.

2.6. *Financial Adviser’s Final Report* includes but not limited to the report on: (i) the methodology (ii) the valuation and appraisal reports of assets, (iii) legal audit report on pending cases; (iv) the due diligence findings including report on the over-all financial condition of the Proponent Banks; (v) the proposed ownership and capital structure and proposed consolidation or merger plan of the Surviving Bank; (vi) the organizational structure and

¹ PDIC Board Resolution No. 2015-05-063 dated 20 May 2015; Bangko Sentral Monetary Board Resolution No. 995 dated 18 June 2015; LBP Codified Approving Signing Authorities, as amended by, per Secretary’s Certificate dated 29 June 2015; and approval dated 28 July 2015 of the CFIEP Task Force of funding support for the Program.

integration plan, business plan including financial projections for the Surviving Bank; and (vii) all reports and documents required to be delivered by the Financial Adviser under the Guidelines, Terms of Reference in the Engagement of the Financial Adviser and the Engagement Contract.

2.7. *Merger* involves the combination of at least five (5) RBs, one of which shall be the surviving entity, subject to the provisions of existing applicable and relevant laws.

2.8. *MOA* refers to the “Memorandum of Agreement on the Consolidation Program for Rural Banks among the Proponent Banks” which shall contain the Proponent Banks’ agreement as indicated in Section 7(f).

2.9. *MOU* refers to the “Memorandum of Undertaking in favour of the Agencies duly executed jointly by the Proponent Banks which shall contain the commitments, representations, warranties and other obligations of the proponent Banks as indicated in Section 7(g).

2.10. *Program* refers to the Consolidation Program for RBs or CPRB.

2.11. *Proponent Banks* refers to the participating rural banks which qualify under the Program pursuant to Section 5.

2.12. *RBCAR* means the “Risk Based Capital Adequacy Ratio.”

2.13. *SEC* refers to the Securities and Exchange Commission which approves the registration of the Surviving Bank as a consolidated or merged bank.

2.14. *Surviving Bank* refers to the resulting entity after the consolidation or merger of the Proponent Banks.

Section 3.0 Interpretation

The headings in these Guidelines are inserted for convenience of reference only and shall not limit or affect the interpretation of its provisions. References to sections and annexes are to be construed as references to the Sections and Annexes to these Guidelines.

Section 4.0 Program Availability Period

The Program shall be available from 25 August 2015 to 25 August 2017. To avail of the Program, letters of intent/application duly supported by certification of board and shareholders’ approval of the Proponent Banks and all other required documents enumerated in Section 7 must have been duly submitted to and received by the PDIC on or before 25 August 2017.

Section 5.0 Eligibility of Proponent Banks to the Program

Any group of at least five (5) Proponent Banks, the head offices or majority of the branches of which, shall preferably be located in the same region or area, and whose consolidation or merger would result to a Surviving Bank with-

- a. RBCAR of at least twelve percent (12%); and
- b. A combined unimpaired capital of at least P100 Million.

RBs whose head office is located in a nearby region may be included, provided that the Program objectives shall be met.

Section 6.0 Program Support

The Proponent Banks may avail of the following program support:

- 6.1. Funding assistance for:
 - a. Financial advisory services in accordance with Sections 8.6 and 13.2;
 - b. Business process improvement services in accordance with Section 13.3; and
 - c. Capacity building support services in accordance with Section 12.3.
- 6.2. Regulatory incentives under Sec. X108.3 and other existing laws and rules subject to the Proponent Banks’ compliance of the requirements therein and approval of the concerned agencies.

Section 7.0 Procedures for Application

To avail of the Program’s incentives, the Proponent Banks shall submit three (3) sets

of the following documents to the PDIC through the Office of the Vice President-Resolution Group:

a) Letter addressed to the PDIC and the Bangko Sentral indicating their intention to consolidate or merge under the Program;

b) Duly accomplished CPRB application form;

c) Resolution of the Board of Directors of the respective Proponent Banks approving the consolidation or merger with other Proponent Banks under the Program. The resolution shall be certified under oath by the respective corporate secretaries of the Proponent Banks;

d) Resolution of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock/contribution of each Proponent Bank approving the consolidation or merger with other Proponent Banks under the Program. The resolution shall be certified under oath by the respective corporate secretaries of the Proponent Banks;

e) Secretary's Certificate of Adoption of Board Resolutions of each of the Proponent Banks containing the following:

i. Approval by the Board of the request for availment of funding assistance under Section 6.1;

ii. Approval of by the Board of the MOA among Proponent Banks containing the terms under Section 7(f), the MOU in favour of the Agencies containing the terms under Section 7(g), Confidentiality Agreement, and other documents as may be required under the Program; and

iii. Designation of the Proponent Bank's authorized signatories to execute and deliver the foregoing documents in relation to the Program and attesting to their specimen signatures.

f. Duly executed joint MOA among Proponent Banks containing, among others, the following:

i. The agreement to consolidate or merge under the Program, and to comply with the Program's requirements.

ii. The commitment to: (a) allow the duly designated Financial Adviser to conduct due diligence on the Proponent Banks; and (b) voluntarily disclose and allow to access to all records, documents and information pertinent to their respective banks' financial condition and other information as may be required by the Financial Adviser.

iii. The agreement to accept the results of the Financial Adviser's due diligence review including the consolidation/merger structure.

iv. The infusion of additional fresh capital, as may be needed, to bring the resulting RBCAR and combined adjusted capital of the Proponent Banks to the required capital level pursuant to Sections 5 and 9.

v. The agreement to adopt the human resource and systems integration plan for the Surviving Bank as proposed by the Financial Adviser.

vi. The nomination of directors in the Surviving Bank who possess the qualifications and none of the disqualifications under the Bangko Sentral regulations, who adhere to sound governance principles and who will work to ensure the viability of the Surviving Bank to attain the objectives of the Program.

vii. The installation in the Surviving Bank of a professional management team that complies with Bangko Sentral regulations.

viii. The institution and adoption of capacity building measures.

ix. The submission of valuation and appraisal reports, due diligence findings (including report on the over-all financial condition of the Proponent Banks) of the Financial Adviser and such other information as may be required by PDIC and Bangko Sentral.

x. The submission of the business plan, including strategies, financial projections and proposed organizational structure for the Surviving Bank.

xi. The agreement on cost sharing of expenses under the Program including dealing with withdrawal (voluntary or

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involuntary) by any of the Proponent Banks.

xii. The agreement to fully reimburse CFIEP’s share in the expenses covering the engagement of a Financial Adviser and/or business process improvement services in case the consolidation or merger of the Proponent Banks does not materialize.

xiii. Designation of a duly authorized representative and his alternate for purposes of communication and coordination with the Agencies.

g. Duly executed joint MOU of the Proponent Banks’ commitment to the Agencies to abide by the following:

i. The terms and conditions of the Program as outlined in the Guidelines, and their obligations under the MOA among the Proponent Banks referred to in Section 7(f).

ii. Their warranties and representations to the Agencies.

iii. Grant authority to PDIC to request for quotations from the pool of financial advisers accredited under the Program.

iv. In case the consolidation or merger of the Proponent Banks does not materialize, fully reimburse CFIEP’s share as specified under Sections 13.2 and 13.3 in accordance with their agreement on cost sharing and, to shoulder equally any deficiency in the reimbursement of CFIEP’s share, in the event of failure of any of the Proponent Banks to pay its corresponding share.

v. Grant authority to Bangko Sentral to deduct from their respective accounts with Bangko Sentral, any amount due to CFIEP, in case they fail to remit their corresponding share to reimburse CFIEP share under Sections 13.2 and 13.3 in accordance with Sections 14.1 and 14.2.

vi. Engage a business process consultant for the Surviving Bank in accordance with Section 12.2, with approval of the Proponent Banks’ respective board of directors.

h. Duly executed Confidentiality Agreement of each of the Proponent Banks; and

i. Copy of the Proponent Banks’ respective latest audited and interim Financial Statements.

PDIC shall only receive complete sets of the foregoing documents from the Proponent Banks, the PDIC shall immediately furnish Bangko Sentral and LBP copies of the complete documents which PDIC received from the Proponent Banks.

Section 8.0 Engagement of the Financial Adviser (FA)

8.1. Upon receipt of the complete set of requirements as provided under Section 7, PDIC shall request the top five (5) financial advisers to submit proposals for engagement of their services, based on the Terms of Reference. The quotations shall be addressed directly to the Proponent Banks’ duly designated authorized representative, copy furnished PDIC.

8.2. Within ten (10) days from receipt of all the quotations from the top five financial advisers, the Proponent Banks shall:

a. Collectively decide and select the Financial Adviser with the most reasonable quote and which is most responsive to the Terms of Reference; and

b. Notify PDIC of their choice for Financial Adviser.

8.3. Within two (2) days from receipt of notice of choice, PDIC shall communicate to CFIEP the Proponent Banks’ choice of Financial Adviser.

8.4. Within five (5) days from receipt of the choice of the Financial Adviser, CFIEP, through its Technical Committee (TC), shall issue to the Proponent Banks’ authorized representative the notice to proceed with the engagement of the Financial Adviser.

8.5. Within five (5) days from the receipt of the notice to proceed, the Proponent

Banks shall enter into a Contract of Engagement of Financial Advisory Services containing the terms and conditions under the Terms of Reference, copy furnished PDIC.

8.6. Within five (5) days from the execution of the Contract of Engagement of Financial Advisory Services, the Proponent Banks' authorized representative shall release to the Financial Advisory the initial payment for its service equivalent to twenty percent (20%) of the Financial Advisers' fee as indicated in the said Contract of Engagement. The balance equivalent to eighty percent (80%) of the Financial Adviser's fee shall be for the account of CFIEP.

The Contract of Engagement of Financial Advisory Services shall become effective upon the Financial Adviser's receipt of the twenty percent (20%) initial payment from the Proponent Banks pursuant to the terms of the Financial Adviser's engagement, and such other terms and conditions as may be agreed between the Proponent Banks and the Financial Adviser.

8.7. Upon receipt of the twenty percent (20%) initial payment, the Financial Adviser shall immediately commence and render financial advisory services, including financial, legal and appraisal services and/or activities, which shall include but not limited to the following:

a. Engage legal counsel who shall perform a legal audit of pending cases of each of the Proponent Banks, provide legal advisory services and prepare and handle all documentation requirements for consolidation or merger as the case may be, such as the Shareholders' Agreement, Plan of Consolidation or Merger, Articles of Consolidation or Merger, Articles of Incorporation and By-Laws of the Surviving Bank and other documents as may be required by the regulatory agencies.

b. Engage appraisers to do a valuation of the real estate and other properties of the Proponent Banks.

c. Conduct due diligence on the Proponent Banks.

d. Determine the financial condition of the Proponent Bank using standard parameters.

e. Prepare valuation study on each Proponent Bank.

f. Recommend ownership and capital structure of the Surviving Bank based on the results of the valuation study.

g. Assist the Proponent Banks in the preparation of the business plan/strategy, organizational structure and human resource strategy for the Surviving Bank.

h. Assist in coordinating with the SEC, the Agencies and the Bureau of Internal Revenue, if necessary.

i. Undertake the other functions/activities required to complete and implement the transaction contemplated under the Program.

8.8. Within fifteen (15) days from the conclusion of their due diligence review, the Financial Adviser shall submit the report containing the result of valuation and the Surviving Bank's ownership structure for approval of the Proponent Banks' respective board of directors and shareholders, copy furnished PDIC and Bangko Sentral.

Section 9.0 Infusion of Additional Capital

9.1. In case the resulting RBCAR and the unimpaired capital of the Surviving Bank based on the Financial Adviser's report are below twelve percent (12%) and P100M, respectively, the Proponent Banks shall infuse additional fresh capital to meet the Program's minimum capital requirements in accordance with their commitment under the MOA and MOU.

9.2. The Proponent Banks shall cause the infusion of the fresh capital required

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under the Program through any or a combination of the following: (i) the existing shareholders of the Proponent Banks; and/ or (ii) a third party investor.

Section 10.0 Optional Equity Investment Facility form LBP

10.1. In the event that the resulting RBCAR of the Surviving Bank fails short of the twelve percent (12%) requirement but is at least ten percent (10%), the Surviving Bank may avail of LBP’s Equity Investment Facility to bring the RBCAR to twelve percent (12%).

10.2. The Surviving Bank’s eligibility under this facility shall be subject to LBP’s specific terms and guidelines attached hereto as Annex A and made an integral part of the Guidelines.

Section 11.0 Approval of the Consolidation or Merger

11.1 The Proponent Banks shall secure the approval of their respective board of directors and shareholders on the final plan of consolidation merger.

11.2 Within sixty (60) days from receipt of the Financial Adviser’s Final Report, the Proponent Banks shall secure the regulatory consents and/or approval of the PDIC, the Bangko Sentral and the SEC as provided under existing laws for all banks on consolidation or mergers.

11.3. Upon Bangko Sentral issuance of the Certificate of Authority to operate as the Surviving Bank, the Proponent Banks shall secure from the SEC the Certificate of Registration of the Surviving Bank.

Section 12.0 Integration and Other Activities of the Surviving Bank

12.1 Within thirty (30) days from the issuance by the CFIEP TC of the certificate of completion of the Financial Adviser’s Final Report, the Proponent Banks, with the

assistance of the Financial Adviser, consultant and the Agencies, shall conduct:

- a. Integration and business process improvement;
- b. Capacity building activities; and
- c. Such other activities necessary to ensure the success and viability of the Surviving Bank.

12.2. The funding support for the business process improvement services may be availed by the Proponent Banks, subject to the same terms and conditions for the availment of the financial advisory services and the procedure in the engagement of the Financial Adviser as provided in the Guidelines. *Provided, however,* That the sharing of expenses shall be subject to Section 13.3.

The business process improvement shall include:

- a. Integration process (data and records integration, consolidation of backroom activities, financial reporting);
- b. Development and updating of manuals; and
- c. Guidance on automation/new system requirement as a result of the integration.

12.3. The Agencies and CFIEP shall provide capacity building support services such as training on credit evaluation and administration, audit and internal control, personnel management, accounting/record keeping, treasury, information technology, and governance at no cost to the Surviving Bank.

Section 13.0 Program’s Funding and Expenses

13.1. CFIEP shall participate in the Program by providing the funding requirements in accordance with these Guidelines.

13.2. The total cost of the financial advisory services inclusive of applicable taxes shall be shared by the CFIEP and the

Proponent Banks in accordance with the following proportion:

CFIEP	80%
Proponent Banks	20%

13.3. The total cost for the business process involvement services on the Surviving Bank inclusive of applicable taxes shall be shared by the CFIEP and the Proponent Banks (or Surviving Bank) in accordance with the following proportion:

CFIEP	80% on the 1st year; 50% on the 2nd year
-------	---

Proponent Banks/ Surviving Bank	20% on the 1st year; 50% on the 2nd year
------------------------------------	---

For this purpose, the 1st year shall commence on the date of issuance by the CFIEP TC of the certificate of completion of the Financial Adviser's Final Report.

13.4. The Agencies shall not be liable for any amount due to the Financial Adviser in excess of CFIEP’s share under Sections 13.2 and 13.3. Any additional payment for the financial advisory and business process improvement service providers shall be for the account of the Proponent Banks.

13.5. All other fees and expenses related to the consolidation or merger of the Proponent Banks under the Program shall be shouldered by the Proponent Banks.

13.6. For CFIEP’s corresponding share in the fees under Sections 13.2 and 13.3, the same shall be remitted to the Financial Adviser and the business process improvement service providers only after the Proponent Banks shall have fully paid their corresponding share thereto.

Section 14.0 Reimbursement to CFIEP

14.1. The Proponent Banks shall be under the obligation to reimburse CFIEP’s share under Sections 13.2 and 13.3 in

accordance with their agreement on cost sharing within three (3) days from receipt of the demand for reimbursement in case the consolidation or merger does not materialize.

14.2. In case a Proponent Bank refuses or fails to remit any payment due to CFIEP under Section 14.1, the Bangko Sentral, after due notice from the CFIEP to the Proponent Bank concerned, shall proceed to debit the Proponent Bank’s demand deposit therewith, corresponding to the amount due for payment as contained in the CFIEP’s demand for reimbursement/payment from the Proponent Bank concerned pursuant to the authority granted to Bangko Sentral under the MOU executed by the Proponent Banks. The full amount debited shall be credited to the demand deposit account of the CFIEP with the Bangko Sentral.

14.3. Any deficiency due to the failure by any of the Proponent Banks to pay CFIEP in full of its corresponding share shall be divided equally among the remaining Proponent Banks. The payment/ collection of such deficiency shall observe the same procedures set forth under the preceding section. The Proponent Banks shall exercise their rights under their agreement if any, or under the law, to exact reimbursement from any non-paying Proponent Bank accordingly.

Section 15.0 Amendments

The Agencies may execute a supplement or amendment hereto for the purpose of adding provisions, changing or modifying provisions of these Guidelines as may be necessary to achieve the Program’s objectives.

Section 16.0 Effectivity

These Guidelines shall take effect immediately.

(M-043-2015 dated 11 December 2015, as amended by Circular No. 917 dated 08 July 2016)

Guidelines on the LBP Equity Investment Facility
Under the CPRB

A. Rationale

Upon consolidation or merger of Proponent Banks, and in case the resulting RBCAR and the unimpaired capital of the Surviving Bank based on the Financial Adviser’s report are below twelve percent (12%) and P100 Million, respectively, the Surviving Bank shall infuse additional fresh capital to meet the Program’s capital and RBCAR requirements, through any or a combination of the following: (i) the existing shareholders of the Proponent Bank; and/ or (ii) a third party investor.

In the event that upon capital infusion by the existing shareholders or third party investors, the resulting RBCAR of the Surviving Bank is at least ten percent (10%) but below twelve percent (12%) the Surviving Bank may avail of LBP’s equity investment facility under the Program.

B. Objectives

LBP equity infusion shall be undertaken to meet the following objectives:

- 1. Increase the RBCAR from at least ten percent (10%) to twelve percent (12%);
- 2. Strengthen the capital base of the Surviving Bank;
- 3. Help sustain long-term viability of the rural banking sector.

C. Equity Investment Facility

- 1. Eligibility criteria
 - a. Surviving Bank (consolidated or merged bank) under the Program;
 - b. No adverse findings on the principal (directors/key officers);
 - c. RBCAR at least ten percent (10%) but less than twelve percent (12%);
 - d. Minimum capitalization required by the Program;

- e. Adequate reserves for the four (4) week period preceding the application (based on the submitted interim financial statements); and

- f. Net past due ratio of not more than fifteen percent (15%).

- 2. Maximum amount: Up to 100% of the total capital requirement in bringing the RBCAR from at least ten percent (10%) to twelve percent (12%); or up to thirty percent (30%) of the total issued and paid-up capital stock, whichever is lower.

- 3. Features

- a. Maturity of ten (10) years from the date of release, notwithstanding any change in the structure of ownership of the surviving bank;

- b. LBP's entitlement to be represented in the CFI Board;

- c. Preferred shares;

- d. Cumulative dividends;

- e. To be fully redeemed at maturity at par or book value, whichever is higher plus unpaid dividends, *if any*;

- f. Non-voting but shall be entitled to vote on corporate acts specified under Section 6 of the Corporation Code;

- g. Dividend Rate of ten (10)-year R-2 plus two and a half percent (2.5%), or a floor rate of six and a half percent (6.5%), *whichever is higher*, fixed at the time of availment;

- h. Booking of the equity by the CFI shall be recognized under Tier 2 capital.

- 4. Other terms and conditions

- Issuance of the preferred shares under the Program shall require compliance with the following in accordance with *Appendix 63c* and other requirements:

- a. It must be issued and paid-in;

- b. It must be subordinated to depositors and general creditors of the bank;
- c. It is neither secured nor covered by a guarantee of the issuer or relates entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general creditors if the bank;
- d. With regard to maturity:
- 1) It must have a minimum original maturity of at least five (5) years:
- 2) Its recognition in regulatory capital in the remaining five (5) years before maturity will be amortized on a straight line basis as follows;
- | Remaining maturity | Discount factor |
|----------------------|-----------------|
| 5 years & above | 0% |
| 4 years to < 5 years | 20% |
| 3 years to < 4 years | 40% |
| 2 years to < 3 years | 60% |
| 1 year to < 2 years | 80% |
| < 1 year | 100% |
- and,
- 3) There are no step-ups or other incentives to redeem
- e. It may be callable at the initiative of the issuer only after a minimum of five (5) years:
- 1) To exercise a call option the bank must receive prior supervisory approval; and
- 2) The bank will not do anything which creates an expectation that the call will be exercised; and
- 3) The bank will not exercise a call unless:
- i. The bank replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or
- ii. The bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.
- f. The investor must have no rights to accelerate the repayment of future

- scheduled payments (coupon or principal), except in bankruptcy and liquidation;
- g. The instrument cannot have a credit sensitive dividend feature, that is a dividend/ coupon that is reset periodically based in whole or in part on the bank’s credit standing;
- h. Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument;
- i. It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank.
- j. The instrument shall be converted in common equity upon the occurrence of a trigger event subject to the provisions as may be defined by Bangko Sentral. The trigger event occurs when the bank is considered non-viable as determined by the Bangko Sentral. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio, inability of the Bank to continue business (CLOSURE) or any other event as determined by the Bangko Sentral, whichever comes earlier.
- The issuance of any new shares as a result of the trigger event must occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted.
- The requirements on loss absorbency feature of Tier 2 capital at point of non-viability as provided in Loss Absorbency requirements for additional T1 capital and T2 capital at the point of non-viability shall likewise be observed.
- Following the provisions of Item "10" of Loss Absorbency requirements for additional T1 capital and T2 capital at the point of non-viability, the formula for the conversion of the total outstanding notes into common shares when the trigger event shall

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have occurred and the issuer is declared by Bangko Sentral to have reached the point of non-viability, shall be as follows:

No. of Common
Shares

=

Amount of
Investment

50% x Adjusted
Book Value per
Share

where the amount of investment pertains to the preferred shares issued while the *adjusted book value per share* refers to the book value at the time the capital instrument is issued, and determined using the formula:

Total stockholder's equity - preferred equity

Total outstanding shares

The adjusted book value per share shall be the figure that will be obtained from the Financial Adviser’s report or from the latest financial statements using the above formula.

The number of common shares obtained using the above formula shall be the *minimum* number of common shares to be received by LBP.

Other terms/requirement on loss absorbency features include the following:

1. The issuer must make the necessary adjustments to its Articles of Incorporation to accommodate the conversion of the capital instrument into common shares of loss absorbency at the point of non-viability

k. The write-down will have the following effects:

1. Reduce the claim of the instrument in liquidation;
2. Reduce the amount re-paid when a call is exercised; and
3. Partially or fully reduce coupon/dividend payments on the instrument.

l. The issuer must submit a written external legal opinion that it has met the requirements on the issuance of the

preferred shares, including the subordination and loss absorption features.

m. It must clearly state on its face that it is not a deposit and is not insured by the PDIC.

n. The existing LBP equity investments and loans in the participating banks, if any, should be recognized by the Surviving Bank;

o. Issuer must meet all of the following eligibility criteria prior to the release of the equity investment proceeds:

Parameters	Benchmark
1. Should be Surviving Bank (merged or consolidated) under the Program	Complied
2. No adverse findings on on the principal (directors/key officers)	Complied
3. RBCAR	At least 10% but less than 12%
4. Minimum capitalization required by the Program	At least P100 Million unimpaired capital
5. Adequate Reserves for the four (4) week period preceding the application (based on the submitted interim financial statements	Complied
6. Past Due Ratio (net)	Not more than 15%

p. The duly approved equity investment proposal can be availed of one (1) year from the date of approval;

q. In compliance with Bangko Sentral Risk Disclosure Requirements on Loss Absorbency Features of Capital Instruments.

1) The issuer shall provide the appropriate Risk Disclosure Statement for the issuance of additional T2 capital instruments. The said disclosure statement shall explain the loss absorbency features of additional T2 capital instruments as well

as the resulting processes that will be effected when triggers for loss absorbency are breached;

2) The LBP, through its Investment Banking Group, shall issue certification stating that:

i. it has been provided a Risk Disclosure Statement which among others, explains the concept of loss absorbency for additional T2 capital instruments as well as the resulting processes should the triggers are breached;

ii. it has read and understood the terms and conditions of the issuance;

iii. it is aware of the risks associated with the capital instruments; and

iv. said risks include permanent write-down or conversion of the debt instrument into common equity at a specific discount.

5. Documentary requirements

a. Pre-processing requirements

1) Written endorsement from LBP Service Lending Center (SLC) on CFI application for LBP equity investment;

2) Original copy of CFI application letter signed by its duly authorized signatory;

3) Original copy of BOD resolution approving the CFI's authorized representative/signatory to CFI application for LBP equity investment with his/her picture and specimen signatures, and the CFI application for LBP equity investment;

4) Copy of the merger or consolidation plan;

5) Certified true copy of legal reserves schedule for four (4) weeks immediately preceding the submitted latest quarter-ended FS of the current year

6) Financial statements (FS) – Balance Sheet & Income Statement

a) Certified true copy of audited and BIR-filed FS for the past year/s, if applicable, stamped received by BIR.

b) Certified true copy of latest quarter-ended FS of the current year, stamped received by Bangko Sentral.

c) Certified true copy of Computation of Adjusted Risk-Based Capital Adequacy Ratio (RBCAR) comprising Part 1: CAR Report and Part II: Qualifying Capital, stamped received by Bangko Sentral:

i. For the past year, if applicable; and

ii. Latest quarter-ended FS of the current year

Note: The required FS cover only the latest audited BIR-filed FS, latest quarter-ended FS of the current year, and RBCAR as of latest quarter-ended FS of the current year

7) Business Plan

8) Five (5)-year Financial Projection consisting of the following:

a) Capital structure;

b) Balance sheet;

c) Income statement

d) Cash flow statement

9) Other documents:

a) Certified true copy of CFI authority to operate granted by Bangko Sentral;

b) Certified true copy of existing registration and articles of incorporation and by-laws;

c) List of major stockholders and their stockholdings with their bio-data;

d) List of directors and key officers with their bio-data;

e) Latest BI/CI results on CFI (not more than 6 months from latest quarter-ended FS);

f) Copy of latest approved CFP on Rediscounting facility granted to CFI, if applicable;

g) Copy of Financial Adviser's Report

b) Pre-release Requirements

Original copies of the following:

1) CFI letter request for the release of proceeds of LBP equity investment;

2) BOD Resolution designated CFI authorized signatory for the execution of MOA, Escrow Agreement and other pre-release documents with his/her picture and specimen signatures;

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- 3) Duly signed and notarized MOA on equity Investment;
- 4) Duly signed and notarized Escrow Agreement;
- 5) Duly approved investment Facilities Proposal (IFP) for LBP equity investment;
- 6) ILC/BOD Resolutions approving the LBP equity investment;
- 7) Certificate of stock issued in favor of LBP;
- 8) Written commitment of CFI to effect the conversion at the point of non-viability;

- 9) Waiver of the respective stockholders of their pre-emptive rights on the common shares to be issued to LBP at the point of non-viability;
- 10) SEC-approved amended Articles of Incorporation and by-laws indicating the features of equity investment, and to accommodate the conversion of equity investment to common shares at the point of non-viability in accordance with the Loss Absorption Features under the Terms and Conditions of the Issuance.
(M-2015-043 dated 11 December 2015, as amended by Circular No. 917 dated 08 July 2016)

FORMAT CERTIFICATION ON COMPLIANCE WITH
REQUIREMENTS ON DIVIDEND DECLARATION
(Appendix to Subsection X136.4)

Name of Bank

CERTIFICATION

We, (Name of Officer), President (or Officer of Equivalent Rank) and (Name of Officer), Chief Compliance Officer, in behalf of (Name of Bank), with office address at (Head/Principal Office), after having been duly sworn to in accordance with law, hereby certify that the bank's dividend declaration as of (date of dividend declaration), as approved by the board of directors (state resolution number and date), to the bank's stockholders of record as of (record date) amounting to (amount of cash/stock/property dividend declaration) complies with the provisions of Sec. X136.

We further certify that at the time of dividend declaration, the bank has complied with the following:

- a. Clearing account with the Bangko Sentral is not overdrawn;
- b. Liquidity floor requirement for government funds; *(for banks)*
- c. Minimum capitalization requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;¹
- d. Capital conservation buffer requirement as defined in Appendix 63b, Part III; *(for UBs/ KBs and their subsidiary banks and QBs)*
- e. Higher loss absorbency requirement as provided under Subsec. X115.5; *(for identified Domestic Systematically Important Banks and their subsidiary banks and QBs)*
- f. Has not committed any unsafe or unsound banking practice and/or major acts or omissions as may be determined by the Bangko Sentral;
- g. Has accumulated reserves of P_____ for the retirement of the government preferred stock which is at least equal to the amount prescribed in Subsec. 3136.2 *(for rural and cooperative banks)*;
- h. Has complied with the provisions of Article 86 of R.A. No. 9520, its By-Laws and other applicable laws, rules and regulations on the allocation and distribution of net surplus *(for cooperative banks)*;
- i. Has complied with the provisions of Section 43 (Power to declare dividends) of The Corporation Code of the Philippines (Batas Pambansa Blg. 68), as may be applicable; and
- j. Has complied with the provisions of revised implementing rules and regulations to R.A. No. 7656, 'An Act Requiring Government-Owned and/or Controlled Corporations to Declare Dividends Under Certain Conditions to the National Government, and for Other Purposes' *(for Government-Owned banks)*

¹ We also certify that the bank also apply with tthis requirement even after dividend distribution.

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To the best of our knowledge, the foregoing statements are true and correct.

President

Chief Compliance Officer

TIN:
Com. Tax Cert. No.:
Issued on:
Issued at:

TIN:
Com. Tax Cert. No.:
Issued on:
Issued at:

Subscribed and sworn to before me, this ____ day of _____ 20____, at _____ exhibiting his/her respective Community Tax Certificate as indicated above.

NOTARY PUBLIC

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

(Circular No. 888 dated 09 October 2015, as amended by Circular No. 930 dated 18 November 2016)

AGRICULTURE VALUE CHAIN - BUSINESS MODELS
(Appendix to Subsection X350.1)

The agriculture value chain business models are characterized by the main driver of the value chain, and its rationale or objectives. The following are the typical organizational models for smallholder production:

Model	Driver of organization	Rationale
Producer-driven (Association)	- small-scale producers, especially when formed into groups such as associations or cooperatives; - large scale farmers	- access to new markets; - obtain higher market price; - stabilize and secure market position
Buyer-driven	- processors; - exporters; - retailers; - traders, wholesalers and other traditional market actors	- assure supply; - increase supply volumes; - supply more discerning customers - meeting market niches and interests
Facilitator-driven	- NGOs and other support agencies; - National and local governments	- 'make markets work for the poor'; - Regional and local development
Integrated	- lead firms; - supermarkets; - multi-nationals	- new and higher value markets; - low prices for good quality; - market monopolies;

Reference:
Miller, C. and Jones, L. 'Agricultural Value Chain Finance, Tools and Lessons'. Published by FAO and Practical Action Publishing, 2010.
(Circular No. 908 dated 14 March 2016, as amended by Circular No. 930 dated 18 November 2016)

REPORTING GUIDELINES AND INSTRUCTIONS ON
REPORTORIAL TEMPLATE ON REPURCHASE AGREEMENTS (REPOS)
(Appendix to Subsec. X192.18)

I. Rationale

The creation and design of this Prudential Reporting Template for Repurchase Agreements (Repos) aims to strengthen financial surveillance, particularly in monitoring market trends and vulnerabilities in repo markets, to enable supervisory authorities to formulate effective policy responses to ensure continued functioning and efficiency of the financial system. This prudential reporting template only covers borrowings in the form of repo transactions and excludes Reverse Repurchase Agreements.

II. Definition of Repurchase Agreements for Banks

A repurchase agreement is a contract wherein a bank, in exchange for cash (repo seller/cash borrower), sells the security to another party (repo buyer/cash lender) under a true sale agreement with a simultaneous commitment to repurchase the security at a fixed price at a date certain or on-demand.

Repo sellers/cash borrowers record repos as “*Bills Payable-Repo*”, while repo buyers/cash lenders record repos as “*Loans and Receivables Arising from Repurchase, Certificates of Assignment/Participation with Recourse and Securities Lending and Borrowing Transactions – Matrix of Counterparty and Issuer of Collateral Securities*”.

III. Description, Structure and Purpose of Data Elements

A. Data elements, vulnerability points, and risk detection

The reportorial template is designed to capture timely and comprehensive transactional-level data on repos of banks in order to gauge systemic and firm-level risk.

The template consists of three (3) schedules, namely:

1. End of Day Balance

The ‘End of Day Balance’ schedule provides a snapshot of daily repo transactions. It shows the daily movement of repos as well as the fair value of the securities used in the repo transactions. This schedule aims to obtain an aggregated view of repo turnover as well as gearing/leverage on a daily basis.

2. Month-End Balance

The ‘Month-End Balance’ schedule shows details of outstanding repos as of the end of the month. The information required for outstanding repos include details on the economic terms of the repo transaction, counterparties, and underlying securities.

Transactional details

Transactional details of repos, such as the *outstanding balance*, *repo rate* and *remaining maturity*, are essential to ascertaining the funding/maturity profile of repos of the industry and its exposure to rollover/liquidity and interest rate risk from such funding source. Currency composition of both cash and security components, meanwhile, indicate industry-wide exposure to FX risk related to repos.

Counterparty details

These consist of information on a bank’s counterparty (repo buyer/cash lender) and its sectoral profile. These aid in determining credit, cross-border and concentration risk of the financial system when aggregated.

Counterparty information enables the assessment of interconnectedness and the manner by which vulnerabilities in a bank can be transmitted to other banks or firms.

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Security details

The report requires banks to disclose the *type, quality and fair value of a repo's underlying security*. Said information are indicators of the potential variation in the value of the "repoed" security and concentration in holding of the underlying repo security which may impact on market liquidity of the security. For purposes of determining fair value of securities, banks shall be guided by the Bangko Sentral prescribed marking-to-market guidelines for securities under *Appendix 33a*.

3. Repo Transactions for the Month

The 'Repo Transactions for the Month' schedule provides information on repo deals that are transacted and which subsequently mature or are pre-terminated within the reporting month. Banks that have no repo deals with their entire repo term (avallment up to maturity/pre-termination) falling within the reporting month need not accomplish this schedule.

The data requirements are similar to those required under the 'Month-end Balance' schedule with additional fields pertaining to 'Maturity and Pre-termination Details'.

B. Data components

1. Components of End of Day Balance Schedule

The following data fields are provided with the following descriptions:

Category	Standard Data Fields	
	Data Fields	Description
Transaction Details	Date	Refers to a calendar day (yyyy-mm-dd)
Economic terms of the repo transaction	No. of Repo Deals for the Day	
	Availments	Refers to the number of repo deals availed during the day. Repo availments shall include renewals and rollovers.

Category	Standard Data Fields	
	Data Fields	Description
Transaction Details Economic terms of the repo transaction	Matured/ Pre-terminated	Refer to the number of repo deals matured/ pre-terminated during the day.
	Amount	
	Bills Payable - Repo	
	Beginning Balance	Refers to the ending balance of Bills Payable-Repo of the previous day.
	Availment for the Day	Refers to the total amount of repo transactions availed during the day.
	Matured/ Pre-terminated for the Day	Refers to the total amount of repo transactions which matured or were pre-terminated during the day.
	Other Adjustments/ Transactions	Refers to adjustments/ transactions affecting repos, other than those pertaining to availments, maturing and pre-terminations. Examples of other adjustments/transactions affecting repos include, but need not be limited to corrections on balances/amortization.
	End of Day Balance	Refers to the ending balance of the Bills Payable - Repo account for the day.
	Fair Value of Security Subject of the Repo	
	Debt Securities	Refers to the mark-to-market (MTM) value of the security, if these are in the form of debt securities, as of the end of the day.
Equity Securities	Refers to the MTM value of the security, if these are in the form of equity securities, as of the end of the day.	
Total	Refers to the total MTM of securities subject of the repo.	

2. Components of Month-End Balance Schedule

Category	Standard Data Fields	
	Data Fields	Description
Transaction Details Economic terms of the repo transaction	Entry number	Refers to the unique number that identifies an entry.

Category	Standard Data Fields	
	Data Fields	Description
Transaction Details Economic terms of the repo transaction	Deal Date	Refers to the date (yyyy-mm-dd) when a repo transaction is availed.
	Maturity Date	Refers to the date (yyyy-mm-dd) when a repo transaction matures. For repos that are on demand, banks shall indicate "on-demand".
	Market Segment	Refers to the market segment of the repo which can either be: bilateral, tri-party or Central Clearing Counterparty (CCP). CCP refers to repos that are transacted through an entity that interposes itself between counterparties to contracts traded in one (1) or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts. <i>Bilateral</i> refers to repurchase agreements between two (2) institutions. <i>Tri-party</i> refers to the repurchase agreements between two institutions where securities serving as collateral are held by a third party that provides collateral management and settlement services. ¹
	Financial Market Infrastructures ² such as 1. Tri-party 2. CCP 3. Trade Exchange	Refers to the name of the institution that provides tri-party, CCP or trade exchange services, if applicable.
	Purpose	Refers to the purpose/ reason of the financial institution for entering into a repo transaction. This can be, but need not be, limited to any of the following: 1. cash funding requirement 2. securities requirement for market-making 3. hedging 4. collateral transformation 5. business contingency testing 6. others
Category	Standard Data Fields	
	Data Fields	Description
Transaction Details Economic terms of the repo transaction	Term	Refers to the length of the contract. (<i>auto-generated by the reporting system</i>)
	Repo Rate	Refers to the cost incurred by the bank (expressed as a % per annum rate) for borrowing cash, classified either as (1) fixed or (2) floating rate. Note: If the repo rate is floating, report the applicable floating rate as of reporting date.
	Margin	Refers to the amount of margin set aside by the repo seller/cash borrower in accordance with margin parameters agreed by both parties in the repo agreement (expressed in PhP) classified either as (1) cash or (2) security (fair value of the security as of reporting date).
	Contractual Currency	Refers to the original currency of the repos.
	Booking Details	Refers to RBU, E/CDU or Foreign Office.
	Bills Payable under Repurchase Agreement	Refers to the amortized cost of repo borrowings in both original currency and peso equivalent, in the case of foreign currency denominated repos ³ , as of reporting date.
Counterparty Details Data on the individuals or institutional unit to which the entity is exposed.	Resident/ Non-resident/ Multilateral	<i>A resident</i> refers to an individual or institutional unit that has a center of economic interest in the economic territory of the Philippines. <i>A non-resident</i> refers to individual or institutional unit that has a center of economic interest outside the economic territory of the Philippines. <i>A Multilateral agency</i> refers to an international organization defined in the FRP for banks.

¹ Source: Committee on Payment and Settlement Systems (CPSS), Principles for Financial Market Infrastructures, April 2012; and Federal Reserve Bank of New York, Paper on Repo and Securities Lending, February 2013

² A multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions. (Source: Ibid.)

³ Circular No. 494 Series of 2005. Peso equivalent shall be derived from the Philippine Dealing System (PDS) Peso/US Dollar closing rate or for third currencies the New York US Dollar/Third Currencies closing rates.

Category	Standard Data Fields	
	Data Fields	Description
Counterparty Details Data on the individuals or institutional unit to which the entity is exposed.	Geographic Region	Refers to the geographic region of the counterparty. This shall consist of: 1. Northern America 2. Latin America 3. Europe 4. Asia 5. Others
	Country	Refers to the country of the counterparty.
	Sector (General)	Refers to the general sector of the following counterparties: 1. <i>Resident counterparty</i> such as government, Bangko Sentral, banks, and private corporations and individuals; 2. <i>Non-resident counterparty</i> such as Central government, public sector, banks, private corporations and individuals; or 3. <i>Multilateral Agency</i> refers to the World Bank Group comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), Asian Development Bank (ADB), African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the Nordic Investment Bank (NIB), the Caribbean Development Bank (CDB), the Council of Europe Development Bank (CEDB) and other entities that may be recognized by the Bangko Sentral as multilateral agencies.
	Sector (Specific)	This refers to the sub-classification of the following sectors of the counterparty: <i>For Residents</i> <i>Government Sector</i> i. National government ii. LGUs iii. GOCCs a. Social Security Institutions b. Other financial institutions c. Non-financial institutions

Category	Standard Data Fields	
	Data Fields	Description
Counterparty Details Data on the individuals or institutional unit to which the entity is exposed.		<i>Banks</i> i. UBs/KBs ii. Other banks <i>Private corporations</i> i. Financial corporations ii. Non-financial corporations <i>For Non-Residents</i> <i>Banks</i> i. OBUs ii. Other banks
	Counterparty Name	Refers to the name of the bank's counterparty as stated in its Articles of Incorporation/Registration, in the case of juridical entities/sole proprietorship, as applicable.
Security Details Information about the security that is the subject of the repo transaction	Security Details	
	ISIN	Refers to the International Securities Identification Number (ISIN) of the security.
	Security Type	Refers to the type of security subject of the repo transaction (i.e., debt securities or equity securities).
	Listing Details	Refers to whether the security is listed on a registered exchange or not. Note: Answerable by YES or NO
	Maturity Date	Refers to the maturity date of the security, in the case of debt securities. (yyyy-mm-dd)
	Accounting Classification of the Securities	Refers to the accounting classification of the underlying securities as booked by the bank. Financial assets are classified according to the following categories: 1. HFT, 2. HTM, 3. AFS, 4. INMES, and 5. UDSCL.
	Currency denomination	Refers to the original currency of the security.
	Face Value (Debt Security)	Refers to the face value of the security, in the case of debt securities.
	Number of Shares (Equity security)	Refers to the number of shares, in the case of equity securities.

Category	Standard Data Fields	
	Data Fields	Description
Security Details Information about the security that is the subject of the repo transaction	Total Fair Value	Refers to the MTM value of the security in both original currency and peso equivalent, in the case of foreign currency denominated repos, as of reporting date.
	Net Carrying Amount	Refers to the net carrying amount of the security recorded as HTM, UDSCL and INMES, which corresponds to the amortized cost of securities less any allowance for specific credit losses, in both original currency and peso equivalent, as of reporting date.
	Security Issuer Details	
	Resident/ Non-resident Multilateral	<p>A <i>resident</i> refers to an individual or institutional unit that has a center of economic interest in the economic territory of the Philippines;</p> <p>A <i>non-resident</i> refers to an individual or institutional unit that has a center of economic interest outside the economic territory of the Philippines; and</p> <p>A <i>multilateral agency</i> refers to an international organization as defined in the FRP for banks.</p>
	Geographic Region	Refers to the geographic region of the issuer. This shall consist of: 1. Northern America 2. Latin America 3. Europe 4. Asia 5. Others
	Country	Refers to the country of the issuer.
	Sector (General)	Refers to the general sector of the following issuers: 1. <i>Resident counterparty</i> such as government, Bangko Sentral, banks, and private corporations.
	Sector (Specific)	2. <i>Non-resident counterparty</i> such as Central government, public sector, banks, private corporations. 3. <i>Multilateral Agency</i> refers to the World Bank Group comprised of the IBRD and IFC, ADB, AfDB, EBRD, IADB, EIB, NIB; CDB, CEDB and other entities that may be recognized by the Bangko Sentral as multilateral agencies.
		This refers to the sub-classification of the following sectors of the issuer: <i>For Residents</i> <i>Government Sector</i> i. National government ii. LGUs iii. GOCCs a. Social Security Institutions b. Other financial institutions c. Non-financial institutions <i>Banks</i> i. UBs/KBs ii. Other banks <i>Private Corporations</i> i. Financial corporations ii. Non-financial corporations <i>For Non-Residents</i> <i>Banks</i> i. OBUs ii. Other banks
Issuer Details	Issuer Name	Refers to the name of the issuer of the security as stated in its Articles of Incorporation/Registration.

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3. Components of the Repo Transactions for the Month Schedule

The definition of each data field is similar to the definitions provided in Section B - Components of Month End Balance, with the following additional items as columns:

Category	Standard Data Fields	
	Data Fields	Description
Maturity and Pre-termination Details Information for matured and pre-terminated transactions	Is it matured/ pre-terminated?	Answerable by Yes or No.
	Status	Refers to either a matured transaction or a pre-terminated transaction.
	Maturity Date/ Pre-termination Date	Refers to the date of maturity/pre-termination of the transactions
	Pre-termination	
	Amount cancelled/ Pre-terminated (Original Currency)	Refers to the outstanding balance of the repo when the transaction was cancelled or pre-terminated. This is in original currency of the transaction.
	Amount Cancelled/ Pre-terminated (PhP Equivalent)	Refers to the outstanding balance of the repo when the transaction was cancelled or pre-terminated. This is in PhP equivalent in the case of foreign currency denominated repos.

Category	Standard Data Fields	
	Data Fields	Description
Maturity and Pre-termination Details Information for matured and pre-terminated transactions	Reason for cancellation/ Pre-termination	Refers to the reason why the transaction was cancelled or pre-terminated.

Foreign currency-denominated accounts shall be reported, in their peso equivalent using the Philippine Dealing System (PDS) peso/US Dollar closing rate, or, for third currencies, the New York US Dollar/Third Currencies closing rate.

Banks without repo transactions shall submit the Control Prooflist certifying that there is nothing to report for the month.

IV. Target Implementation

The Repo reporting template shall take effect on 30 June 2017.
(Circular No. 923 dated 31 August 2016)

**GUIDELINES ON THE HANDLING OF RETURNED CHECKS
UNDER THE MICR/AUTOMATED CHECK CLEARING SYSTEM
(Appendix to Item a. of Sec. X203)**

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 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 Checks and Other Cash Item (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.

The settlement of interbank transactions vis-à-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 clearing one (1) 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

¹ See schedule of revised clearing and settlement process shown as footnote of Sec X202.

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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.

(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 COCIs returned due to technical reasons in the Integrated GM LX and RLX.

The settlement of interbank transactions vis-à-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 COCIs 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.

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 COCIs 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 regulations.

(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.

(Circular No. 924 dated 07 September 2016)